

January 22, 2025

**COMPANY UPDATE** | Sector: Media & Entertainment

# TIPS Music Ltd

## Growth moderates, but outlook remains intact; maintain BUY

**TIPS Music managed to sustain growth momentum in Q3FY25, however, missed our estimates as revenue grew by 20% YoY, but moderated QoQ. EBITDA margin remained healthy with +460bps expansion YoY, led by lower content cost. This resulted in healthy PAT growth of 28% YoY. Management is confident of achieving 30% topline and bottom-line growth over next few years driven by improved monetization of content and industry tailwinds. We believe medium term growth prospects for the company remain intact as incremental revenue drivers (short format videos, live performances etc.) come into play in coming quarters. We trim our estimates on account of Q3 miss but remain bullish on the outperformance of Indian music industry in the medium term with TIPS Music being the key beneficiary. We maintain BUY rating on the stock, with revised TP of Rs920.**

### Result Highlights

- Q3FY25 revenue reported growth of 20% YoY but declined by ~4% QoQ, likely due to fewer superhit releases in the quarter. However, upcoming line-up of music releases is robust. Further, investments behind new content acquisition are expected to increase in FY26, which should support future growth.
- Mgmt plans to focus on producing and acquiring higher quality content going forward with lower number of new releases compared to FY23 and FY24. In line with this strategy, TIPS has added 338 new songs in 9MFY25 (116 in Q3) vs 733 songs in FY24. In Q3, company launched 40 films songs and 76 non-films songs.
- Company has also collaborated with TikTok for international geographies. Though the quantum of this deal is relatively small, it should support growth in coming quarters as revenue from this deal will be recognized from Q4FY25 onwards, based on the number of streams.
- Growth in YouTube subscribers remained healthy with total subscriber base exceeding 113mn, implying 3-yr subscriber CAGR of 20%. YouTube views for 9MFY25 reached 171.6bn, growth of +17% YoY. For Q3FY25, YouTube views stood at 52.8bn (+12% YoY), with a 3-year CAGR of +31%.
- Management expects growth in premium subscriptions as well as free subscribers for YouTube to continue drive growth. Management view is bolstered by sharp growth reported by Spotify India in FY24. Spotify India reported subscription revenue growth of 90% and Ad-revenue growth of +114% for FY24, indicating robust demand trend for music streaming services in India. Growth in premium subscription, albeit currently at a small base, should help drive top-line growth with margin improvement over time, as realization per stream is 2.5x vs free subscribers.
- YouTube has increased the duration of short video format to 180 seconds, in-order to increase advertising income from short videos. Meta has also followed suit. This should bode well for TIPS in medium term as number of streams are much higher in short video format. Management expects this to be a significant revenue driver in the medium term and expects contribution to reach as high as 25% of revenues.

### Valuation

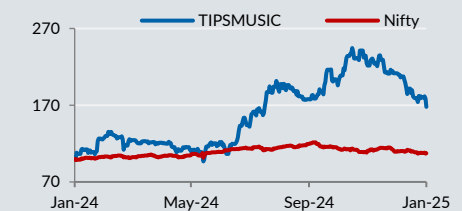
We trim our FY26/FY27 EPS estimates by -8%/-15% on account of Q3 miss and in-line with the management guidance. However, we believe long term prospects for the industry remain intact and TIPS is likely to be the key beneficiary. We value the stock at FY27E PE of 47x and maintain BUY with revised TP of Rs920. Stock is currently trading at attractive valuation with FY26/FY27E P/E of 37x/29x.

Reco	: <b>BUY</b>
CMP	: Rs 644
Target Price	: Rs 920
Potential Return	: +42.9%

### Stock data (as on Jan 22, 2025)

Nifty	23,155
52 Week h/l (Rs)	950 / 346
Market cap (Rs/USD mn)	89054 / 1031
Outstanding Shares (mn)	128
6m Avg t/o (Rs mn):	207
Div yield (%)	0.9
Bloomberg code:	TIPS IN
NSE code:	TIPSMUSIC

