

# Saregama India | BUY

## Wynk shut down: Near-term pain, long-term gain

Bharti Airtel's [decision to shut down Wynk Music \(Wynk\)](#), India's third-largest music OTT platform in terms of active users, could accelerate the movement of Spotify (market leader) and JioSaavn (second largest) to a paid-subscription business model. Currently, the three market leaders are the only pure-play music OTT platforms offering free streaming services, as the rest of the players have already moved to a completely paywall-driven business model. While these developments could have an adverse impact on music labels like Saregama in the near term due to loss of minimum guarantee revenue, from a medium- to long-term perspective they could immensely benefit from a sharp improvement in monetisation of end-consumers. This is because music labels on average earn significantly higher yields per stream from paid music streaming consumers compared to free streaming consumers. To better factor in the development we lower our near-term music licensing revenue estimates for Saregama by ~1.5% and marginally raise revenue estimates over the medium to long term. We maintain 'BUY' with a revised DCF-driven TP of INR 580 (implied Sep'26 PER of 40x).

- Reduced competitive intensity can accelerate industry transition to paid subscriptions:** Music OTT platforms Amazon Music, Apple Music, Gaana, Hungama and Resso offer only paid music content access to consumers. However, market leaders Spotify, JioSaavn and Wynk, who together account for ~85% of the active users (refer exhibit 1) in the industry, allow free streaming of content available on their platform in lieu of intermittent advertisements being shown to end-consumers, in their quest to support consumer habit creation as well as to gain market share. But this strategy leads to sub-optimal revenues for the platforms, as they miss out on paid-subscription revenue, in turn leading to significant operating losses. The shutdown of Wynk may not only reduce competitive pressures on Spotify and JioSaavn but could also accelerate their movement to a completely subscription-based business model.
- Near-term pain but long-term gain:** Wynk's shutdown could mean complete revenue loss from the platform for music labels like Saregama in 2HFY25, in our opinion. That said, there exists a possibility that consumers may migrate to competitive platforms, thereby partly offsetting this revenue loss. On the other hand, if the remaining two market leaders were to transition to a paid subscription driven business model, it will lead to music labels moving away from the concept of minimum guarantees and overflows. Instead, the labels would start earning part of the subscription revenue collected by music OTTs basis their content usage share. Historically, it has been observed that the average yields per stream for music labels are far better in subscription revenue compared to INR 0.1 per stream that they earn in the free streaming model. In fact, the yields are so high that they are more than able to offset the negative impact of not all free streaming consumers transitioning to paid subscriptions.
- Reiterate BUY with revised TP of INR 580:** We moderate our Consol. Revenue/EBIT/EPS growth estimates in FY25/26 to factor in the near-term impact of Wynk closure. However, our long-term estimates have been raised to factor in the benefits of music OTT industry



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	580
Upside/(Downside)	14.1%
Previous Price Target	550
Change	5.5%

### Key Data – SARE IN

Current Market Price	INR508
Market cap (bn)	INR98.0/US\$1.2
Free Float	40%
Shares in issue (mn)	192.8
Diluted share (mn)	192.8
3-mon avg daily val (mn)	INR297.4/US\$3.5
52-week range	581/310
Sensex/Nifty	82,366/25,236
INR/US\$	83.9

### Price Performance

%	1M	6M	12M
Absolute	-9.2	26.3	32.9
Relative*	-10.7	13.2	5.5

\* To the BSE Sensex

### Financial Summary

Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	7,366	8,030	9,632	11,647	14,023
Sales Growth (%)	27.8	9.0	20.0	20.9	20.4
EBITDA	2,210	2,466	2,883	3,705	4,622
EBITDA Margin (%)	30.0	30.7	29.9	31.8	33.0
Adjusted Net Profit	1,853	1,976	1,925	2,478	3,121
Diluted EPS (INR)	9.6	10.2	10.0	12.8	16.2
Diluted EPS Growth (%)	14.2	6.6	-2.6	28.7	26.0
ROIC (%)	32.6	23.0	19.1	20.9	23.5
ROE (%)	13.6	14.1	12.6	14.9	17.1
P/E (x)	54.3	50.9	52.3	40.6	32.2
P/B (x)	7.5	6.9	6.4	5.8	5.2
EV/EBITDA (x)	42.2	38.2	33.6	26.1	20.9
Dividend Yield (%)	0.6	0.8	0.8	1.0	1.2

