

Valuations demanding post sharp run-up

Saregama India's revenues for Q4FY21 increased 13.6% YoY to ₹ 123.5 crore with growth led by the TV & films segment, which was up 27.8% YoY. Carvaan sales volumes were up ~49% YoY to 110,000 units in Q4FY21, on a depressed base. EBITDA grew 59.9% YoY (down 14% QoQ) to ₹ 34.4 crore with EBITDA margin at 27.8% (up 806 bps YoY and down 205 bps QoQ, respectively). Cost reduction, mainly in promotion costs for Carvaan and lower other expenses (lack of new content), led to strong growth in operating profit YoY. Subsequently, reported PAT was at ₹ 37 crore, up 134% YoY, also aided by higher other income (₹ 18.6 crore vs. 3.4 crore in Q4FY20) due to dividends from CESC and interest on IT refund.

Licensing revenues to remain robust

Licensing revenues remained robust with ~20% YoY growth (on adjusted basis) in FY21. The management guided for 22-25% growth in licensing revenue (B2B) also aided by new content acquisition. Saregama reiterated their aim to capture 20-25% share of new music. We estimate 22% CAGR (25% on adjusted basis) in B2B (licensing) music sales in FY21-23E to ₹ 446 crore as monetisation of existing IPs via digital platforms and new music acquisition will drive growth. We build in 0.43 mn and 0.65 mn units in FY22 and FY23, respectively for Carvaan and expect 37.5% CAGR in revenues in FY21-23 to ₹ 163 crore, on a depressed base of FY21. Minimal marketing spends have benefitted the company on margin front. The company guided for low marketing expense for a few more quarters.

TV, films segment to grow on benign base...

Film & TV revenue growth was aided by strong traction in monetisation of inventory both on TV and YouTube. Under Yoodlee Films, the company expects one release during Q1/Q2, while it expects announcements on web series in next few quarter. The management expects Yoodlee Films to clock 100 crore revenues in three to five years. We estimate ~35% CAGR in TV & films in FY21-23E to ₹ 95 crore, with ~26% revenue decline in FY21, followed by 60% revenue growth in FY22 on a low base.

Valuation & Outlook

We underappreciated the monetisation push led by digital consumption via streaming and social media platforms coupled with consistent cost discipline. Thus, we now raise our margins estimates to 27.5%, 27% for FY22, FY23 vs. 24%, 23% earlier, respectively. We, however, believe the sharp run-up in stock price (up 87% in last three months) already factors in all positives and valuation is demanding at 22x FY23 P/E wherein margin may taper with new content cost charge. We raise our target multiple at 21x P/E (vs. 14x, earlier). We maintain **HOLD** with a revised target price of ₹ 1825 (vs. ₹ 1000, earlier). New music acquisition and its monetisation along with pull of older content will be key monitorables. We will track the strategy of converting Carvaan into a platform and its monetisation ahead.

Key Financial Summary

(Year-end March)	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Net Sales (₹ crore)	544.7	521.5	442.0	564.3	708.1	26.6
EBITDA (₹ crore)	38.2	60.5	130.1	155.2	191.4	21.3
Net Profit (₹ crore)	54.3	43.9	112.6	120.2	151.4	16.0
EPS (₹)	31.2	25.2	64.6	69.0	87.0	
P/E (x)	61.0	75.4	29.5	27.6	21.9	
Price / Book (x)	7.7	8.3	6.6	5.6	4.7	
EV/EBITDA (x)	84.5	53.6	23.3	19.1	14.9	
RoCE (%)	16.5	14.7	27.8	25.8	27.4	
RoE (%)	12.7	11.0	22.3	20.3	21.4	

Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalization (₹ crore)	3,314.6
Total Debt (FY21)	₹ 0 Crore
Cash & Investments (FY21)	₹ 170.1 Crore
EV	₹ 3144.5 Crore
52 week H/L (₹)	2044/ 254
Equity capital (₹ crore)	17.4
Face value (₹)	10.0

Key risks to our call

- Slower than anticipated growth in licensing revenue
- Sharper than expected recovery in Carvaan

Key Highlights

- Music segment 10.4% YoY in the quarter while TV & films revenue jumped 27.8% YoY
- Maintain HOLD with revised target price of ₹ 1825/share (previous TP: ₹ 1000/share).