### Stock performance



	1M	3M	1Y
Absolute return	-20.4%	-16.8%	68.4%

### Shareholding pattern (As of Dec'24 end)

Promoter	64.2%
FII+DII	11.7%
Others	24.1%

### Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Revenue	3,141	4,020	5,145
YoY Growth	30%	28%	28%
EBIDTA	2,242	2,790	3,571
EBITDA (%)	71.4%	69.4%	69.4%
PAT	1,787	2,214	2,820
YoY Growth	40.5%	23.9%	27.3%
ROE	77.6	63.8	60.8
EPS	13.9	17.2	22.0
P/E	46.4	37.5	29.4
BV/Share	21.9	32.1	40.1
P/BV	29.5	20.1	16.1

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### Exhibit 1: Actual vs estimates

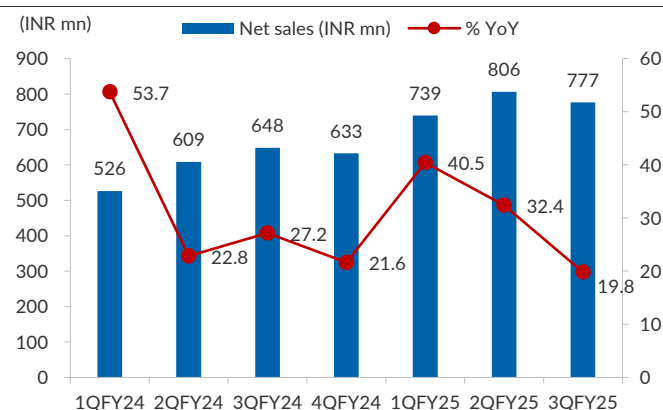
Rs mn	Actual	Estimate	% Variation	Remarks
Revenue	776.7	842.7	-7.8%	YoY growth momentum sustained in Q3, but falls short of expectations
EBITDA	555.8	601.7	-7.6%	
EBITDA Margin (%)	71.6%	71.4%	-16bps	
Adj. PAT	442.3	475.4	-7.0%	

### Exhibit 2: Segmental Performance

Rs mn	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	YoY (%)	QoQ (%)	9MFY24	9MFY25	YoY (%)
Revenue	648.3	632.6	739.2	806.1	776.7	19.8%	-3.6%	1,783	2322	30%
Content Acquisition Cost	(147)	(239)	(127)	(138)	(146)	-1.0%	5.1%	(316)	(411)	30%
Gross Profit	501.27	393.56	612.35	667.71	631.18	25.9%	-5.5%	1,468	1,911	30%
Gross Margin %	77.3%	62.2%	82.8%	82.8%	81.3%	394bps	-157bps	82.3%	82.3%	1bps
Staff Costs	(26)	(43)	(28)	(28)	(30)	16.3%	8.4%	(66)	(86)	30%
Other Expenses	(41)	(49)	(41)	(45)	(45)	10.0%	0.2%	(118)	(131)	11%
<b>EBITDA</b>	<b>434</b>	<b>302</b>	<b>544</b>	<b>595</b>	<b>556</b>	<b>28.0%</b>	<b>-6.5%</b>	<b>1,283</b>	<b>1,694</b>	<b>32%</b>
<b>EBITDA Margin %</b>	<b>67.0%</b>	<b>47.7%</b>	<b>73.6%</b>	<b>73.8%</b>	<b>71.6%</b>	<b>458bps</b>	<b>-222bps</b>	<b>71.9%</b>	<b>73.0%</b>	<b>103bps</b>
Depreciation	(4)	(5)	(5)	(5)	(5)	24.6%	-0.7%	(15)	(16)	12%
EBIT	430	297	538	589	550	28.0%	-6.6%	1,268	1,678	32%
Interest	(1)	(1)	(1)	(1)	(1)	4.1%	-9.0%	(3)	(2)	-10%
Other income	34	53	46	56	42	20.7%	-25.7%	91	143	58%
<b>PBT</b>	<b>464</b>	<b>349</b>	<b>583</b>	<b>644</b>	<b>591</b>	<b>27.5%</b>	<b>-8.3%</b>	<b>1,356</b>	<b>1,819</b>	<b>34%</b>
Tax	(117)	(92)	(148)	(163)	(149)	27.2%	-8.5%	(342)	(459)	34%
Tax rate (%)	25.2%	26.2%	25.3%	25.3%	25.2%			25.2%	25.2%	
<b>Reported PAT</b>	<b>347</b>	<b>258</b>	<b>436</b>	<b>482</b>	<b>442</b>	<b>27.6%</b>	<b>-8.2%</b>	<b>1,014</b>	<b>1,360</b>	<b>34%</b>

