BUY

Saregama India

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Media & Entertainment ▸ Initiating Coverage ▸ **December 9, 2023**

TARGET PRICE (Rs): 465

As the oldest music label in India, Saregama boasts of an enviable catalog of older-generation songs that are nearly impossible to replicate. Company is now putting the pedal to the metal on acquiring new content, to close the gap with the market leader and ensure that it remains relevant even a few decades later. The music licensing industry has flourished, with waning of piracy; Saregama has capitalized on this opportunity, consistently exceeding industry growth. We expect the steady growth to endure, though transition from the ad-supported to the paid-subscriber model for OTTAs might be a temporary speed-breaker. It now has its foot in the door to explore the fast-growing digital media landscape via its recent acquisition of Pocket Aces. Ramping up of non-music segments will offer added growth impetus. Growing digital revenue and ramp-up of paid subscribers ensure a long growth runway. We initiate coverage on Saregama with BUY and DCF-based TP of Rs465/sh (25% upside). Key risks: i) content costs rising, ii) piracy reflaring, iii) non-adoption of the paid subscription model.

Saregama India: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	5,806	7,366	8,894	11,592	13,836
EBITDA	1,871	2,210	2,676	3,606	4,446
Adj. PAT	1,526	1,853	1,967	2,618	3,224
Adj. EPS (Rs)	7.9	9.6	10.2	13.6	16.7
EBITDA margin (%)	32.2	30.0	30.1	31.1	32.1
EBITDA growth (%)	43.8	18.1	21.1	34.7	23.3
Adj. EPS growth (%)	21.8	21.5	6.1	33.1	23.2
RoE (%)	16.2	13.6	13.9	16.5	17.7
RoIC (%)	38.6	31.8	24.3	24.0	24.9
P/E (x)	47.0	38.7	36.5	27.4	22.2
EV/EBITDA (x)	33.6	28.6	24.4	18.1	14.5
P/B (x)	5.2	5.3	4.8	4.3	3.7
FCFF yield (%)	0.3	(0.2)	(0.1)	0.6	1.5

Source: Company, Emkay Research

Core Music Licensing to continue growing; potential blip possible

Saregama's core music licensing has consistently grown by ~23% over FY19-23, aided by industry tailwinds, strong competitive positioning, a dominant catalog and increasing new content acquisition. Bulk (70-75%) of its revenue may be attributed to the digital mode — video and audio streaming as well as short-format apps. Of these, revenue from audio streaming is driven by free subscribers in India (unlike the global scenario), where realization per-song for Saregama (Re0.1 on average) is lower than that contributed by a paid subscriber. A shift in the ecosystem, from free to paid, can result in better realization. This journey, however, is unlikely to be smooth, as Saregama will have to take a revenue hit to support the streaming platforms, and can also see a possible flare-up in digital piracy rates. Nevertheless, this move is likely to be positive in the medium-to-long term, supported by sharper growth in subscription revenue.

'Pocket Aces' acquisition opens new avenue; non-music segment to scale-up

Saregama recently announced the acquisition of digital entertainment player Pocket Aces Pictures Pvt (Pocket Aces), which provides it an entry into the fast-growing digital media landscape and access to the key demographic of the younger generation. Saregama can extract synergies in multiple areas—artist/influencer management, brand partnerships, content acquisition, marketing, etc. Films and TV serials should also see steady growth, coupled with ramp-up in the events vertical.

Outlook and Valuation: Steady growth on the cards

Saregama has seen a meaningful valuation rerating since Covid, given resilient earnings growth and robust revenue performance. Saregama is well poised to capitalize on the abundant monetization opportunities in the music industry and adjacent categories. We forecast revenue CAGR of 23% over FY23-26E, including ~18% music licensing revenue CAGR and the Pocket Aces acquisition. We expect margins to remain broadly stable, as the integration of Pocket Aces (currently loss-making) and scaling up of the lower-margin, non-music segment will prevent any meaningful upside. The stock's valuations are at a premium to global peers due to its superior growth trajectory and better margin profile. We initiate coverage on Saregama with a BUY recommendation and TP of Rs465/sh (implying 25% upside) based on DCF methodology (implied PER of 28x FY26E).

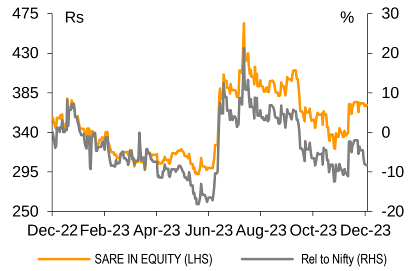
Target Price – 12M	Dec-24
Change in TP (%)	**NA**
Current Reco.	BUY
Previous Reco.	NA
Upside/(Downside) (%)	25.0
CMP (08-Dec-23) (Rs)	372.0

Stock Data	**Ticker**
52-week High (Rs)	469
52-week Low (Rs)	290
Shares outstanding (mn)	192.8
Market-cap (Rs bn)	72
Market-cap (USD mn)	860
Net-debt, FY24E (Rs mn)	-6,305
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	185.4
ADTV-3M (USD mn)	2.2
Free float (%)	40.7
Nifty-50	20,969
INR/USD	83.4
Shareholding, Sep-23	
Promoters (%)	59.1
FPIs/MFs (%)	17.1/2.4

Price Performance

(%)	**1M**	**3M**	**12M**
Absolute	9.4	(7.1)	3.0
Rel. to Nifty	1.5	(12.2)	(8.6)

1-Year share price trend (Rs)



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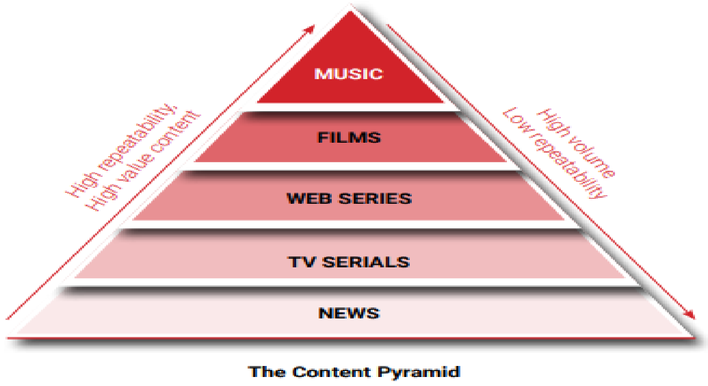
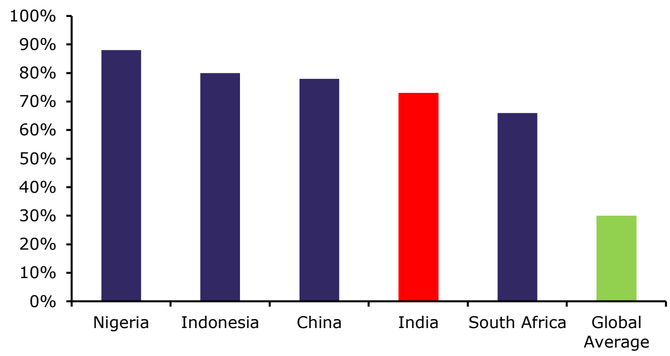
Story in Charts

Exhibit 1: Music — At the top of the M&E value chain



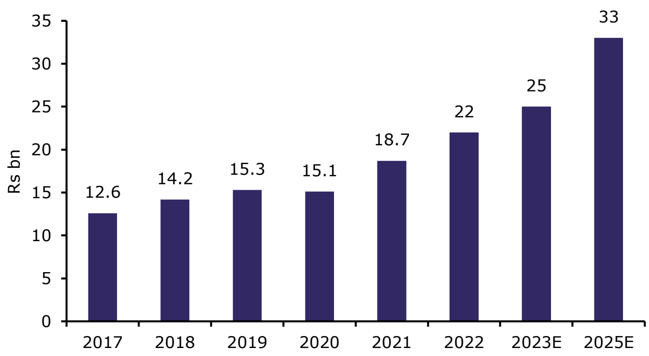
Source: Tips Industries Annual Report

Exhibit 2: While piracy in India has reduced over the last decade, it is still among the highest in the world



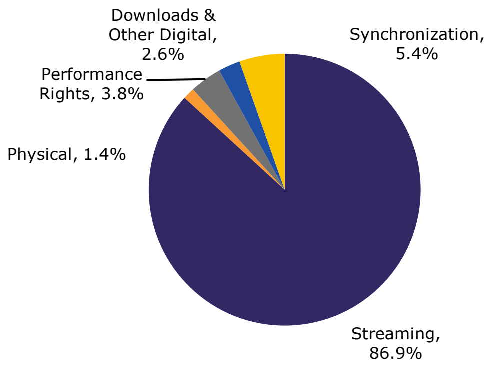
Source: IMI IFPI Digital Music Study Report, Emkay Research

Exhibit 3: India's music revenue has grown ~12% over the last five years, with likely growth of 14% from 2022 to 2025



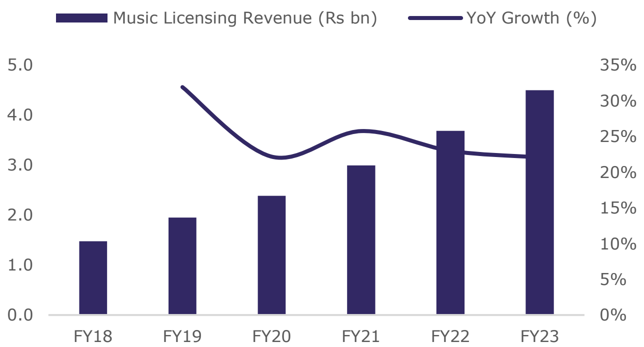
Source: EY FICC Report 2023, Emkay Research

Exhibit 4: Majority of the music revenue in India comes from streaming services



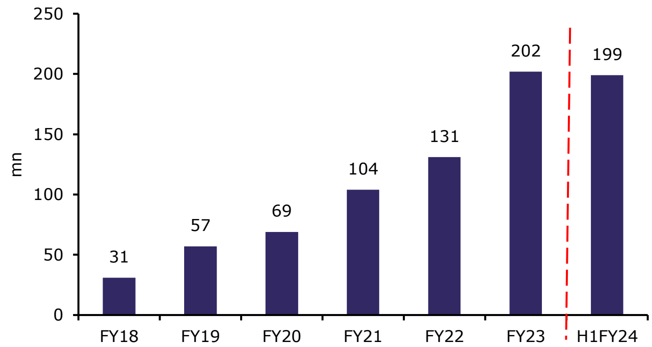
Source: IMI IFPI Digital Music Study Report, Emkay Research

Exhibit 5: Saregama's music licensing revenue growth has been higher than that of the overall market



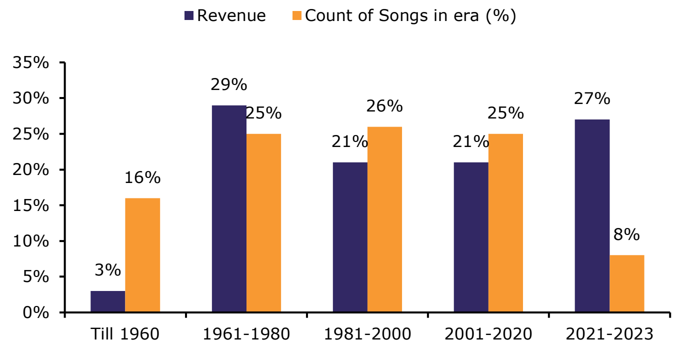
Source: Company, Emkay Research

Exhibit 6: *YouTube* views on Saregama have grown 45% CAGR over the last 5 years



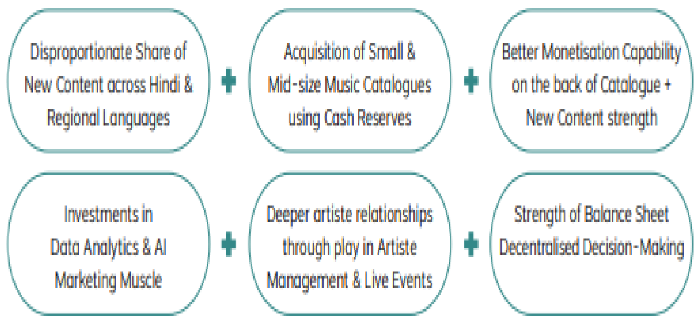
Source: Company, Emkay Research

Exhibit 7: Saregama now derives 48% of its revenue from music released post CY2000, aided by investment in new content