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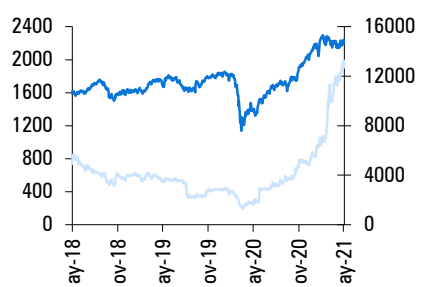
FY21 performance

- The topline of ₹ 442 crore saw a decline of 15% YoY, due to 14% YoY decline in music revenues, which were largely impacted by Carvaan sales, which came in at 344,000 units in FY21, 54% decline YoY. The music licensing revenues, however, were up 25.7% YoY at ₹ 299 crore (up 20.2% on adjusted basis, as FY21 streaming revenues had one-off element of ~₹ 15.5 crore). TV & films segment also reported a decline of 26% in FY21 to ₹ 52.1 crore
- EBITDA for FY21 came in at ₹ 130.1 crore, up 115% YoY, despite revenue decline due to i) 80% YoY decline in contract manufacturing charges pertains to lower Carvaan sales ii) 60% YoY decline in advertisement and promotion expenses, largely related to Carvaan as well as negligible new content. EBITDA margin came in at 29.4%, a 17 percentage points increase over FY20
- PAT came in at ₹ 112.6 crore vs. ₹ 43.9 crore due to better operating performance
- The company became net debt free in FY21, with net cash of ₹ 170 crore on the book. The company has declared an interim dividend for the year 2020-21 of ₹ 20 per share

Conference Call Highlights

- **Guided for 22-25% growth in music licensing in FY22:** The management indicated that music revenue for the quarter grew 10% YoY despite wash out Carvaan sales on account of continued investments in non-film music in Hindi as well as in regional space. The company released 74 new songs in this quarter comprises of songs in Bhojpuri (28), Gujarati (23), Tamil (7), Telugu (5), Punjabi (4). The company indicated that due to second strong wave of Covid, Carvaan sales are expected to pick up only from Q3 onwards. The company also indicated that they are planning to acquire 20-25% pie of the new Hindi film music rights available in FY22. The company already acquired music rights of some of the bigger films like *Maidaan*, *Gangubai Kathiawadi*, *Bell Bottom* and secured rights for few more upcoming untitled films of *Sanjay Leela Bhansali* and *Ayushman Khurana*. On account of continued acquisition of new Hindi film music, the company guided for 22-25% growth in music revenue in FY22, outpacing the industry, which is expected to grow by 10-12% in the similar period
- **CAGR of 15-20% in film business for next three to five years:** Management indicated that the company is looking to scale up the film production business in FY22 given the brand recall in eyes of content aggregators. The company also indicated that they were earlier making losses since they were establishing the brand. Now, since the brand is more or less established, the company has curtailed losses and made some profit in FY21. Saregama guided for 15-20% CAGR in this business for the next three to five years and expects the topline to touch three digits
- **Other highlights:** i) Saregama indicated that they are now putting the content, which they create for Sun TV on the YouTube platform once the content is being telecasted on TV, which is giving them additional revenue opportunity, ii) other income for the quarter was high on a) interest on IT refund b) dividend income from CESC, iii) receivables are higher as a) they are yet to receive payment on an outright film sale deal on content aggregator and b) higher credit given to Sun TV as per industry norm (of four months)

Price Performance



Financial summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY20	FY21	FY22E	FY23E
Total operating Income	521.5	442.0	564.3	708.1
Growth (%)	-4.3	-15.2	27.7	25.5
Contract manufacturing charges	107.0	21.1	60.2	91.0
Cost of production of TV, Films	54.1	46.5	67.8	76.0
Employee Expenses	66.6	69.5	75.5	84.4
Other Expenses	233.3	174.8	205.6	265.4
Total Operating Expenditure	461.0	311.9	409.1	516.7
EBITDA	60.5	130.1	155.2	191.4
Growth (%)	-16.2	115.1	19.3	23.3
Depreciation	4.6	5.6	6.8	7.8
Interest	6.7	3.5	3.6	3.6
Other Income*	11.2	30.9	18.0	25.0
Exceptional Items	-	-	-	-
PBT	60.4	151.9	162.9	205.0
MI/PAT from associates	(0.4)	0.9	0.5	-
Total Tax	16.9	38.4	42.2	53.1
PAT	43.9	112.6	120.2	151.4
Growth (%)	-19.1	156.1	6.8	26.0
EPS (₹)	25.2	64.6	69.0	87.0