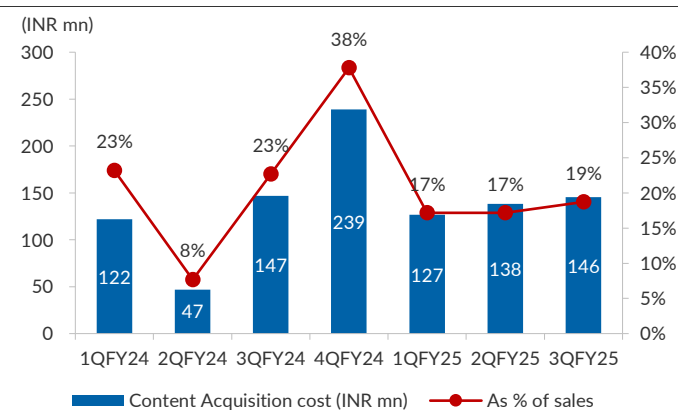
Source: Company, YES Sec

### Exhibit 3: Revenue growth moderated QoQ, however, growth remained robust YoY



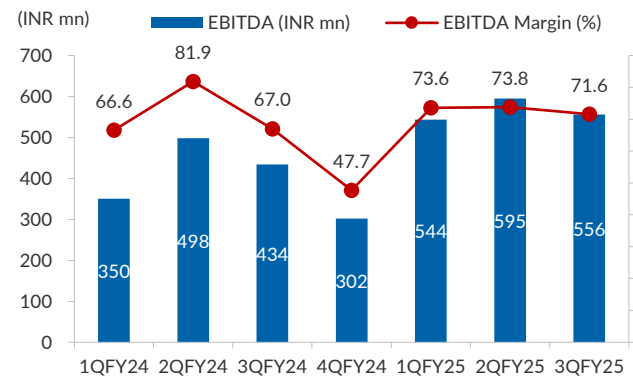
Source: Company, YES Sec

### Exhibit 4: Content acquisition cost at ~19% of sales in Q3, expected to inch up in FY26e



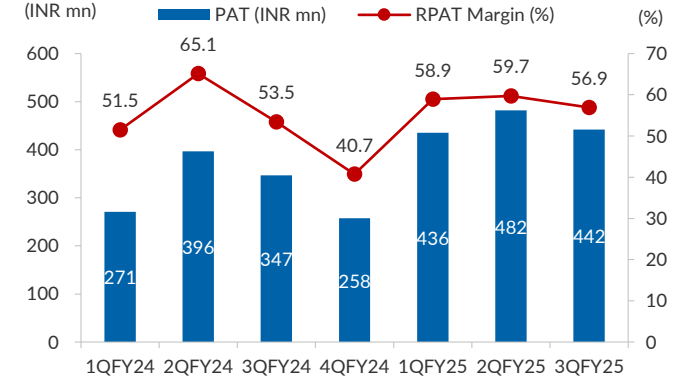
Source: Company, YES Sec

**Exhibit 5: EBITDA margins remained healthy led by low content acquisition cost**



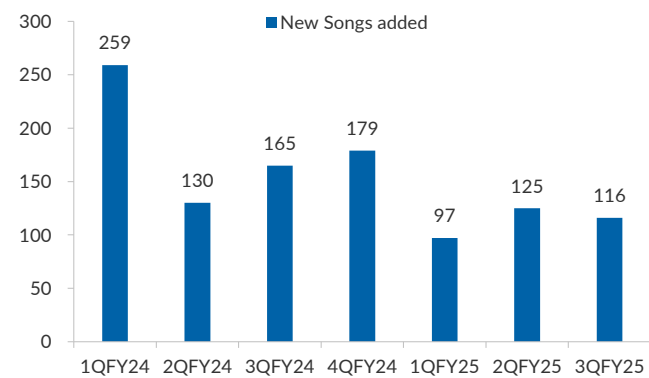
Source: Company, YES Sec

**Exhibit 6: PAT reported growth of +28% YoY, but registered a decline sequentially**



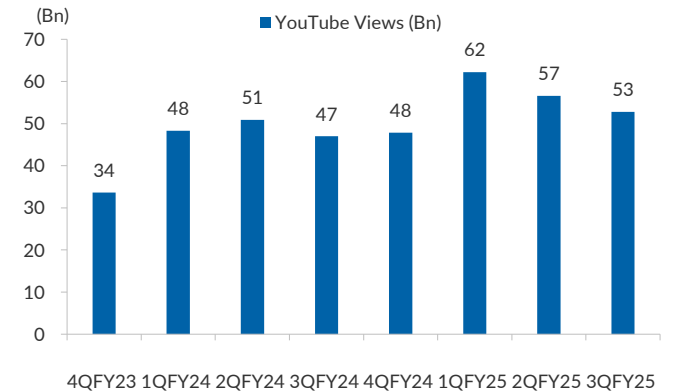
Source: Company, YES Sec

**Exhibit 7: Pace of new song releases moderated in Q3, in-line with management strategy**



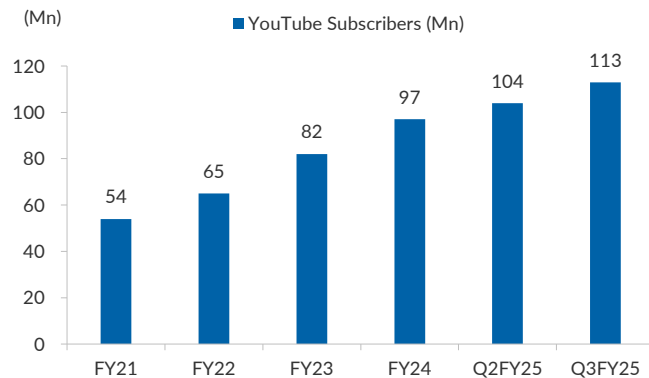
Source: Company, YES Sec

**Exhibit 8: YouTube views up +12% YoY in Q3, 9MFY25 views up +17% YoY**



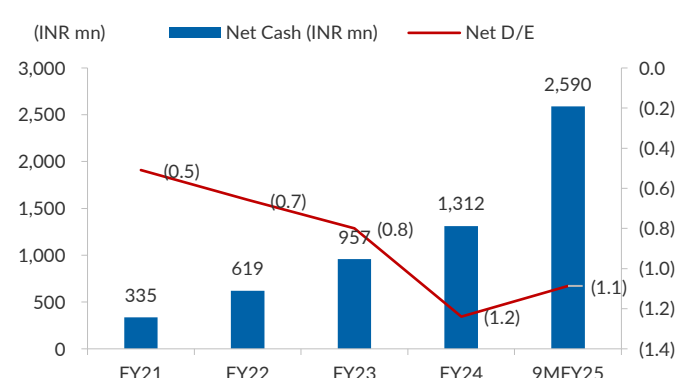
Source: Company, YES Sec

**Exhibit 9: YouTube subscriber base reached ~113mn in Q3FY25 across TIPS Channels**



Source: Company, YES Sec

**Exhibit 10: Strong Balance sheet with significant cash reserves**



Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

- **Guidance unchanged** – Management maintained its guidance of 30%+ topline and bottom-line growth for next 2-3 years, despite registering strong revenue growth over FY22-24. As per management, growth will be driven by increasing premium subscriptions across music streaming platforms and free subscribers on YouTube. Incremental revenue drivers, mainly monetization of short video format and live performances should also support revenue growth in medium term.
- For FY25, management expects to surpass the guidance of 30%+ topline and bottom-line growth.