Source: Company data, JM Financial. Note: Valuations as of 30/Aug/2024

JM Financial Institutional Securities Limited

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transitioning to paid subscriptions. Overall, we expect Saregama's Music Licensing (including Artist Management) revenue to expand at a CAGR of 22% over FY24-27E, which we believe is conservative, as the management is guiding for 23% CAGR during this period without factoring in the transition benefits. At a Consol. revenue level, we are estimating growth of 20% over the next 3 years vs. the management's guidance of 25-26%. While new content cost is likely to depress near-term margins, we expect meaningful expansion over the medium term. We retain 'BUY' on Saregama with a revised DCF-driven (WACC of 12% and Tg of 5%) Sep'25 TP of INR 580 vs. INR 550 earlier (implied PER on TP of 40x vs. 38x earlier).

#### Exhibit 1. Wynk is the third-largest music OTT platform in India, with ~22% market share within active users in Jul'24

Active users	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24
Spotify	36.0%	37.1%	39.1%	39.1%	40.2%	39.1%	38.5%	40.3%	41.6%	41.6%	42.3%	42.5%	43.5%
JioSaavn	24.3%	24.5%	23.7%	23.8%	23.4%	25.0%	25.6%	25.1%	24.6%	24.9%	24.7%	24.7%	25.1%
Wynk	22.8%	23.0%	22.6%	22.6%	22.6%	23.2%	23.9%	23.8%	23.2%	22.2%	22.7%	21.9%	22.4%
Amazon Music	6.2%	6.3%	6.5%	6.3%	6.3%	6.0%	6.0%	5.2%	5.4%	5.6%	4.9%	5.5%	5.1%
Gaana	4.9%	4.3%	4.2%	4.8%	4.2%	3.9%	3.5%	3.6%	3.1%	3.7%	3.5%	3.5%	3.2%
Resso	5.2%	4.2%	3.4%	3.0%	2.8%	2.3%	1.8%	1.2%	1.0%	0.8%	0.7%	0.6%	0.5%
Hungama	0.5%	0.6%	0.5%	0.5%	0.5%	0.5%	0.7%	0.9%	1.0%	1.1%	1.1%	1.3%	0.2%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Data.ai, JM Financial. Note: Above figures are aggregate of Android and ios users.

#### Exhibit 2. Analysis of Spotify India LLP and Airtel Digital Ltd. where respective music OTT platforms reside suggests significant losses at operating profit level

Particulars (in INR mn)	FY20	FY21	FY22	FY23
<b>Spotify India LLP</b>				
Revenue	161	396	901	1,669
EBITDA	-1,560	-1,776	-4,600	-3,377
<b>Airtel Digital Ltd.</b>				
Revenue	5,466	5,533	7,169	na
EBITDA	-609	-1,366	24	na

Source: Tracxn, VCC Edge, JM Financial. Note: Airtel Digital Ltd. includes Airtel Thanks, Wynk and Xstream. As per [media reports](#), revenue for Wynk on a standalone basis in FY23 was ~INR 2.5-3bn.

### Different types of music licensing contracts

Music labels typically enter into content licensing contracts of 1-2 years with third-party digital licensors such as music OTT apps and short video format apps. Such short-duration contracts safeguard the economic interests of the music labels in case of unforeseen events and also allow the label to renegotiate the deal with better terms given the strong growth trends. Broadly, there are three types of contracts: 1) variable deals with minimum guarantee, 2) fixed fee deals and 3) subscription revenue sharing deals.

In the first type of contract, music licensors agree to pay music labels INR 0.1 every time one of its free users streams the latter's music content. Music labels such as Saregama also tend to get a guaranteed fixed fee component in lieu of licensing their content irrespective of the actual times the content IP of licensee is used. Moreover, if the total per stream revenue during a contracted period exceeds the minimum guaranteed amount paid, the music labels are entitled to being paid an amount over and above the minimum guarantee. This amount is commonly referred to as overflows.

Fixed fee deals, as the name suggests, are very straightforward contracts with tenure of licence and fees decided at the very outset. Contracts with digital streaming apps are typically variable in nature; short form video format players typically prefer the latter.

In subscription revenue sharing deals, the music label is entitled to a certain share of the revenue earned by the licensor from end-consumers of music. Revenue sharing percentage is decided basis the streaming market share of the music label amongst all songs streamed by

paid consumers during a particular period. For example, if a music OTT app is charging INR 100 per month for paid subscription, it would distribute half of the total subscription amount collected, i.e., INR 50 (in this example) amongst various music labels, basis the respective streaming market share of the music labels in that month.