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	43.9	112.6	120.2	151.4
Add: Depreciation	4.6	5.6	6.8	7.8
Add: Interest Paid	6.7	3.5	3.6	3.6
(Inc)/dec in Current Assets	25.1	33.0	-71.7	-80.4
Inc/(dec) in CL and Provisions	-4.8	65.6	56.9	71.7
CF from operating activities	75.5	220.3	115.8	154.1
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-8.2	-13.6	-10.0	-10.0
Others	69.7	-53.4	-35.0	-35.0
CF from investing activities	61.5	-66.9	-45.0	-45.0
Change in Reserve & Surplus	-73.3	-5.6	-34.8	-34.8
Inc/(dec) in loan funds	-54.5	-9.2	0.0	0.0
Interest paid	-6.7	-3.5	-3.6	-3.6
Others	-0.3	0.9	0.0	0.0
CF from financing activities	-134.8	-17.4	-38.4	-38.4
Net Cash flow	2.2	136.0	32.4	70.7
Opening Cash	6.8	9.0	145.0	177.4
Closing Cash	9.0	145.0	177.4	248.1

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Equity Capital	17.4	17.4	17.4	17.4
Reserve and Surplus	381.4	488.4	573.7	690.3
Total Shareholders funds	398.8	505.8	591.2	707.8
Total Debt	9.2	0.0	0.0	0.0
Minority Interest	2.3	3.1	3.1	3.1
Deferred Tax Assets	45.8	50.5	50.5	50.5
Total Liabilities	456.1	559.4	644.8	761.4
Gross Block	253.3	266.9	276.9	286.9
Less: Acc Depreciation	34.5	40.1	46.9	54.7
Net Block	218.8	226.7	229.9	232.2
Capital WIP	-	-	-	-
Total Fixed Assets	218.8	226.7	229.9	232.2
Investments	75.4	136.6	171.6	206.6
Other non current Assets	2.8	12.3	12.3	12.3
Debtors	108.5	87.4	111.3	139.7
Loans and Advances	5.0	13.5	17.3	21.7
Other Current Assets	106.6	93.4	113.8	137.8
Cash	9.0	145.0	177.4	248.1
Inventories	93.6	69.2	92.8	116.4
Total Current Assets	322.8	408.5	512.6	663.6
Creditors	58.0	56.3	69.6	87.3
Provisions	51.6	70.9	87.7	110.0
Other Current Liabilities	54.1	97.3	124.3	155.9
Total Current Liabilities	163.7	224.6	281.5	353.2
Net Current Assets	159.1	183.9	231.1	310.4
Application of Funds	456.1	559.4	644.8	761.4

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	25.2	64.6	69.0	87.0
Cash EPS	27.9	67.9	72.9	91.4
BV	229.1	290.5	339.6	406.5
DPS	1.5	20.0	20.0	20.0
Cash Per Share	5.2	83.3	101.9	142.5
Operating Ratios (%)				
Adj. EBITDA Margin	11.6	29.4	27.5	27.0
PBT / Total Operating income	10.7	28.2	26.3	25.9
PAT Margin	8.4	25.5	21.3	21.4
Inventory days	65.5	57.1	60.0	60.0
Debtor days	75.9	72.1	72.0	72.0
Creditor days	40.6	46.5	45.0	45.0
Return Ratios (%)				
RoE	11.0	22.3	20.3	21.4
RoCE	14.7	27.8	25.8	27.4
RoIC	16.7	48.2	53.7	63.9
Valuation Ratios (x)				
P/E	75.4	29.5	27.6	21.9
EV / EBITDA	53.6	23.3	19.1	14.9
EV / Net Sales	6.2	6.9	5.3	4.0
Market Cap / Sales	6.4	7.5	5.9	4.7
Price to Book Value	0.0	0.0	0.0	0.0
Solvency Ratios				
Debt/EBITDA	0.2	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.7	1.1	1.2	1.2
Quick Ratio	1.1	0.8	0.8	0.8

Source: Company, ICICI Direct Research

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