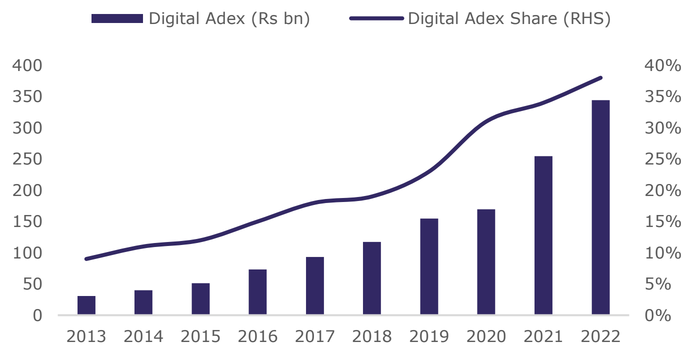
Source: Company, Emkay Research

Exhibit 8: Company's planned path to the leadership position



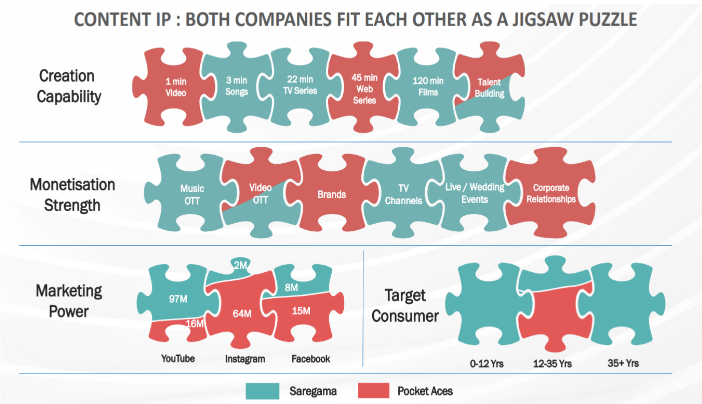
Source: Company

Exhibit 9: The Pocket Aces acquisition offers entry into the fast-growing digital advertising market



Source: Pitch Madison Advertising Report 2023, Emkay Research

Exhibit 10: Saregama has multiple synergies with Pocket Aces



Source: Company

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Executive Summary

Industry tailwinds to aid growth

Music licensing has emerged an attractive segment, with the decline in piracy over the last decade. Coupled with cheap data offerings, the overall ecosystem has evolved to a large extent in the last 7-8 years. The overall industry has seen 12% CAGR over the last five years, despite the impact of Covid, during which no new content was released. Going ahead as well, the overall music industry is expected to grow 14% from 2022 to 2025, led by digital revenues, a higher paid-subscriber base and continued recovery of performance rights, as events and activations increase in number and scale. The music licensing industry has inherently high entry barriers, as new players cannot scale-up to the level of the large content library of existing players which acts as a natural moat for such (existing) players.

Saregama in prime position to capitalize on the industry tailwinds

Saregama has consistently outperformed industry growth levels over the last few years, led by strong competitive positioning, an impressive catalog and increasing new content acquisitions. The strength of its content library also provides higher bargaining power with distribution platforms. It has forged partnerships with over 65 music licensing platforms, >30 streaming platforms, more than 20 broadcasting platforms, and >8 social media platforms, which is extremely difficult to replicate.

New Content acquisition to provide growth impetus

A major part of the music licensing industry revenue is derived from content that has been released in the last 18-24 months. Hence, it is imperative for any label to continuously invest in new music content. Saregama, which had restricted itself from investing in new content during the 2000-2015 period at the height of piracy, has now re-entered the fray and plans to make aggressive investments for acquiring new content. Some of its investments are already bearing fruit, as the company now derives 27% of its revenue from the content released post 2020 (till 2023).

Subscription model to aid realizations over the medium term; temporary blip possible

India's streaming market has been dominated by the ad-supported model, with only a minuscule (2-3%) of subscribers paying for OTTA (over-the-top audio or audio OTT) services. This ad-supported model, however, puts OTTA platforms in a tight spot, as expenses are too high and meaningful profit low. In the last couple of years, the top-3 of the six OTTAs have moved from an ad-supported to a completely paid model, with the top platform having recently introduced several restrictions on its ad-supported model. Saregama's realization per song on the ad-supported model is currently 10paise, which has a significant upside if the OTTAs were to transition to a paid-subscription model. However, such a transition is not expected to be smooth, as platforms are likely to face near-term pressure, part of which would be borne by the music labels. Impact in the medium-to-long term is expected to be net positive for both—distribution platforms as well as music labels like Saregama.

The Pocket Aces acquisition

Saregama's recent acquisition of Pocket Aces has opened doors to a new, fast-growing segment of digital and social media. Digital adex (i.e. advertising expenditure) has been the fastest growing medium, and is now the largest medium overtaking television. Pocket Aces's primary customer base is the younger generation, in the 12-28 age-group, which narrows the gap for Saregama. The company label can also benefit from the existing relationship of Pocket Aces with content creators. Saregama can extract synergies with Pocket Aces in multiple areas—artist/influencer management, brand partnerships, content acquisition, marketing, etc.

Technology-driven approach for content acquisition bearing fruit; marketing muscle impressive

Saregama acknowledges the importance of harnessing technology across the value chain for driving results. It has been extensively using predictive AI and, coupled with data mining, AI has also been used for the purpose of deciding which content to invest in. This has reduced dependence on a centralized music selection process. Management has repeatedly highlighted that new content acquisition decisions are taken by specialized teams, which have a better understanding of the language and audience reception. This has aided the company in delivering superior performance vis-à-vis competitors.

On the generative AI front, the company is creating tools to learn from its own music content. Based on the data available due to its >150,000 songs, it aims to automatically create new content. It has also upgraded its songs to the latest technology, i.e. Dolby Atmos, which allows for a better listening experience on state-of-the-art devices.

Saregama's marketing capabilities, given its wide customer base, also give it an edge over most other players. It has adopted unique advertising and product-placement strategies as part of its marketing outreach. This is a key criterion for movie producers and independent artists when evaluating the music labels they choose to partner with.

Outlook and Valuation

We believe that music licensing might experience some temporary speed-breakers due to the possible transition to the subscription model, but long-term outlook is solid. Non-music segments should scale up on a lower base, while Pocket Aces should continue to grow in a healthy way. For the consolidated entity, we estimate revenue CAGR of 23% during FY23-26E, including the Pocket Aces acquisition. We believe that margin expansion will be limited due to: i) integration of Pocket Aces (currently loss-making); ii) scale-up of lower-margin, non-music segments; iii) continued investment in new content acquisition.

The stock currently trades at a valuation of 22.2x FY26E EPS, higher than global peers' due to Company's superior growth trajectory and better margin profile.

Risks

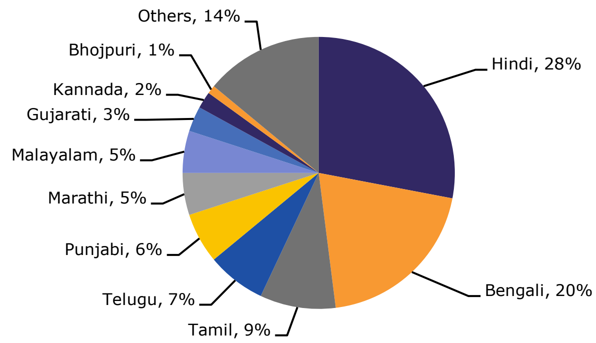
The main risks for Saregama mostly emanate from: i) rising cost of new content acquisition, given the limited supply of new music and adequate purchasing capabilities of existing players; ii) slower than expected paid-subscriber addition, inadequate to cover losses from the lack of advertising revenue, as OTTAs transition from the ad-supported to the paid-subscription model; iii) re-emergence of digital piracy due to non-willingness to pay for music; iv) inability to close deals with streaming platforms/shut-down of OTTA platforms; iv) higher than expected investments in non-music segments.

Investment Rationale and Business Model

Catalog remains a class apart

Saregama has a strong legacy, with its library of over 150k songs across multiple genres and 18 languages that makes it one of the few players with pan-India presence. This huge library has been built over a span of over 100 years, with the company being the runaway leader prior to the 1990s. The company has forged partnerships with over 65 music licensing platforms, more than 30 streaming platforms, over 20 broadcasting platforms and >8 social media platforms.

Exhibit 11: Language-wise split of songs



Source: Company, Emkay Research

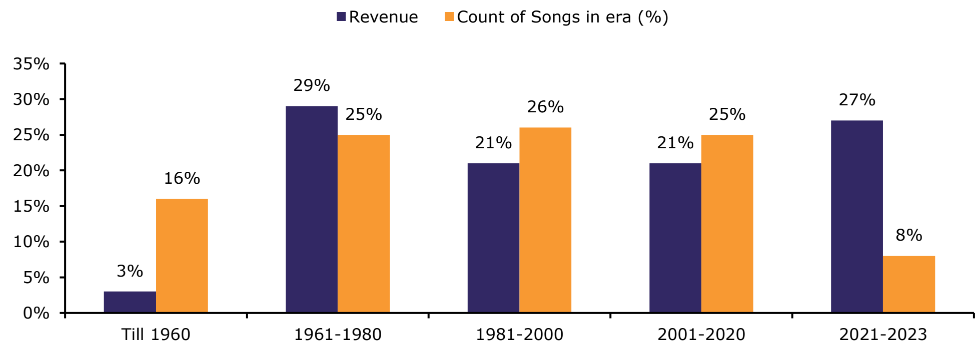
This large catalog of over 150k songs forms a strong entry barrier for new players. It is likely to be a daunting task for any new player to build such a catalog to compete with top music labels. Assuming 1,000 movies are released every year and each movie has five songs on average, it is likely to take a new player around 30 years to build a catalog as large as Saregama's, even if such a player acquires all the songs on the block released over all these years.

Not only does the large catalog provide a solid entry barrier for new players, it also enables large labels like Saregama to negotiate better deals with distribution platforms. Such platforms are also aware that it would be difficult to function without the songs of the largest players (such as T-Series and Saregama) and, so, carry lower bargaining power.

Pushing the pedal on new content acquisition

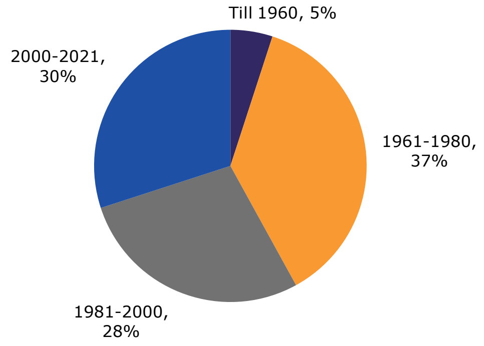
Saregama's new content acquisition had seen a significant slowdown during 2000-2015, a period marked by heightened piracy. Globally, peer-to-peer file-sharing services like Napster, Kazaa and Soulseek had become a huge cause for worry for music labels, with India also seeing piracy skyrocket given the emergence of illegal websites. The company's management had taken a conscious decision to not make any major investments during this period, given that piracy had reached as high as 97%. The last few years have seen the company step up investments, having scooped up some large albums from well-known production houses. Historically, given its impressive catalog strength, Saregama has derived majority of its revenue from old songs. With investments having picked up, it now achieves 48% of revenue from songs released post 2000 (27% of revenue from content acquired in the last three years).