Factors that go into contract negotiations include the size and quality of the catalogue. While Saregama's largely retro content provides scale advantage, investments in fresh content, which is considered superior quality due to higher monetisation potential, can likely give it an edge during contract negotiations.

### Exhibit 3. Types of music licensing contracts with third-party distributors

Platforms	Monetisation	Note
Audio OTT - Without Subscription	INR 0.1 per stream	✓ 1-2 year minimum guarantee contracts
Audio OTT – Subscription	Proportionate share of subscription revenue based on user usage share	✓ Amount collected up-front ✓ Provision for overflows
YouTube	Advertising revenue shared in 55 : 45 ratio between Music label and YouTube	
Small format video platforms	1-2 years fixed-fee licenses	
Video OTT (excl. YouTube)	Fixed fee licenses with Program Producers	
Television Channels	1-2 years fixed-fee licenses	
Brands	Customised licenses	
Public places (events, shows, parties, commercial premises like hotels, pubs, shops, malls etc.)	Public Performance Licensing (PPL) Society	✓ Revenue shared equally between music label and Lyricist / Composer

Source: Company, JM Financial

### Why Music OTT subscriptions could be a key growth driver for music label revenues?

According to EY FICCI, 185mn people in India streamed music online in 2023 on a monthly basis, while there were only about 7.5mn paid streaming subscriptions (~4.1% of the total streaming app user base). The numbers are low even though paid subscriptions generally get sold as a bundled package with telco data packs (e.g., Wynk and JioSaavn) and other forms of digital services (e.g., Amazon Prime). While insignificant currently, paid subscriptions base is expected to be 2-2.5x its current volume in 3 years (15mn) and 4-5x in 5 years (35mn-40mn). We do note that the audio OTT industry is ripe for consolidation as there are already around 15 domestic and international players. Moreover, the growing focus of private investors on profitability could force audio OTT platforms to limit free streaming access for their consumers. We see significant upside potential to paid subscriptions growth if any of these two scenarios were to play out. This, in turn, could lead to a sharp increase in revenue for music labels as our analysis suggests that each paid subscriber generates meaningfully more revenue compared to a free streamer.

### Exhibit 4. Comparison of revenue generation potential for music labels from a free streaming and paid subscription consumer

Particulars	
Assumed no. of monthly streams per consumer (A)	100
Assumed Saregama's streaming share for the consumer (B)	25%
Saregama's number of streams (C=A*B)	25
<b>Revenue potential from free music streaming for Saregama</b>	
Yield per stream in INR (D)	0.1
Saregama's revenue (E=C*D)	2.5
<b>Revenue potential from paid music streaming for Saregama</b>	
Assumed monthly subscription fees per consumer in INR (F)	50
Max. revenue shared by OTT platform with music labels (G)	50%
Saregama's revenue from the consumer in INR (H=F*G*B)	6.25
Yield per stream in INR (I=H/C)	0.25
<b>Paid versus free revenue for Saregama</b>	
Revenue (J=H/E)	2.5x
Yield per stream (K=I/D)	2.5x

Source: Company, JM Financial

### Exhibit 5. Sensitivity analysis of potential revenue that a music label can generate per month from a paid subscription

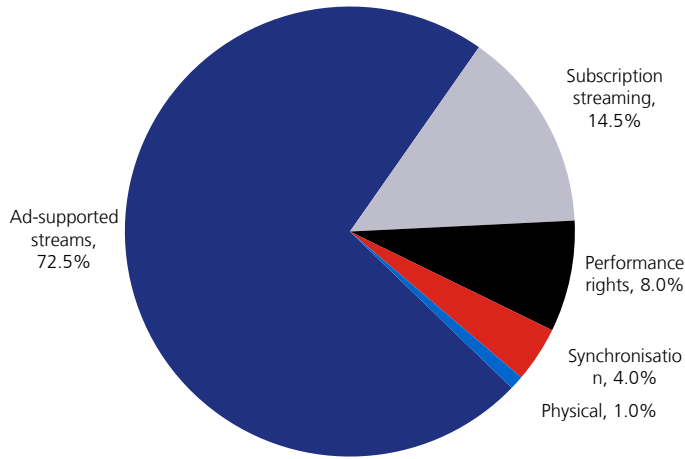
		Monthly subscription fee charged by Music OTT's (INR)			
		25	50	75	100
Music label's streaming share (%)	25%	3.1	6.3	9.4	12.5
	30%	3.8	7.5	11.3	15.0
	35%	4.4	8.8	13.1	17.5
	40%	5.0	10.0	15.0	20.0
	45%	5.6	11.3	16.9	22.5
	50%	6.3	12.5	18.8	25.0