- **Short Video Format to be a key driver** – Management highlighted that YouTube as well as Meta are taking incremental steps to improve advertisement income from Short videos, which should benefit TIPS. These steps include increasing the duration of short videos to 180 seconds, allowing more opportunities for advertisements. Management believes revenue accretion from short videos should begin in next 3-4 quarters and can reach as high as 25% of overall revenue compared to minimal revenue currently. Revenue sharing is likely to be similar to long format videos, in proportion of 55:45, in favor of TIPS.
- **Content investments to increase** – Content cost for FY25 is expected to be in the range of INR550-600mn, lower than earlier guided for. This, as per management, was due to lack of quality content available at a reasonable price, resulting in lower investments. Company plans to increase investments behind new content in coming quarters. Focus from management will be on quality over quantity going forward. Thus, pace of new songs addition is expected to moderate. New content is also expected to flow through from TIPS Films at a fair valuation.
- **Non-digital segment** – Growth in non-digital segment in Q3FY25 was similar to digital segment. For collection of Publishing fees, TIPS has tied up with IPRS. It has also partnered with NOVEX communications, which handles collection of licensing fees for sound recording and live performances. Mgmt expects robust growth in licensing fees, driven by growing popularity of live performances events. Globally, TIPS has tied up with Sony music publishing, for distribution of TIPS catalogues and collection. Though scope of the current deal is smaller, much larger deal with Sony is in pipeline.
- **TIPS Music Catalogue** – Music catalogue for TIPS consists of songs from 1990's till 2020. Catalogue music has done very well across the years. Management believes catalogue music has huge untapped potential across some of the music streaming platforms. Company has recently set up an analysis team to analyze performance and ensure improved monetization of music catalogue.

## FINANCIALS

**Exhibit 11: Balance sheet**

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Networth	1,362	1,795	2,812	4,127	5,149