Exhibit 12: Saregama — 48% of revenue derived from songs released post CY2000



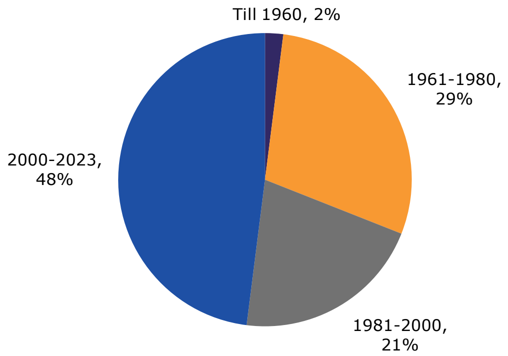
Source: Company, Emkay Research

Exhibit 13: In FY21, Saregama derived 30% of its revenue from songs released post CY2000…



Source: Company, Emkay Research

Exhibit 14: …that has increased to 48% as of end-FY23



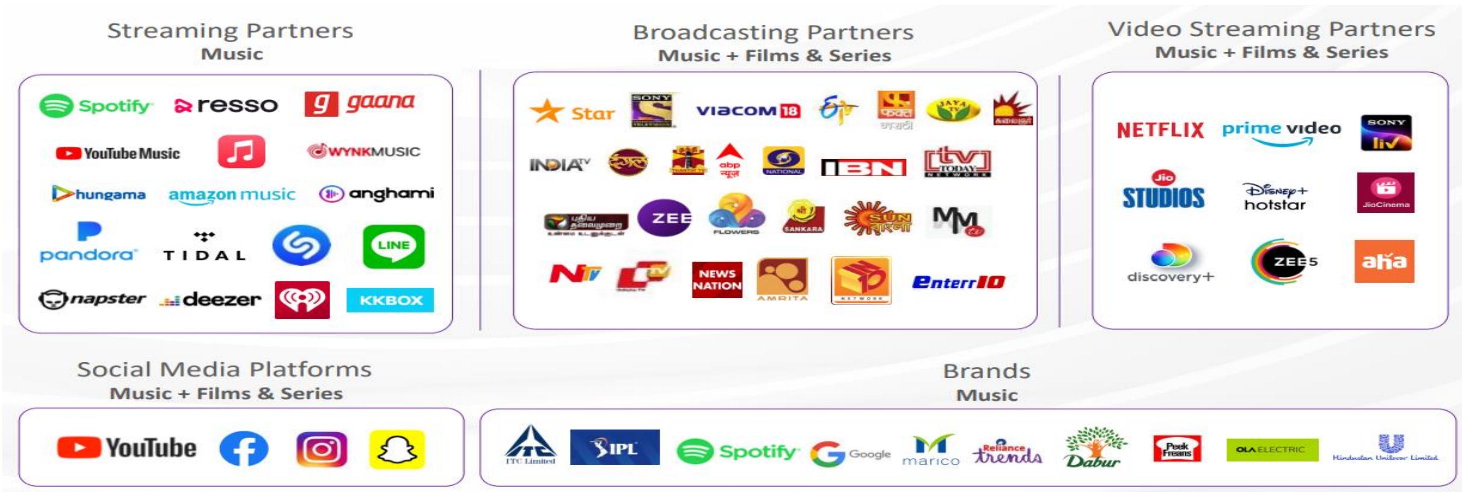
Source: Company, Emkay Research

Going ahead as well, the company plans to invest aggressively to gain market share and narrow the gap with market leader T-Series. However, the content will be acquired only if the management is confident that such investments can be recovered within the next five years.

Evolution of music ecosystem and paid subscriber addition bode well for Saregama

In the core music licensing segment, Saregama derives its revenues from licensing its content to music streaming platforms, video streaming platforms, short-format platforms, and brands. In FY23, Saregama's music IPs were used 213bn times across audio OTTs, YouTube, radio stations and television channels.

Exhibit 15: Saregama — Licensing Partners (Q2FY24)



Source: Company

Exhibit 16: Saregama — New music partners

Source: Company

Saregama's agreements vary with each platform:

1) **YouTube:** With YouTube, Saregama's ad revenues are shared in the 55:45 proportion, in favor of the music label. Revenue for Saregama is thus contingent on: i) the number of views for Saregama's music; and ii) YouTube's own ad revenue. The positive reception of Saregama's music translates into its immediate revenue realization, in the case of YouTube. Saregama also rakes-in revenue from streaming its TV shows (for which it owns the IP) on YouTube, and shares its revenue in a similar proportion as it does the revenue from its music.

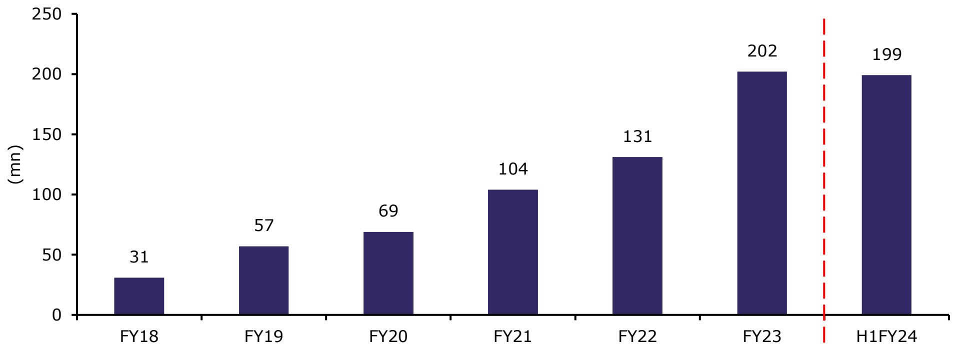
   The company earns revenue not only when users listen to Saregama-owned content on their own channel but on any other channel as well.

Exhibit 17: Saregama — YouTube channel subscribers

Channel name	No. of subscribers (mn)
Saregama Music	38.3
Saregama Hum Bhojpuri	12.8
Saregama Tamil	6.7
Saregama Bengali	6.6
Saregama Bhakti	5.2
Saregama Karaoke	4.6
Saregama Gujarati	2.7
Saregama Marathi	2.5
Saregama Punjabi	1.7
Saregama Movies	1.3
Saregama Ghazal	1.2
Saregama Hindustani Classical	0.1
Yoodlee Films	0.1

Source: YouTube, Emkay Research

Exhibit 18: Saregama's YouTube channel views have grown substantially



Source: Company

2) **Audio Streaming Platforms:** Saregama enters into agreements with Audio OTT platforms like Spotify, JioSaavn, and Airtel Wynk, typically for a duration of 1-2 years. Such agreements involve aspects of minimum guarantees, and overflows are booked only when the deals are finalized (only top-3 platforms). Hence, there can be a delay in recognizing revenue even if the music released becomes an instant hit. Saregama earns a yield of 10paise on average for every song heard on these platforms without a subscription (ad-supported model). Yields are typically higher in case of the user having paid for a subscription.

3) **Short-format video platforms:** Most short-format video platforms are currently in the nascent stage and in the midst of assessing their own revenue models. Saregama has fixed-fee license contracts with these platforms. Renegotiations are typically done at the end of the deal, and better performance by the music label's songs can further aid in increasing bargaining power.

4) **Video OTT platforms:** Most video platforms license Saregama-owned content and have fixed fee license deals to use their content.

5) **Brands:** Popular brands use Saregama-owned content as part of their marketing and advertising strategy. Most of these deals are customized in nature.

6) **Public performances:** All music that is played at events like weddings, concerts, and parties generates revenue for the music label and is also shared with the respective music composers/singers of such songs.

Saregama derives 75% of its total music licensing revenue from digital platforms which has been growing at a quicker pace than other modes. Saregama's YouTube revenue is contingent on YouTube's overall advertising revenue, which depends on the macro environment. Despite muted advertising spending over last year, Saregama's music licensing revenue growth remained healthy, indicating the digital medium's resilience.

Yield of 10paise per song, with OTTA platforms for the ad-supported model is unlikely to inch up in the near term, as streamers continue to grapple with their own business models. Growth for Saregama in the ad-supported model is likely to come from an increase in the number of subscribers and increased frequency of song usage, as the penetration of these audio platforms deepens. On the other hand, the number of paid subscribers can possibly grow at a higher rate on a lower base.

Exhibit 19: Possible impact on realization, in case of a shift to the subscription model

Assumed monthly subscription charge (Rs)	50
Amount marked for content pool (%)	50
Amount paid to music labels per month (Rs)	25
Number of songs heard per month	100
Potential Realization per song (Rs)	0.25
Current realization per song (Rs)	0.1
Potential Premium	**150%**

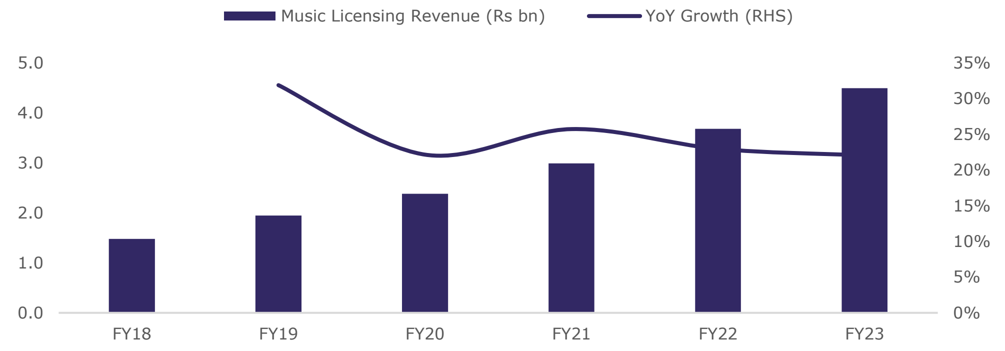
Source: Company, Emkay Research

While the step to move all content behind a paid wall augurs well for the entire ecosystem over the medium-to-long term, the journey is likely to be bumpy, with short-term pain for all major players. Revenue can potentially plummet for Audio OTTs, as users move to different platforms to avoid making any payment for listening to songs. For music labels like Saregama, this could possibly lead to near-term headwinds as the company has announced that it will stop charging any minimum guarantee charge to platforms, to support them. Currently, only the top-3 music OTT platforms provide free music services (Spotify has also announced certain restrictions), with all others providing paid services; Saregama has minimum guarantee on all three platforms. If these three platforms also move completely behind the paid wall, all minimum guarantees will fade away and the charges will move to a variable pricing-based model. The near-term revenue trajectory will hence depend on how these platforms transition to the paid subscription model.

Globally, almost three-fourths of the total streaming revenue generated by music labels comes from subscription revenue, with advertising contributing to the remainder. In India, the number of paid subscribers remains woefully low (4-5mn, 2-3% as of the total OTT subscribers). Music has always been considered a free resource in India, and users have been hesitant to make payments for the same.

Saregama's major advantage in the music licensing segment is consistent and predictable revenue growth. Over the last 5 years, licensing revenue has grown ~23%, including the Covid-impacted years, when there was no new content being released. Further, the overall revenue base is well diversified across multiple platforms, and is unlikely to be majorly hit by platform-specific issues.

Exhibit 20: Music licensing growth has been consistent over FY18-23



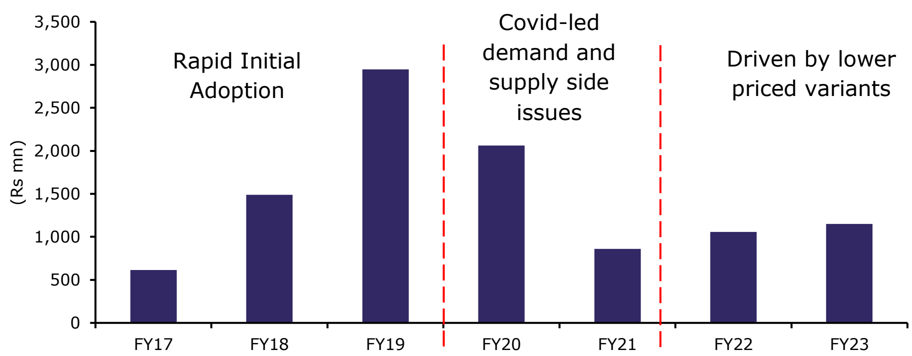
Source: Company, Emkay Research

Carvaan complements the music licensing segment

Carvaan is Saregama's flagship specialty hardware product with more than 5,000 pre-loaded songs. It was launched in 2017 and aggressively scaled up in the initial few years, aided by rapid adoption due to its simple design and retro look. The product has been a preferred choice of gifting for the older generation as well as for corporates. Saregama achieved *Carvaan* sales of 904k units by FY19, just a couple of years after its launch. The key target audience for *Carvaan* has been the >40-year-old category, which is less tech savvy and prefers ease of use over other parameters.

Carvaan has seen a bumpy journey since its launch, with Covid acting as a major speed-breaker. Saregama faced challenges on both, the demand and supply fronts, during this period which led to sharp decline of 30% and 58% in *Carvaan* revenue in FY20 and FY21, respectively. The company has changed its strategy post Covid and decided not to spend on marketing, thereby relying solely on its consumer pull. Saregama has also launched multiple new lower-priced variants of the product, including *Carvaan Mini+* and *Carvaan Mobile*.