Source: Company, JM Financial

**We expect recorded music industry revenue mix in India to eventually move towards subscription streaming inline global trends**

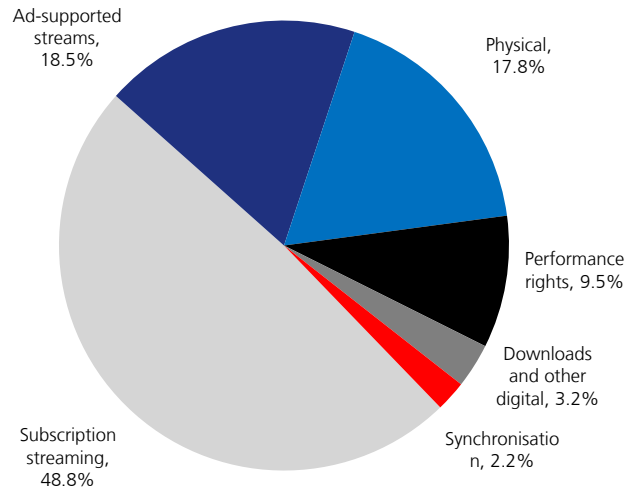
While, globally, a large proportion of recorded music industry revenue is generated through paid subscriptions, the Indian market is primarily dependent on advertising revenue. This is because pure-play music OTT platforms in India, especially the market leaders, continue to provide free streaming services to local consumers in the hope of habit creation and market share gains. The ongoing consolidation trends and growing focus on sustainable profitability, will eventually lead to platforms pushing end-consumers towards paid subscriptions, in our opinion.

**Exhibit 6. Indian recorded music revenue by segment (CY23)**



Source: EY FICCI Report, JM Financial. Note: We note that India's subscription revenue is inflated due to bundled services on Music OTT Platforms such as Wynk, JioSaavn, Amazon Music.

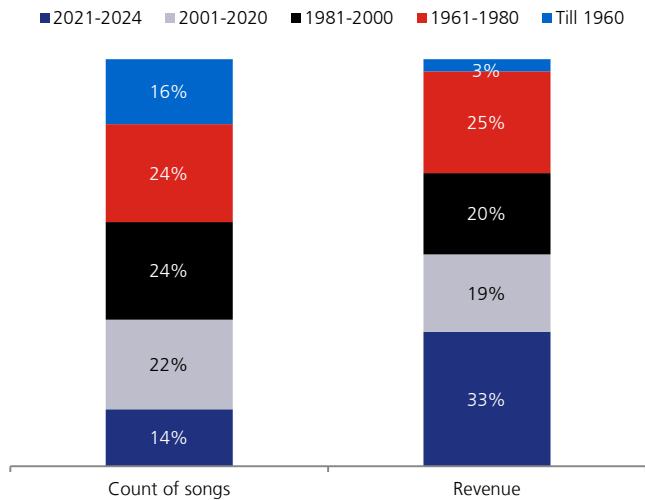
**Exhibit 7. Global recorded music revenue by segment (CY23)**



Source: IFPI, JM Financial

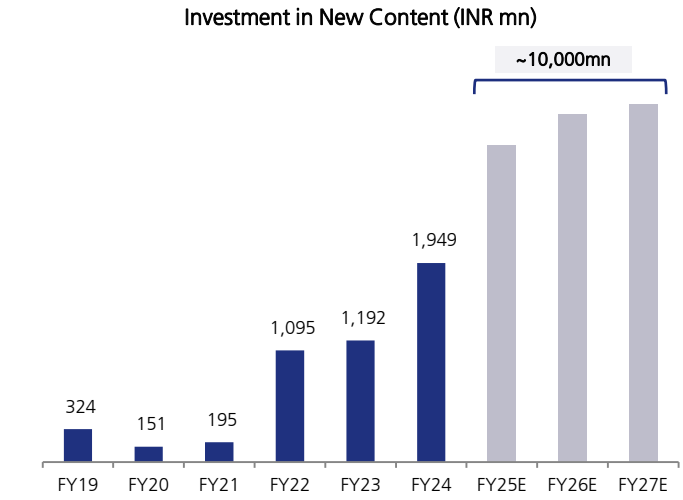
Saregama: Revenue drivers and management guidance