Equity Capital	128	128	128	128	128
Others	1,233	1,667	2,683	3,999	5,020
Debt	-	-	-	-	-
Deferred taxes	(5)	(6)	(6)	(6)	(6)
Lease liability	32	760	760	760	760
Minority					
<b>Total</b>	<b>1,389</b>	<b>2,549</b>	<b>3,566</b>	<b>4,881</b>	<b>5,903</b>
Fixed assets	51	80	91	91	90
ROU assets	-	-	-	-	-
Other Non-Current Assets	224	547	547	547	547
Investments	-	-	-	-	-
Cash & liquid	1,089	2,225	3,321	4,747	5,910
Net current assets	25	(303)	(393)	(503)	(644)
Misc exp	-	-	-	-	-
<b>Total</b>	<b>1,389</b>	<b>2,549</b>	<b>3,566</b>	<b>4,881</b>	<b>5,903</b>

Source: YES Sec

**Exhibit 12: Profit & Loss Statement**

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
<b>Revenues</b>	<b>1,868</b>	<b>2,416</b>	<b>3,141</b>	<b>4,020</b>	<b>5,145</b>
Content Cost	(624)	(556)	(597)	(844)	(1,081)
<b>Gross profit</b>	<b>1,244</b>	<b>1,860</b>	<b>2,544</b>	<b>3,176</b>	<b>4,065</b>
<i>% of net revenues</i>	<i>66.6</i>	<i>77.0</i>	<i>81.0</i>	<i>79.0</i>	<i>79.0</i>
Employee costs	(73)	(109)	(119)	(149)	(190)
<i>% of net revenues</i>	<i>(3.9)</i>	<i>(4.5)</i>	<i>(3.8)</i>	<i>(3.7)</i>	<i>(3.7)</i>
Other op costs	(151)	(166)	(182)	(237)	(304)
<b>EBITDA</b>	<b>1,019</b>	<b>1,585</b>	<b>2,242</b>	<b>2,790</b>	<b>3,571</b>
<i>% of consol revenues</i>	<i>54.6</i>	<i>65.6</i>	<i>71.4</i>	<i>69.4</i>	<i>69.4</i>
Depreciation/amortization	(13)	(20)	(19)	(20)	(21)
<b>Ebit</b>	<b>1,006</b>	<b>1,565</b>	<b>2,223</b>	<b>2,769</b>	<b>3,550</b>
<i>% of consol revenues</i>	<i>53.8</i>	<i>64.8</i>	<i>70.8</i>	<i>68.9</i>	<i>69.0</i>
Interest	(3)	(3)	(3)	(3)	(3)
Other Income	54	144	173	198	228
<b>PBT</b>	<b>1,056</b>	<b>1,705</b>	<b>2,392</b>	<b>2,964</b>	<b>3,775</b>
<i>% of consol revenues</i>	<i>56.6</i>	<i>70.6</i>	<i>76.2</i>	<i>73.7</i>	<i>73.4</i>
Taxes	(291)	(434)	(605)	(750)	(955)
<i>Rate (%)</i>	<i>27.6</i>	<i>25.4</i>	<i>25.3</i>	<i>25.3</i>	<i>25.3</i>
Less: Minority	-	-	-	-	-
<b>PAT</b>	<b>765</b>	<b>1,272</b>	<b>1,787</b>	<b>2,214</b>	<b>2,820</b>