Exhibit 21: *Carvaan* — The revenue journey has been bumpy



Source: Company, Emkay Research

Exhibit 22: *Carvaan* — Focusing on *Carvaan Mini+* and *Carvaan Mobile*

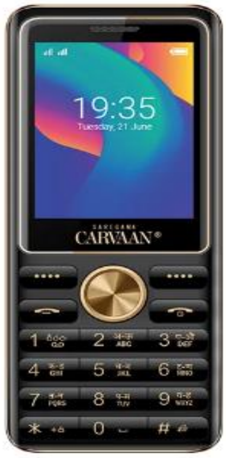
	FY18	FY19	FY20	FY21	FY22	FY23
Number of units sold ('000)	389	904	741	344	401	561
YoY Growth		132.4%	-18.0%	-53.6%	16.6%	39.9%
Average Realization (Rs)	3,832	3,261	2,783	2,502	2,634	2,314
YoY Growth		-14.9%	-14.6%	-10.1%	5.2%	-12.1%

Source: Company, Emkay Research

Exhibit 23: Saregama — *Carvaan Mini*

Source: Company

Exhibit 24: Saregama — *Carvaan Mobile*



Source: Company

While *Carvaan* only operates at wafer-thin margins, it helps immensely in the areas of music marketing. According to a study done by the company, there is direct causal relationship between the songs on *Carvaan* and the more popular songs on streaming platforms.

Aiming to scale new segments

Apart from the core music licensing segment, the company has also been gradually scaling up its non-music segment—Saregama has released 69 films and web series, with over 6,000 hours of television and 32 live shows. As regards television, Saregama produces shows for Sun TV, wherein it owns the IP rights for the content that it creates. Several of its shows have run for over 1,200 episodes and have now been replaced. The company does run the risk of its shows not finding favor with the audience in this segment, and weakness in the broadcasting segment can also negatively impact revenues for Saregama.

Exhibit 25: Past movies and web series

Film Title	Language	Year of Release
Ajji	Hindi	2017
Brijmohan Amar Rahe	Hindi	2017
Ascharya Chakit	Hindi	2017
Kuch Bheege Alfaz	Hindi	2018
Abhi Annu	Tamil & Malayalam	2018
Hamid	Hindi	2018
Noblemen	Hindi	2018
Music Teacher	Hindi	2019
Chappad Phad ke	Hindi	2019
Kanpuriye	Hindi	2019
Axone	Hindi	2019
KD	Tamil	2019
Raita Phail Gaya (Bahut Huaa Samman)	Hindi	2020
Chaman Bahar	Hindi	2020
Comedy Couple	Hindi	2020
Collar Bomb	Hindi	2021
200 Justice Delivered	Hindi	2021
Habaddi	Marathi	2021
Zombivli	Marathi	2022
Oye Makhna	Punjabi	2022
Kaapa	Malayalam	2022
Senior Super Heroes	Tamil	2022
Padavettu	Malayalam	2022
United Kachhas	Hindi - Web Series	2023
Hunter	Hindi - Web Series	2023
KasarGold	Malayalam	2023

Source: Company, Emkay Research

Regarding movies, Saregama follows a relatively low-risk strategy, focusing on lower-budget regional films for now. These movies are typically made with artists whose fee is not exorbitant. The company's strategy is to typically recover 70-80% of its costs before a movie's release, keeping the overall risk low. Going ahead, the company plans to strengthen its footprint across other regional languages as well, to cater to a wider audience. However, it does not intend to enter the large Bollywood market due to the higher levels of risk involved.

Exhibit 26: Upcoming movies

Movie Name	Language
Anveshippin	Malayalam
Malaikottai Vaaliban	Malayalam
Dilruba	Telegu
Bazooka-Mammootty	Malayalam
Warning 2	Punjabi
Ni Main Saas Kutni 2	Punjabi
Shinda	Punjabi

Source: Company, Emkay Research

For FY24, the management is confident of delivering 25% revenue growth and 15% margins in the films and TV serials segments.

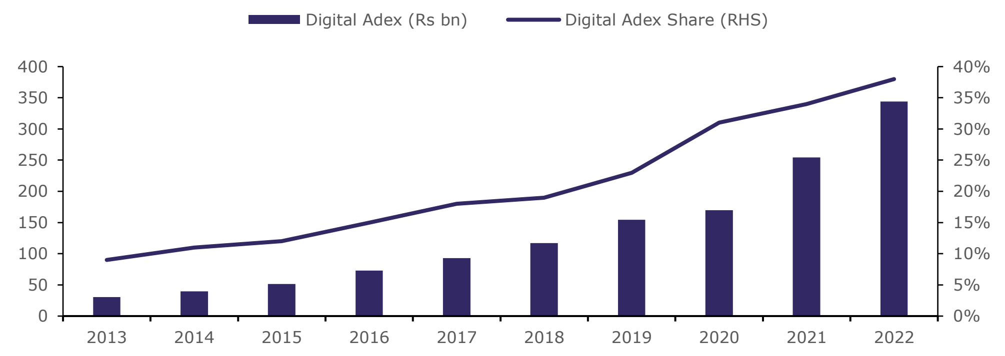
In FY23, Saregama launched its new live music (events) segment, where it hosted 14 concerts of singer Diljit Dosanjh across India, USA and Canada. Further, Saregama launched its artist management vertical in Q2FY24 which entails 360-degree monetization. The company will be involved in creating artists' songs and music videos along with marketing their content, and looks to monetize such artists once they are more established. The company will continue making investments in the events vertical for the next 2-3 years and is likely to remain loss-making for the next 12-18 months. Even for the medium-to-long term, this segment is likely to report margins of only 5-10%. While a low-margin business, the vertical allows the company to develop deeper relationships with singers and to reinforce its position on the music creation and acquisition fronts. In FY23, Saregama also launched its Live Stage Adaption of iconic film *Disco Dancer* which premiered in London.

Pocket Aces — A new ace up its sleeve

In Sep-2023, Saregama announced the acquisition of Pocket Aces Pictures Private (Pocket Aces), by way of secondary acquisition over one or more tranches. As per the agreement, Saregama has paid Rs1.74bn to acquire 51.82% of Pocket Aces in the first tranche. The remaining consideration for the second tranche will be determined basis the enterprise value being the higher of: i) adjusted equity value of the first tranche, ii) enterprise value determined basis revenue multiples of the company, subject to pre-agreed adjustments. Saregama has also invested Rs150mn by way of primary subscription of 25,974 shares. The total holding of Saregama would represent 92.61% of the paid-up share capital of Pocket Aces on a fully diluted basis.

The acquisition of Pocket Aces adds a completely new IP dimension and distribution network to Saregama's existing capabilities. Pocket Aces provides Saregama access to the demographics of the younger generation, to capitalize on the social media frenzy. Pocket Aces, by virtue of being positioned as a youth-oriented brand in the digital space, opens up a new avenue for Saregama, which has been considered a more traditional company. Its primary business is to create content and get brands integrated into the content, which is then hosted on its own channels. Its pillars of IP creation, distribution and access to talent lead to a flywheel effect for brands. The acquisition of Pocket Aces provides Saregama access to the fast-growing digital advertising market, which has now become the largest shareholder in the Indian Adex market, overtaking television for the first time ever, in 2022.

Exhibit 27: Digital Advertising Spend has grown strongly over the last few years



Source: Pitch Madison Report 2022, Emkay Research

Pocket Aces has more than 95mn followers across social media platforms and operates through three business verticals:

- Direct to consumer content: Pocket Aces, through its multiple channels—Filter Copy, Gobble, Dice Media, Nutshell—produces >50 videos every week. Dice Media makes web series and shows, while FilterCopy is well known for its short form content. Gobble produces food videos, while Nutshell explores undiscovered narratives and delves into topics ranging from history to future exploration. Dice Media also works with more than 200 brand partners.

Exhibit 28: Pocket Aces — Popular channels

Channel	YouTube Subscribers (mn)	Videos (no. of)	Instagram Subscribers (mn)	Popular Shows
Dice Media	5.1	324	0.7	Operation MBBS, Little Things, Adulting, Please Find Attached
FilterCopy	10.0	926	4.3	
Gobble	0.7	994	1.9	Travel Series: *Bazaar Travel*
Nutshell	0.3	711	1.8	

Source: Emkay Research

- Artist Management: Pocket Aces, through its brand *Clout*, manages over 120 digital influencers and actors. It aims to use the company's IP creation power to promote artists and subsequently monetize them through brand endorsements. Clout was launched in 2020 with the aim of offering comprehensive and fully integrated services, facilitating social media growth, IP creation, branded content and endorsements, PR and events, training across various skillsets, casting across all touchpoints including films, web series and TVCs.

- OTT Content: Pocket Aces creates digital web series for licensing to multiple video OTT platforms, including Disney Hotstar, Netflix, Amazon Mini TV and Voot. Some of the popular content that has been licensed to these platforms includes Little Things (Netflix), Adulting and Please Find Attached (Amazon Mini TV).

Financial Overview

Pocket Aces' revenue CAGR is 34% over the last four years, courtesy its strong youth-oriented brand positioning that makes it attractive for platforms, talent and brands. In FY23, Pocket Aces delivered revenue of Rs1.04bn and posted a loss of Rs160mn. The management is confident of delivering 23% revenue growth and breakeven at the PBT level by FY25.

Exhibit 29: Pocket Aces — Financials

(Rs mn)	FY19	FY20	FY21	FY22
Revenue from Operations	323	478	581	973
YoY Growth		47.9%	21.5%	67.5%
Employee Benefit Expenses	119	252	367	369
% of Revenue	37%	53%	63%	38%
Other Expenses	381	524	735	849
% of Revenue	118%	110%	126%	87%
EBITDA	-177	-298	-521	-244
EBITDA Margin	-55%	-62%	-90%	-25%
Depreciation and Amortization	8	12	14	13
EBIT	-185	-309	-534	-258
EBIT Margin	-57%	-65%	-92%	-26%
Finance Costs			1	6
Other Income	5	27	24	204
PBT	-181	-282	-511	-60
PBT Margin	-56%	-59%	-88%	-6%
Tax	0	0	0	0
PAT	-181	-282	-511	-60
PAT Margin	-56%	-59%	-88%	-6%

Source: MCA, Emkay Research; Note: FY23 detailed financials are unavailable

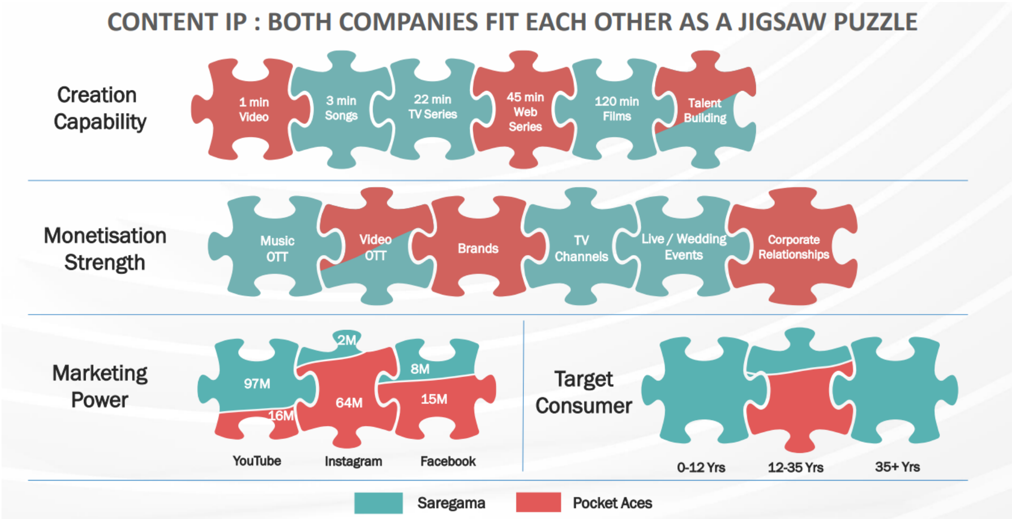
Synergies

Pocket Aces provides Saregama access to key demographics of the 12-28 age group, with its positioning as a youth-oriented brand. Saregama has been traditionally strong in the 0-12 age category, with its rhymes and children-focused content. It also has a sizable user base in the >30-year-old category with a mix of new and old music content available through multiple mediums—streaming, *Carvaan* and others. The Pocket Aces acquisition plugs the gap that Saregama has with T-Series and will help the company to manage short-form apps.

Pocket Aces acquisition also provides Saregama with access to youth-oriented brands. It provides an edge in content acquisition, as it grants impetus to the marketing power of the company, which is a key parameter evaluated by producers while awarding music content. On the influencer and artist management front, Saregama aims to convince producers to give their brand sponsorship and live mandates to Pocket Aces. In this case, the incentive for the artist/influencer is that it allows them to use the IP creation power of both Saregama and Pocket Aces.