Exhibit 8. Saregama: Release-year-wise breakup of FY24 Count of songs and Revenue



Source: Company, JM Financial

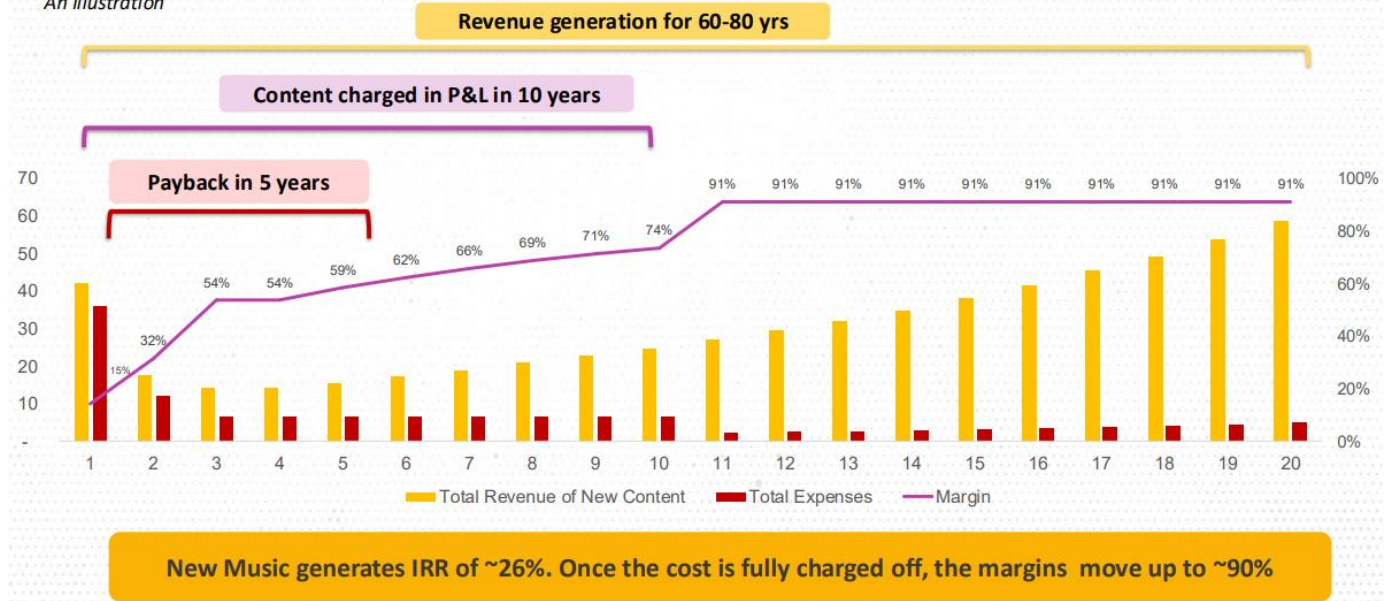
Exhibit 9. The company plans to invest ~INR 10bn in new music content over the next 3-3.5 years