Source: YES Sec

## Exhibit 13: Cash Flow

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
<b>Cash from operations</b>	811	2,330	964	2,021	1,858
PAT	765	1,272	1,787	2,214	2,820
Add deferred tax	22	1	-	-	-
Add interest	3	3	3	3	3
Add depreciation	13	20	19	20	21
Less Other Income	(45)	(95)	(173)	(198)	(228)
Working capital change	90	1,128	(35)	(42)	(54)
Others	(38)	0	(638)	24	(704)
<b>Cash from investments</b>	(483)	(1,110)	143	178	208
Capex	(7)	(27)	(30)	(20)	(20)
Investments	-	-	-	-	-
Other Income	45	95	173	198	228
Others	(520)	(1,178)	-	-	-
<b>Cash from financing</b>	(435)	(848)	(10)	(774)	(902)
Equity	(401)	-	-	-	-
Direct reserve add	-	-	-	-	-
Debt	-	-	-	-	-
Interest costs	(3)	(3)	(3)	(3)	(3)
Dividends	(26)	(835)	(6)	(771)	(899)
Others/Repayment of lease liability	(5)	(10)	-	-	-

Source: YES Sec

## Exhibit 14: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Ebit Margin (%)	53.8	64.8	70.8	68.9	69.0
Asset Turnover (x)	1.4	1.2	1.0	1.0	1.0
Financial Leverage (x)	1.1	1.2	1.3	1.2	1.2
Interest burden (x)	1.1	1.1	1.1	1.1	1.1
Tax Burden (x)	0.72	0.75	0.75	0.75	0.75
Adj RoE (%)	64.1	80.6	77.6	63.8	60.8

Source: YES Sec

## Exhibit 15: Ratio Analysis

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
<b>Growth matrix (%)</b>					
Revenue growth	37.8	29.3	30.0	28.0	28.0
Op profit growth	18.2	55.5	41.5	24.4	28.0
EBIT growth	17.7	55.6	42.1	24.6	28.2
Net profit growth	18.5	66.2	40.5	23.9	27.3
<b>Profitability ratios (%)</b>					
OPM	54.6	65.6	71.4	69.4	69.4
EBIT margin	53.8	64.8	70.8	68.9	69.0
Net profit margin	41.0	52.6	56.9	55.1	54.8
RoCE	55.9	64.7	58.5	52.5	52.3
RoNW	64.1	80.6	77.6	63.8	60.8
RoA	45.2	47.9	44.5	40.6	40.4
<b>Per share ratios</b>					
EPS	59.6	9.9	13.9	17.2	22.0
Dividend per share	0.5	6.0	7.0	14.0	19.0
Cash EPS	60.6	10.1	14.1	17.4	22.1
Book value per share	106.0	14.0	21.9	32.1	40.1
<b>Valuation ratios</b>					
P/E	15.1	90.7	46.4	37.5	29.4
P/CEPS	14.2	85.7	45.9	37.1	29.2
P/B	8.5	64.2	29.5	20.1	16.1
EV/EBIDTA	10.3	71.9	35.8	28.3	21.8
<b>Payout (%)</b>					
Dividend payout	0.8	60.6	50.3	81.2	86.5
Tax payout	27.6	25.4	25.3	25.3	25.3
<b>Liquidity ratios</b>					
Debtor days	40	40	40	40	40
Inventory days	-	-	-	-	-
Creditor days	31	22	22	22	22

Source: YES Sec

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