On the cost front, there can be some potential savings in areas like procurement, production, etc. Saregama also spends significantly on marketing its music content and the access to influencers via Pocket Aces can help negotiate better deals.

Exhibit 30: Synergies for Saregama and Pocket Aces

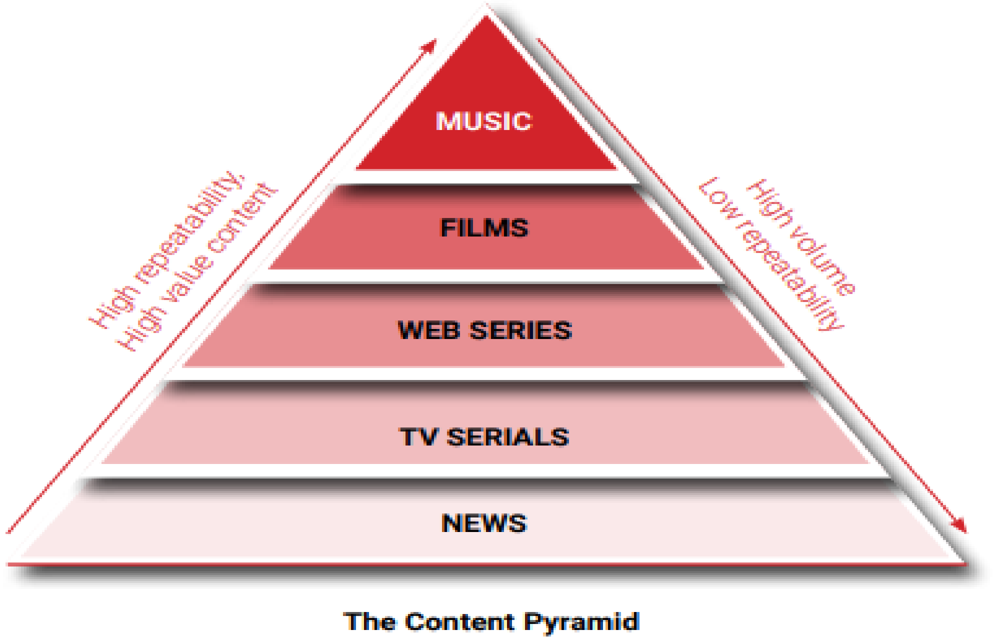


Source: Company

Industry Overview

As part of the media and entertainment industry, the music industry is characterized by high repeatability and volume compared to other options like movies, web series, TV serials, and news. Unlike other mediums, the same song can be heard multiple times over a short span resulting in higher value of content. Music also has the added advantage of being protected by 'Intellectual Property Rights' for a longer period of time. In India, copyright for music is valid for 60 years from the end of the year in which the recording is published. In the case of original literary, dramatic, musical and artistic works, the 60-year period is counted from the year following the death of the author.

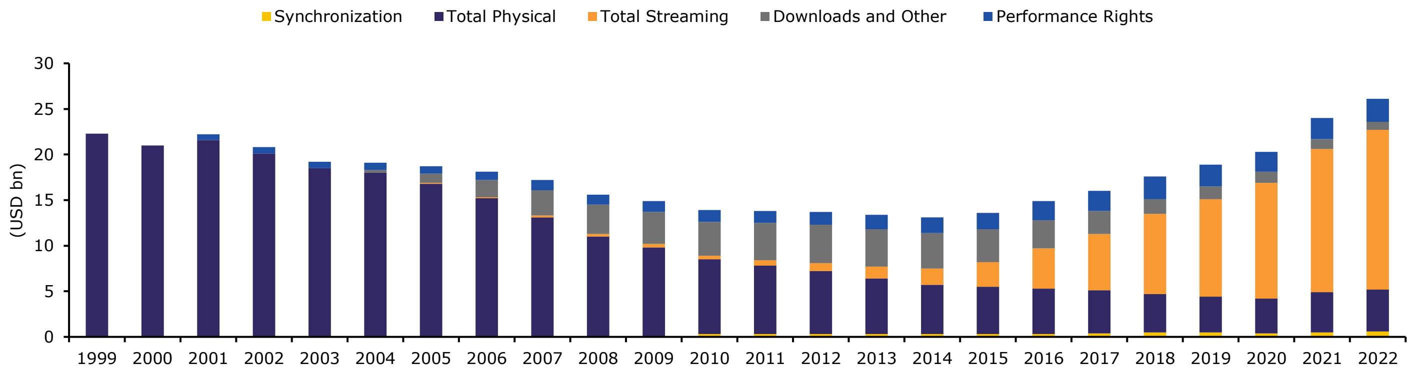
Exhibit 31: Music — At the top of the value chain



Source: Tips Industries Annual Report

Globally, the recorded music industry has been through some tumultuous times over the last couple of decades, with piracy taking a serious toll on record labels. The overall industry's revenue declined for each of the 15 years, from CY2000 to CY2015, before a crackdown on piracy led to recovery. Post CY2015, the overall size of the industry has grown in each successive year. The last couple of decades have also seen a gradual shift towards streaming becoming the preferred mode of listening to songs. Globally, more than two-thirds of the music revenues are estimated to come from streaming, with almost three-fourths of this revenue from subscription-based audio streams. Physical and performance rights are the other major contributors of revenue.

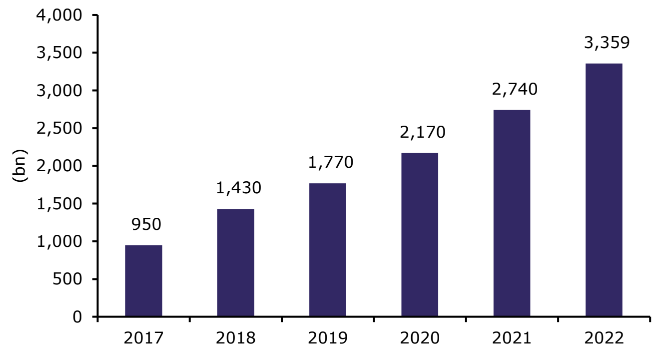
Exhibit 32: Evolution of 'recorded music' revenue



Source: Global Music Report 2022, Emkay Research

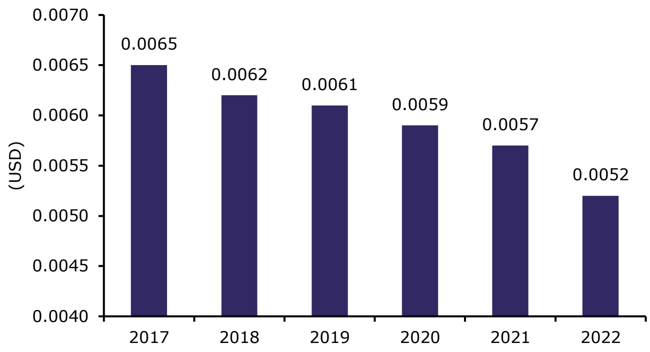
Consumption of music streams has grown at a rapid pace, led by improved digitization and reduction in piracy. However, revenue per stream has shown a decline during the same period, as overall barriers to creation of and distribution of music have reduced. Globally, OTTA market leader Spotify, as of Q3CY2023, has 226mn premium subscribers of the total 574mn MAUs. It also derives ~87% of its revenue from its premium services.

Exhibit 33: Sharp surge in number of streams globally



Source: Luminate, Emkay Research

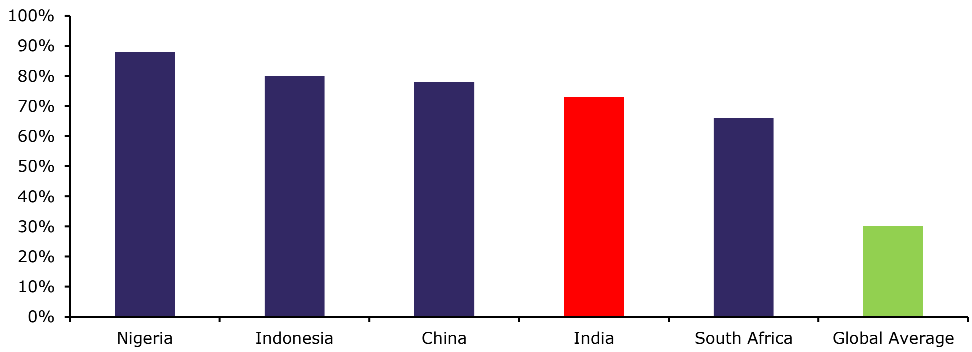
Exhibit 34: Drop in realization per song



Source: IFPI Global Music Report 2023, Emkay Research

Despite the vast population and favorable demographics, India does not feature among the global top-10 music markets. While piracy is not as acute a problem as it was around 2015, it continues to dent the overall industry, especially in smaller cities and towns. Music piracy in India is estimated to be 73% compared with the global average of 30%, thus preventing the industry from realizing its complete potential. India is currently #4 on the list of countries with the highest digital piracy rate. Apart from the obvious losses, piracy also institutes the idea of treating music as a free service, which prevents the growth of a sizable paid-subscriber base. Despite this prevailing issue, Indian music has consistently grown at 12% over the last few years, as stricter IP rules have helped in lowering piracy levels from their record highs.

Exhibit 35: Digital piracy in India is still very high

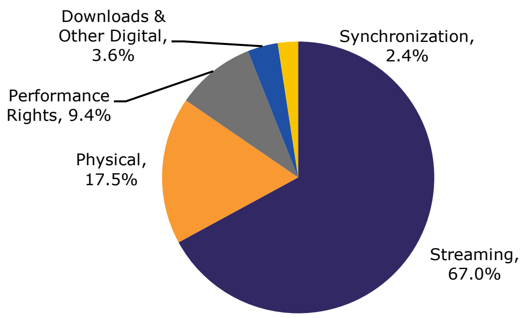


Source: IMI IFPI Digital Music Study Report, Emkay Research

The Indian music industry has grown over the last few years on the back of multiple factors: i) low-cost mobile data: the average cost of 1GB data in the country is a meager USD0.17 compared with the global average of USD3.12; ii) increasing internet penetration: over 750mn people in India are now active internet users, of which more than half are from rural India; iii) availability of cheap smartphones: smartphones in the country are as cheap as Rs6,000-7,000, thus being affordable for majority of the population; iv) favorable demographics: more than 60% of India's population is currently less than 35 years in age which is the key driver of digital consumption.

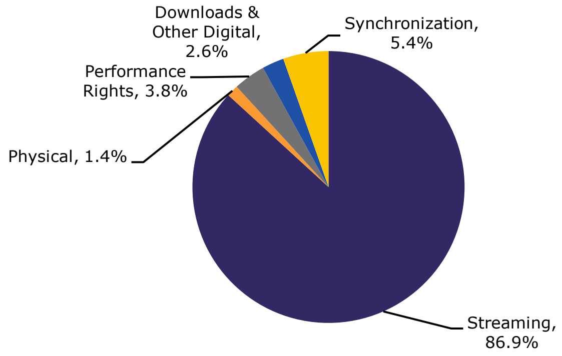
In line with global trends, streaming contributes the highest to music revenue in India, though its 87% overall contribution to music revenue is much higher than global contribution. However, in stark contrast to the world, a bulk of the revenue in India comes from ad-supported streaming services. Synchronization, performance rights, downloads and digital & physical are the remaining contributors to music revenues.

Exhibit 36: Global Audio — Revenue split



Source: Global Music Report 2022, Emkay Research

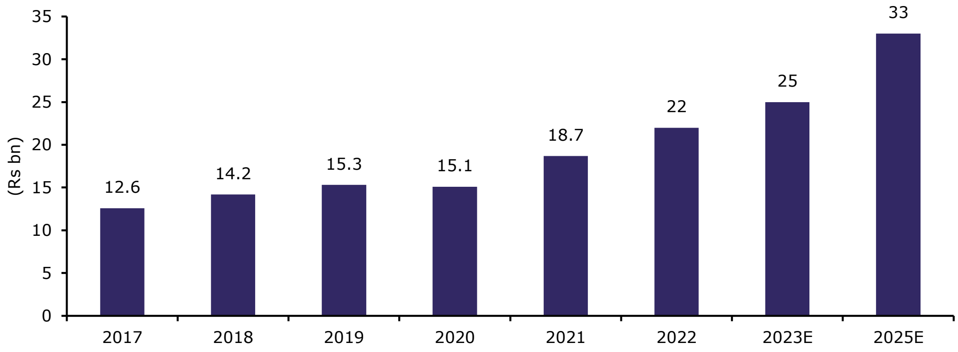
Exhibit 37: Indian Audio — Revenue split



Source: IMI IFPIl Music Report 2022, Emkay Research

The Indian music industry has grown at ~12% over the last few years, despite the Covid-19 hiccup, wherein no new film content was released. Streaming continued to contribute to the bulk of music revenue, with 87% of the total revenue coming from this segment. Over the next three years as well, the industry is expected to clock 14% CAGR, led by increasing digital revenue, a higher paid-subscriber base and continued recovery of performance rights, as events and activations increase in number and scale.