Source: Company, JM Financial

Exhibit 10. P&L impact of new music content investment

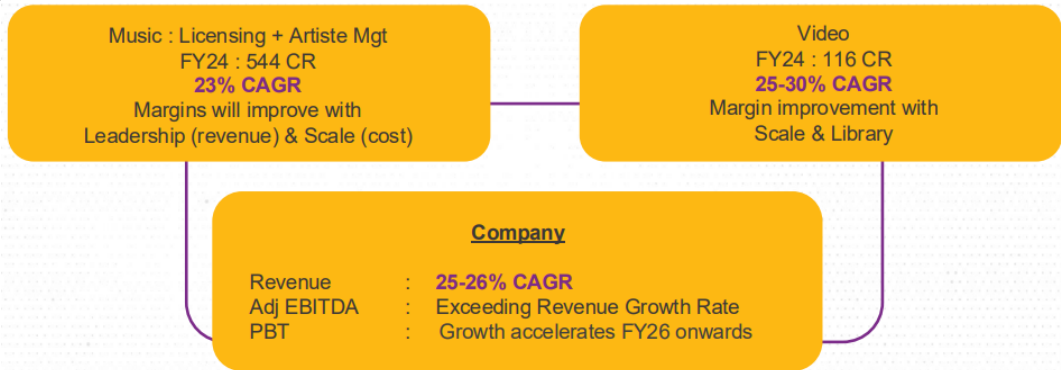
An Illustration



**New Music generates IRR of ~26%. Once the cost is fully charged off, the margins move up to ~90%**

Source: Company

Exhibit 11. Company guidance for the next 3 years



Source: Company

## Maintain BUY; TP increased to INR 580

### Exhibit 12. What has changed in our forecast and assumptions?

All numbers are in INR mn	Old			New			Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	9,711	11,744	13,956	9,632	11,647	14,023	-0.8%	-0.8%	0.5%
Change YoY	20.9%	20.9%	18.8%	20.0%	20.9%	20.4%	-98bps	-1bps	155bps
EBIT	2,350	3,095	3,852	2,312	3,048	3,884	-1.6%	-1.5%	0.8%
EBIT margin	24.2%	26.4%	27.6%	24.0%	26.2%	27.7%	-20bps	-18bps	10bps
PAT	1,953	2,513	3,099	1,924	2,477	3,120	-1.5%	-1.4%	0.7%
Diluted EPS (INR)	10.13	13.04	16.07	9.98	12.85	16.19	-1.4%	-1.4%	0.7%

Source: JM Financial

## Key Risks

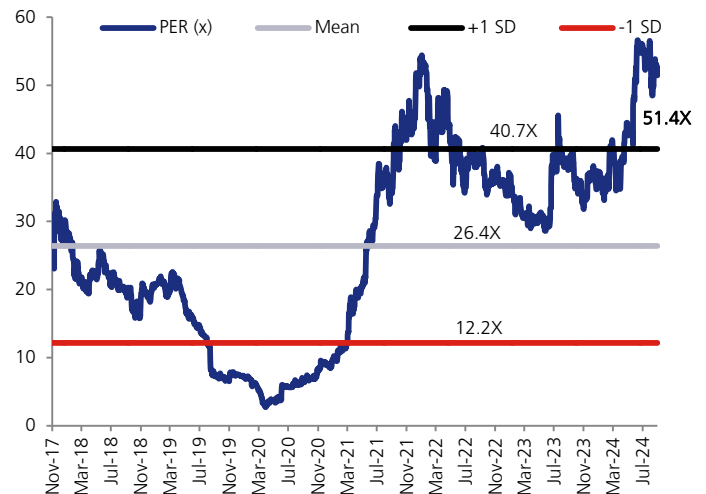
- **Key Upside risk:** 1) Faster-than-expected audio OTT subscriptions growth. 2) Maturity of short format video apps leading variable licensing deals for music labels.
- **Key downside risk:** 1) Irrational rise in competitive intensity inflates new content cost. 2) Need for incremental investments to support Carvaan/TV & Films businesses. 3) Industry consolidation. 4) Revenue losses to piracy. 5) Slower-than-expected digital penetration.

### Exhibit 13. NTM PER Chart – 1 year



Source: Company, JM Financial, Bloomberg

### Exhibit 14. NTM PER Chart – 5 year



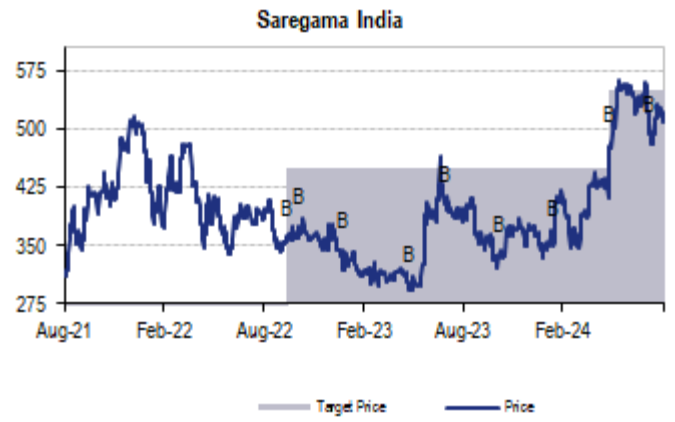
Source: Company, JM Financial, Bloomberg



History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
11-Oct-22	Buy	450	
1-Nov-22	Buy	450	0.0
22-Jan-23	Buy	450	0.0
22-May-23	Buy	450	0.0
29-Jul-23	Buy	450	0.0
2-Nov-23	Buy	450	0.0
11-Feb-24	Buy	450	0.0
25-May-24	Buy	550	22.2
5-Aug-24	Buy	550	0.0

Recommendation History





## APPENDIX I

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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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\* REITs refers to Real Estate Investment Trusts.

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