Exhibit 38: India music segment — Revenue



Source: EY FICCI Report 2023, Emkay Research

Despite the rapid emergence of audio streaming platforms in India, YouTube remains the most popular choice in the space, followed by the likes of Spotify, JioSaavn and Airtel Wynk. The top-3 audio streaming platforms in India continue to offer free services, while other platforms have now put their content behind a paid wall, in line with their global counterparts. Over the long term, we believe that the top-3 streaming platforms will also completely transition to paid services, as ad-supported services are financially not supportive. However, the transition is unlikely to be free of hiccups, with piracy making a possible comeback.

Exhibit 39: Top Audio OTT subscription plans

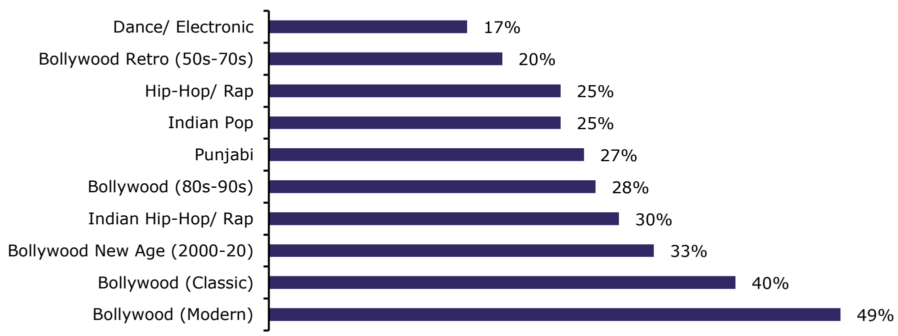
Platform	Duration	Price (Rs)
Spotify		
Mini	1 Day	7
Premium Individual	1 Month	119
Premium Individual	3 Months	389
Premium Individual	6 Months	719
Premium Individual	12 Months	1,189
Premium Duo	1 Month	165
Premium Duo	3 Months	499
Premium Duo	6 Months	899
Premium Duo	12 Months	1,799
Premium Family	1 Month	199
Premium Family	3 Months	595
Premium Family	6 Months	1,075
Premium Family	12 Months	2,149
JioSaavn		
Premium	1 Month	99
Premium	12 Months	749
Airtel Wynk		
Premium	1 Month	49
Premium	12 Months	399
Gaana		
Gaana Plus	1 Month	99
Gaana Plus	12 Months	299

Source: Company, Emkay Research; Note: No auto renewal plans for Spotify

Music Streaming platforms have so far been struggling on the profitability front with the ad-supported model. For such platforms, the nature of the business model is such that they need to pay a bulk of their revenue to artists (royalties) and record labels which leaves little room for generating their own profit. Subscription-based models would be the first step towards better profitability, even as streaming platforms continue to grapple with their business models.

In terms of language, Bollywood continues to be the most popular choice of music, comprising 66% of the total consumption and 5 of the top-10 genres.

Exhibit 40: Bollywood remains the most popular genre



Source: IMI IFPI Music Report 2023, Emkay Research

India's Audio OTT market was at an inflection point post the launch of Jio's cheap data plans, with a massive surge in the number of audio OTT subscribers in ensuing years. CY2019 also saw the entry of global giants like Spotify, YouTube Music, Apple Music and Resso in India. Prior to the entry of these global players, domestic platforms like Gaana, JioSaavn (Jio acquired Saavn in March 2018) and Airtel Wynk boasted of the lion's share of the market. *Gaana*, India's oldest streaming app and the erstwhile market leader (30% market share in 2020) is now struggling with huge losses. In Sep-2022, after failing to raise money from investors and a possible acquisition, it moved to a completely subscription-based model, with all its content behind a pay wall. Currently, Spotify leads in the India OTTA market with ~26% market share (Source: Redseer), managing to achieve the feat in only four years since its launch in the country.

A bid to move towards the paid ecosystem

India's paid audio subscribers currently languish at a meager 4-5mn compared with the global 589mn (India's contribution: <1%). There are multiple potential reasons for the lower number of paid-subscriber free-content available on YouTube, the higher cost of streaming services, preference for free tier services on OTTA platforms, ability to download music from YouTube and tolerance of ads. The usage of the paid tier for music streaming services was the highest in the 25-34-year category.

The past couple of years have seen three of the top-6 platforms moving their content behind a paid wall. *Gaana*, *Resso* and *Hungama* have now moved to an 'only paid-subscriber' model. However, the top-3 platforms have not yet made complete transition. Spotify India has recently restricted several features to compel free users to adapt the paid version. As part of the changes, Spotify users in India can no longer play songs in a specific order, repeat songs or go back to their previous songs or skip to a specific part of the song. Such changes now will make Spotify's services in India akin to those in Brazil.

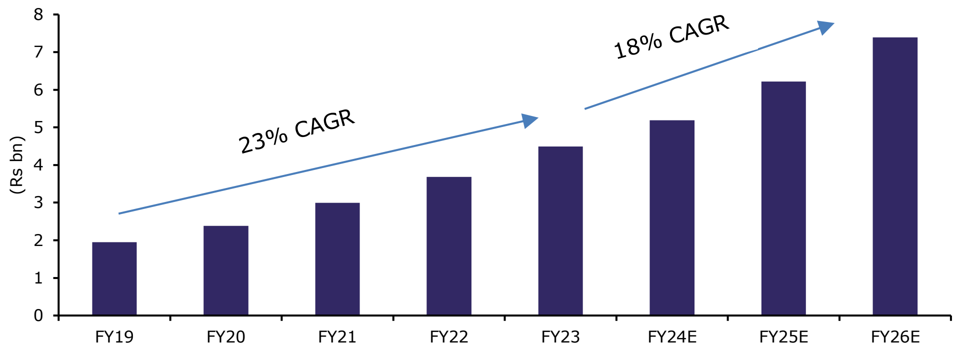
For music labels, this is likely to lead to some short-term pressure on their revenue, to support dwindling revenues of audio platforms in the initial stages of putting content behind the paid wall. Saregama has already announced that it will not charge the platforms any minimum guarantee.

We believe that this transition to a paid model will be a gradual process, as users will first gravitate towards other platforms that offer free music content. However, long-term adoption should happen as users will eventually move to OTTA platforms, given superior user experience on these platforms and induced consumption habits over the last few years.

Financial Outlook

In its core music licensing segment, the company has managed to clock a consistently healthy CAGR of 23% from FY19-23, led by the strong digitalization wave, impeccable catalog of old songs and renewed vigor in acquiring new content. While the Covid period saw new content releases being put on hold, Saregama reaped the benefit of having a strong catalog which resulted in continued momentum. The company has also been aided by the increasing popularity of *Lofi* and remix versions of older songs, which are created at minimal cost. However, the transition to a paid-subscriber model for select platforms has resulted in some softness in recent quarters which can persist in the near term as well. With the music released recently by the company also finding favor with the audience, we forecast music licensing revenue CAGR of 18% over FY23-26E. Our forecast can vary dynamically if all platforms decide to do away with free streaming and move to a paid model. Such a scenario might result in some more short-term pain, but long-term benefits are likely to be positive, though we are currently not factoring these into our estimates.

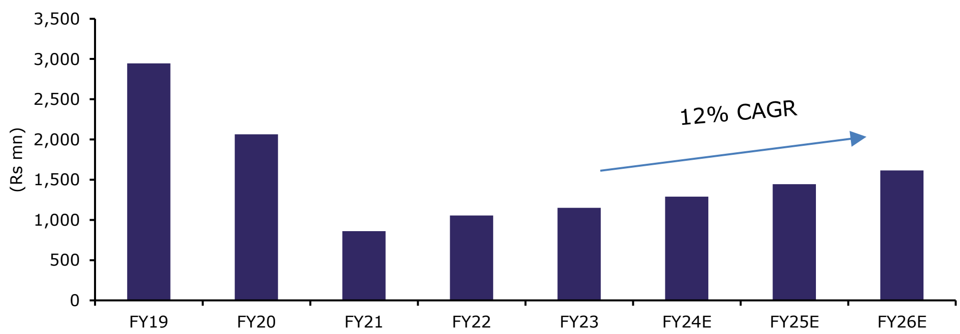
Exhibit 41: Music licensing near-term revenue to be impacted; long-term prospects bright



Source: Company, Emkay Research

After seeing the huge positive response for *Carvaan* during 2017-19, Covid-induced demand and supply-related issues led to disruptions in the business. Prior to the Covid period, the company's target was to transit from being a product-based to a platform company, through recurring advertising and subscription revenues; but Covid played spoilsport. The company has dramatically altered its strategy post Covid, choosing not to incur any marketing spends for the product. Company has also launched multiple variants of the product, including the smaller ones, which has led to a fall in the revenue per product made by the company. We forecast steady revenue CAGR of ~12%, aided by demand pull from customers, with smaller variants continuing to see more traction.

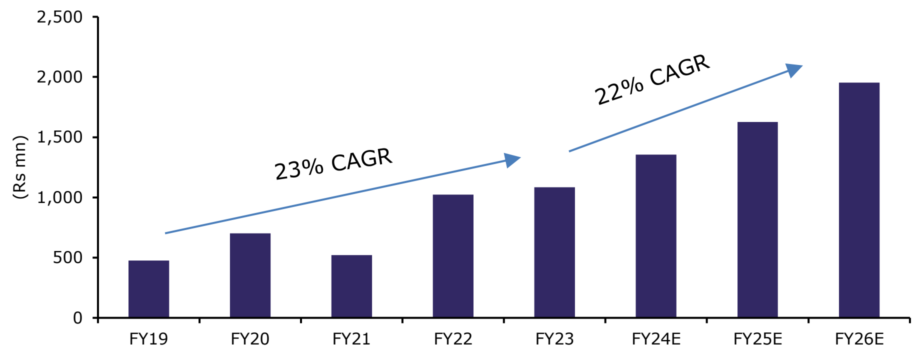
Exhibit 42: *Carvaan*'s revenue impacted by Covid; now relying on consumer pull



Source: Company

Revenue from films and television serials is also expected to pick up on account of the low base, as the company expands scale in this segment. For FY24, the management has guided to 25% growth, with margin of 15% in FY24. The events business should also start ramping up, with the company still in the initial investment phase.

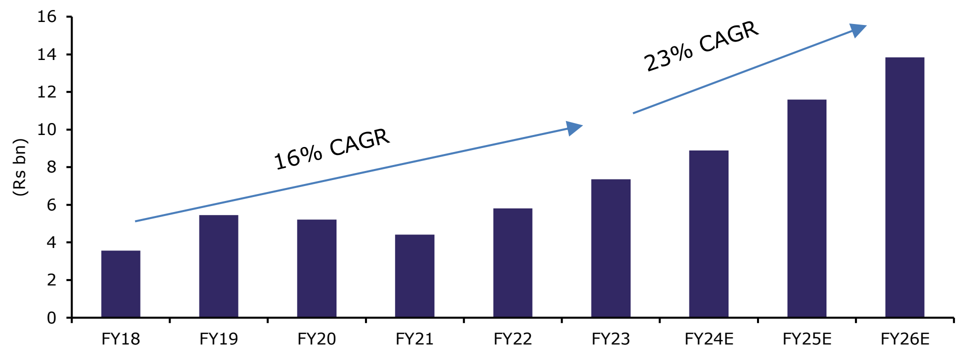
Exhibit 43: Films, TV to grow steadily, on a low base



Source: Company, Emkay Research

On a consolidated basis, we expect revenue CAGR of 23% over FY23-26E; we also factor in the recent acquisition of Pocket Aces, which is likely to grow faster than the core music licensing segment.

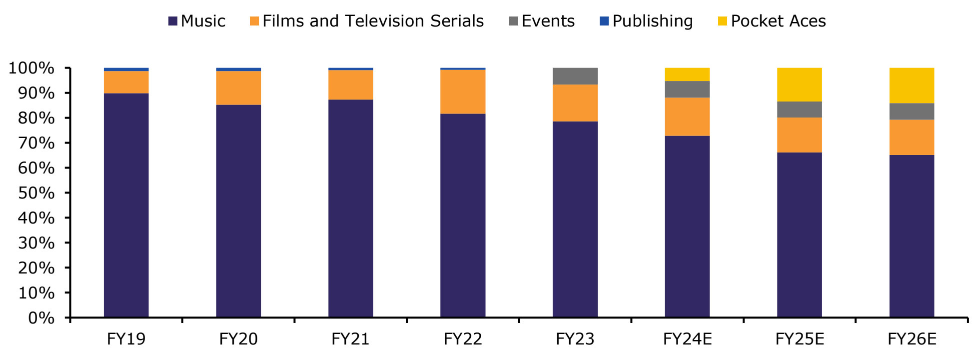
Exhibit 44: Consolidated revenue growth to remain strong



Source: Company, Emkay Research

With the Pocket Aces acquisition, we expect overall contribution of the music segment (licensing and *Carvaan*) to lower and stabilize at ~65% over the medium term, with other segments growing faster on a lower base.

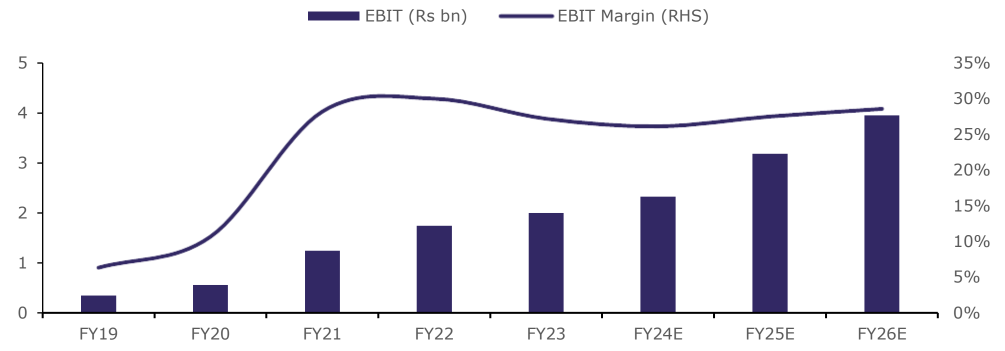
Exhibit 45: Overall revenue-mix trends



Source: Company, Emkay Research

Margin expansion is likely to be limited, owing to: i) integration of Pocket Aces, which is currently loss-making; ii) continued investment in acquiring new content; and iii) investment in the events segment, started only in FY23. The management is however cognizant of the risks of elevated investments in the non-music segment and has highlighted that the total capital invested in the films, TV serials and events businesses will exceed 18% of the total capital allocated.

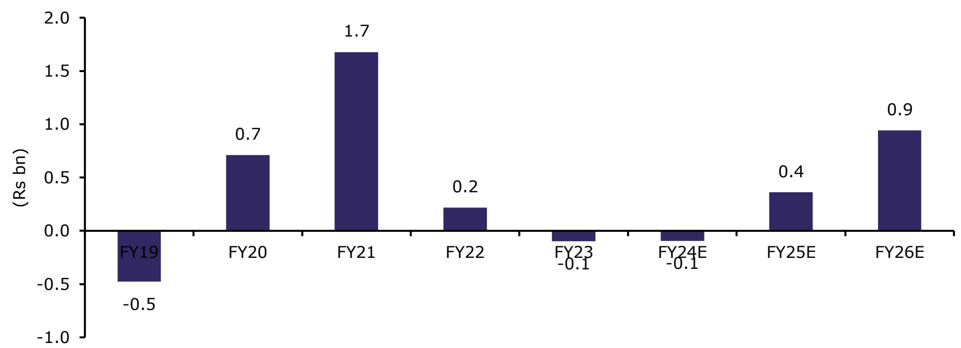
Exhibit 46: Margins unlikely to see any material improvement



Source: Company, Emkay Research

Saregama had raised Rs7.5bn via a QIP in Nov-21 with the intention of acquisition of music content, and inorganic growth through an acquisition to plug gaps in the content line-up. The stock has underperformed post the QIP, as there had been no visible action towards deploying the related funds until recently, thus raising questions around the actual need for a fund-raise. In Jan-22, the company announced the acquisition of >1,500 songs belonging to 280 Telugu films from Mango Music. In Sep-23, it announced the acquisition of Pocket Aces, with the aim to enter the digital media space. Saregama has been generating robust cash-flow every year which, coupled with the QIP proceeds, holds the company in good stead for capitalizing on any upcoming opportunity. ROE and ROCE should remain steady, going ahead as well.

Exhibit 47: Free Cash Flows to pick up gradually



Source: Company, Emkay Research

Valuation

We initiate coverage on Saregama with a BUY recommendation and DCF-based target price of Rs465 per share, implying an upside of 25%. Assumptions for our DCF valuation are: i) almost 23% revenue CAGR over FY23-26E and growth rate moderating to ~13% over FY26E-35E; ii) 12.5% WACC; and iii) 5% terminal growth rate after FY35E. We do not foresee a major expansion in the medium term, as the increasing scale of the non-music segment (which operates at lower margins) and integration of Pocket Aces (currently loss-making) are likely to restrict any meaningful upside.

Exhibit 48: DCF-based valuation — FCF estimates

(Rs mn)	FY22	FY23	FY24E	FY25E	FY26E	FY30E	FY35E
Revenue	5,806	7,366	8,894	11,592	13,836	26,126	42,077
EBIT	1,740	2,002	2,322	3,186	3,950	7,693	12,413
Tax Rate	25.2%	25.2%	25.2%	25.2%	25.2%	25.2%	25.2%
EBIT x (1-t)	1,302	1,498	1,738	2,384	2,955	5,757	9,288
Depreciation	131	208	354	420	497	578	655
Working Capital changes	-389	-447	-719	-779	-717	-1271	-1234
Capex	727	1,031	1,392	1,587	1,704	1,761	2,735
FCF	1,771	2,291	2,765	3,612	4,439	7,045	12,052

Source: Company, Emkay Research

Exhibit 49: DCF-based valuation

Parameters	
WACC	12.5%
Terminal Growth rate	5%
Discounted FCF - FY25E-35E (Rs mn)	42,574
Terminal Value (Rs mn)	169,174
PV of Terminal Value (Rs mn)	52,189
Enterprise Value (Rs mn)	94,763
Net Debt (Rs mn)	-5,210
Equity Value (Rs mn)	89,553
Number of shares	193
Target Price (Rs/share)	**465**

Source: Emkay Research

Exhibit 50: Relative valuation — Saregama is more expensive than global peers, due to its higher growth and better margin profile

Company name	Year-end	P/E (x)			P/sales (x)			EV/EBITDA (x)			EV/sales (x)		
		1FY	2FY	3FY	1FY	2FY	3FY	1FY	2FY	3FY	1FY	2FY	3FY
SAREGAMA INDIA	03/2023	39.4	31.0	24.8	8.2	6.4	5.5	25.6	19.2	15.4	7.3	5.7	4.9
UNIVERSAL MUSIC GROUP NV	12/2022	29.9	26.4	23.3	4.2	3.8	3.6	21.6	18.4	16.4	4.4	4.0	3.8
WARNER MUSIC GROUP CORP-CL A	09/2023	25.2	23.1	19.9	2.7	2.6	2.4	14.5	13.6	12.5	3.3	3.1	2.9
HYBE CO	12/2022	33.5	32.2	25.7	4.4	3.9	3.3	24.0	21.1	17.5	4.4	3.9	3.3
BELIEVE SA	12/2022	-163.0	60.8	31.1	1.2	1.0	0.8	17.6	12.2	8.7	1.0	0.8	0.7
SM ENTERTAINMENT CO	12/2022	13.9	14.6	13.1	2.1	1.9	1.7	10.0	8.6	7.7	2.0	1.8	1.6
Median		27.6	28.7	24.1	3.4	3.2	2.9	19.6	16.0	14.0	3.8	3.5	3.1

Source: Bloomberg, Emkay Research

Exhibit 51: Saregama scores against global peers, on revenue growth and margin profile

	Revenue Growth			EBITM (%)			ROE (%)		
	1FY	2FY	3FY	1FY	2FY	3FY	1FY	2FY	3FY
SAREGAMA INDIA	19%	27%	17%	24.1	25.7	27.6	13.0	15.1	17.0
UNIVERSAL MUSIC GROUP NV	6%	9%	8%	14.3	17.6	19.1	57.0	55.0	51.6
WARNER MUSIC GROUP CORP-CL A	7%	5%	7%	16.8	17.3	17.0	145.6	91.2	68.1
HYBE CO	26%	12%	19%	13.3	14.1	15.3	9.9	9.3	10.6
BELIEVE SA	16%	22%	22%	-0.4	1.4	3.0	(0.9)	2.8	6.3
SM ENTERTAINMENT CO	16%	13%	12%	14.7	16.1	16.8	19.8	17.1	16.7

Source: Bloomberg, Emkay Research

Company Overview

Saregama India, an RP Sanjiv Goenka Group company, is India's oldest music label, and is also a film studio and multi-language TV content producer. Formerly known as The Gramophone Company of India Ltd and more popularly as 'HMV' (His Master's Voice), Saregama was established as the first overseas Indian Branch of Electrical & Musical Industries Limited (EMI), London. In 1902, Saregama released India's first-ever, studio-recorded song. Over the following century, the company continued to expand its catalog to become the largest in-perpetuity global owner of both, sound recording and publishing copyrights of Indian music, across 18 different languages. The company was acquired by the RPG Group in 1986, and started retailing products under the 'Saregama' brand name in CY2000. The company has also expanded its portfolio, adding over 6,000 hours of television content, for which Saregama holds the IP rights.

In 2017, the company also started two new initiatives in the form of *Saregama Carvaan* and *Yoodlee Films*. *Saregama Carvaan* is a portable digital music player with built-in stereo speakers and which comes with pre-recorded 5,000 evergreen Hindi songs. *Yoodlee Films* is Saregama's film production venture, wherein the company produces movies in Malayalam and Punjabi. The company has also recently ventured into the events segment where it hosts concerts with artists, generating revenue from ticketing, sponsorships, and utilizing video assets of the performance on digital platforms. In FY23, the company hosted 14 concerts across India, USA and Canada. The company has recently demerged its e-commerce distribution business Digidrive Distributors (revenue of Rs147mn, as of FY23).

Exhibit 52: Saregama — Segmental Overview

Segment name	FY23 revenue (Rs mn)	FY23 EBIT (Rs mn)	FY23 segment margin	Sub-segment	Description
Music	5,792	2,566	44%	Music Licensing	Company licenses its songs to Music Streaming, Video Streaming and Short-format Video platforms through various types of commercial structures
				Music Retail	*Carvaan* is the company's flagship product, being an audio player with over 5,000 preloaded songs. It combines digital technology with a retro design
Films and Television Serials	1,085	61	6%	Films and Web Series	Has released 25 films and licenses in the last five years. Film production is done primarily in Malayalam, Punjabi, Marathi and Tamil Languages
				TV Shows	Created over 6k hours of content for Sun TV in the last two decades. Company broadcasts 3-4 serials at any time, creating ~16 hours of weekly content
Events	490	-15	-3%	Events	Organizes live event performances in partnership with artists. Ticketing is the primary revenue source, supplemented by sponsorships and use of video assets of the performances on digital mediums

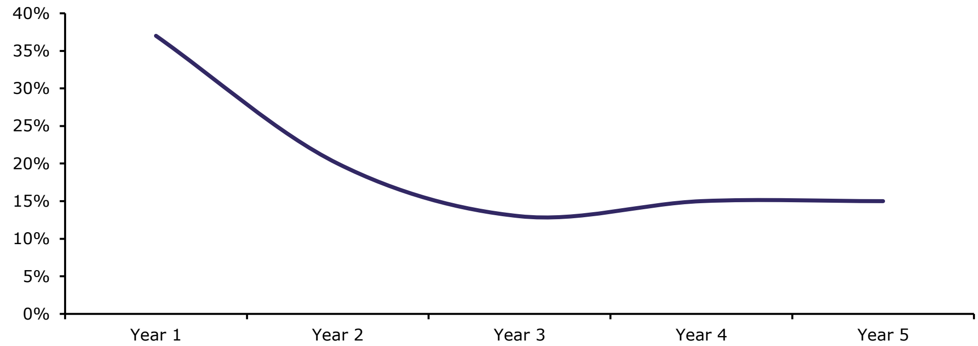
Source: Company, Emkay Research

Focus on recovering revenue in 5 years; content amortization over 10 years

Saregama follows a prudent investment strategy, picking up music content with a payback period not exceeding five years. Thus, any investment that the company makes needs to be recovered within 60 months. This payback period does not include cost of capital. To this extent, the company employs data analytics and predictive modeling while making decisions for investment in new content. The overall process is also decentralized, with local teams using these models to ultimately make decisions for investments towards acquiring content.

The company estimates that a significant chunk of the revenue it realizes is during the first year of the release of a song. There is a dip in revenue in the second year post release, followed by another dip in the third year. After the third year, there is a slight increase in years 4 and 5, at the end of which the company expects to recover its costs.

Exhibit 53: Revenue recovery timeline from music investment



Source: Company, Emkay Research

From Q1FY23, Saregama has changed its amortization strategy, and now amortizes the content over a period of 10 years from the time of release versus 6 years earlier. This was done to keep it aligned with its global counterparts, who have an amortization period of 10-25 years. However, unlike global peers that follow a straight-line method of amortization, Saregama's amortization is higher in the first couple of years, and then equally split over the next 8 years. Cost of marketing, which is 20% of the total content acquisition cost, gets charged within the first year itself, along with 16% of the content cost (total cost of 36% charged in the first year). 12% of content cost is charged in the second year, with the remaining 52% of the cost charged equally over the next 8 years.

Exhibit 54: Content amortization schedule

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Content cost share	16.0%	12.0%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Marketing cost share	20.0%									
Total	**36.0%**	**12.0%**	**6.5%**	**6.5%**	**6.5%**	**6.5%**	**6.5%**	**6.5%**	**6.5%**	**6.5%**

Source: Company, Emkay Research

Exhibit 55: Profit and Loss statement (detailed) — Key Drivers and Assumptions

(Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E	Key Drivers/ Assumptions
Music							
Music Licensing	2,994	3,682	4,494	5,192	6,221	7,391	Majority of the revenue is derived from the digital segment, including YouTube, and OTTA. Company has the right to the master IP and the Publishing IP
YoY Growth	*26%*	*23%*	*22%*	*16%*	*20%*	*19%*	
Carvaan	861	1,056	1,151	1,289	1,444	1,617	Target audience of >40-age group; combines convenience and simplicity; used as a gifting product
YoY Growth	*-58%*	*23%*	*9%*	*12%*	*12%*	*12%*	
TV, Films and Series	521	1,024	1,085	1,356	1,627	1,952	Expanding into other regional language movies and scaling up web series
YoY Growth	*-26%*	*97%*	*6%*	*25%*	*20%*	*20%*	
Events			490	587	734	918	Tying up with artists to conduct concerts. Generating revenue through multiple avenues, including ticketing and sponsorship
YoY Growth				*20%*	*25%*	*25%*	
Pocket Aces				470	1,566	1,957	
YoY Growth						*25%*	
Total Revenue	4,420	5,806	7,366	8,894	11,592	13,836	
YoY Growth	*-15%*	*31%*	*27%*	*21%*	*30%*	*19%*	
Total Cost of Revenue	921	1,431	2,250	2,587	3,064	3,634	Includes cost of production of Carvaan and TV shows, movies and web series.
% of Revenue	*21%*	*25%*	*31%*	*29%*	*26%*	*26%*	
Employee Benefits	695	735	750	978	1,391	1,591	
% of Revenue	*16%*	*13%*	*10%*	*11%*	*12%*	*12%*	
Royalty Expenses	566	631	655	889	1,159	1,384	Paid for most of older content, along with select new content acquisition
% of Revenue	*13%*	*11%*	*9%*	*10%*	*10%*	*10%*	
Advertisement and Sales Promotion	375	521	771	873	1,097	1,259	Includes advertising for newly acquired content, old catalog and non-music segment
% of Revenue	*8%*	*9%*	*10%*	*10%*	*9%*	*9%*	
Other Expenses	561	618	730	889	1275	1522	
% of Revenue	*13%*	*11%*	*10%*	*10%*	*11%*	*11%*	
EBITDA	1,301	1,871	2,210	2,676	3,606	4,446	
EBITDA Margin	*29%*	*32%*	*30%*	*30%*	*31%*	*32%*	

Source: Company, Emkay Research

Risks

Escalating Cost of Content

While the industry structure is such that the music industry for each language is oligopsony in nature, competition is intense due to the limited supply of new content and adequate funding of players. Acquisition of new content is crucial for growth, as it is the latest content that drives growth. High competition can potentially increase the cost that needs to be paid, with top players flaunting sufficient marketing muscle. In this case, the bargaining power shifts in favor of movie producers vis-à-vis music labels.

Limited addition of paid subscribers on OTTA platforms

OTTA paid subscribers have not ramped up in the country, as users have been unwilling to pay for music, when free options are available. With the top-3 of the 6 platforms now moving their content behind a paid wall and the top OTTA platform imposing several restrictions, it is largely expected that the number of paid subscribers can pick up pace. However, users may not decide to pay, and instead opt for other avenues which can potentially lead to loss of revenue for OTTA platforms. Saregama's fortunes are also linked to the performance of such platforms and may have an adverse impact if this situation plays out.

Re-emergence of piracy

The CY2000-15 period was marred by heightened piracy which resulted in decline in the overall industry size. Music labels like Saregama opted not to invest aggressively in acquiring new content which resulted in loss of market share. While piracy has been largely addressed in Metros and Tier-1 cities, it remains prevalent in smaller towns and villages. Digital piracy had inched up, from 68% in 2021 to 73% in 2022, indicative of the fact that more users are resorting to copyright infringement for listening to music. If all streaming platforms do move behind a paid wall, piracy can potentially flare up again, resulting in revenue leakages for music labels.

Incremental investment for other segments

Saregama's other segments—*Carvaan*, Films and Television serials—currently operate at low margins, while the Events segment is loss-making. The company is currently in investment mode in the non-music segment and will require investments in the near term. For the live music segment, losses can persist in the near term, as the company aims to ramp up the number of artists and live events.

Inability to close a deal with streaming platforms

Music labels need to renegotiate deals with multiple media platforms—music streaming, video OTT, social media and brands—from time to time. Failure of the company to consummate such deals can result in a potential loss of revenue, even though concentration risk is not a big factor for Saregama. We view this as low probability risk, given that Saregama's huge content library results in better bargaining power for the company, as platforms cannot afford to lose Saregama's large catalog. However, intermittent disruptions cannot be ruled out.

Management Overview

Vikram Mehra

Vikram Mehra is the Managing Director of Saregama, and has been with the company since October 2014. Prior to joining Saregama, he served as Chief Marketing Officer and Chief Commercial Officer at Tata Sky. He has also had stints with Star TV, Tata Motors and TCS. Vikram Mehra is a TAS (Tata Administrative Services) alumni and holds an MBA degree from IIM Lucknow and a BTech in Computer Science from IIT Roorkee. He has been instrumental in driving the company growth, kick-starting the content-acquisition activity and transforming the company into a professionally-run entity. He currently holds 1.09% of the outstanding shares of the company. Vikram Mehra's deep-rooted relationship with Saregama and the company's reliance on his management prowess entail a 'key man risk' for continued business momentum, in our view.

Pankaj Chaturvedi

Pankaj Chaturvedi is the Chief Financial Officer of the company and has over two decades of experience in various industries, including Telecom, Aviation and Consumer Electronics. He has handled areas such as Accounting, Planning & Strategy, Business Finance, Risk Assurance and Analytics across organizations such as Go Airlines, Vodafone, Reliance Jio and Hitachi. His last assignment was with Go Airlines (India) as its Chief Financial Officer.

Kumar Ajit

As the Executive Vice President - Music and Retail, Kumar Ajit is responsible for developing and evolving the strategic direction of the overall retail music business vertical. His earlier experience is with companies such as Tata Sky, LG and Onida. He is a Post Graduate in Business Management in Marketing & Finance from ICFAI Business School, Hyderabad.

BR Vijayalakshmi

BR Vijayalakshmi is the Executive Vice President - South TV and heads the Tamil TV serial business. Ms Vijayalakshmi started her career as Director of Photography and has the distinction of being mentioned in the Limca Book of Records as Asia's First Woman Cinematographer producing approximately 4,000 hours of TV content from 2001, in all genres and all South-Indian languages.

Siddharth Anand Kumar

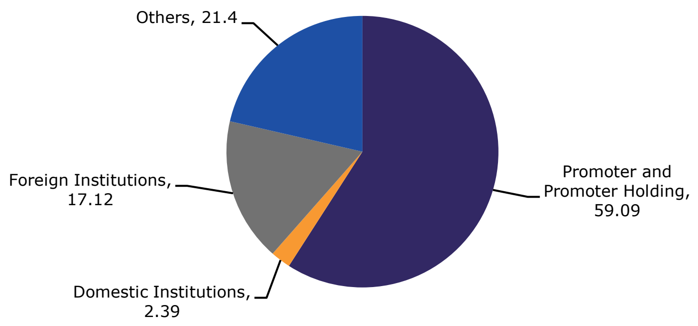
Siddharth Anand Kumar has completed his Post-graduation from Hampshire College (MA, USA) and has been a cinematographer, editor, writer, director and producer in the Indian Film and TV industry since the last 19 years. He has also directed multiple TV series across channels, including Saregama in the past. Siddharth has been spearheading Yoodlee from Day-1.

Exhibit 56: Board of Directors

Name	Category	Directorship in Other Companies	Directorship in other listed entities
Dr Sanjiv Goenka	Chairman (Non-Executive)	8	CESC RPSG Ventures PCBL Phillips Carbon Black Spencer's Retail Firstsource Solutions
Avarna Jain	Vice chairperson (Non-Executive)	2	
Vikram Mehra	Managing Director	1	
Preeti Goenka	Non-Executive	1	PCBL
Umang Kanoria	Non-Executive & Independent	5	STEL Holdings Kanco Tea & Industries Kanco Enterprises
Santanu Bhattacharya	Non-Executive & Independent	3	
Arindam Sarkar	Non-Executive & Independent	1	Albert David
Noshir Naval Framjee	Non-Executive & Independent	5	Harrisons Malayalam
Suhana Murshed	Non-Executive & Independent	3	Kanoria Chemicals & Industries XPRO India STEL Holdings

Source: Company, Emkay Research

Exhibit 57: Saregama — Shareholding pattern



Source: BSE, Emkay Research

Saregama India: Consolidated Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	**5,806**	**7,366**	**8,894**	**11,592**	**13,836**
Revenue growth (%)	31.4	26.9	20.7	30.3	19.4
EBITDA	**1,871**	**2,210**	**2,676**	**3,606**	**4,446**
EBITDA growth (%)	43.8	18.1	21.1	34.7	23.3
Depreciation & Amortization	131	208	354	420	497
EBIT	**1,740**	**2,002**	**2,322**	**3,186**	**3,950**
EBIT growth (%)	39.8	15.0	16.0	37.2	24.0
Other operating income	0	0	0	0	0
Other income	349	536	339	344	391
Financial expense	45	57	36	36	36
PBT	**2,044**	**2,481**	**2,625**	**3,495**	**4,305**
Extraordinary items	0	0	0	0	0
Taxes	518	630	661	880	1,084
Minority interest	1	(3)	(3)	(3)	(3)
Income from JV/Associates	0	0	0	0	0
Reported PAT	**1,526**	**1,853**	**1,967**	**2,618**	**3,224**
PAT growth (%)	35.5	21.5	6.1	33.1	23.2
Adjusted PAT	**1,526**	**1,853**	**1,967**	**2,618**	**3,224**
Diluted EPS (Rs)	**7.9**	**9.6**	**10.2**	**13.6**	**16.7**
Diluted EPS growth (%)	21.8	21.5	6.1	33.1	23.2
DPS (Rs)	**3.0**	**3.0**	**3.0**	**3.0**	**3.0**
Dividend payout (%)	**37.9**	**31.2**	**29.4**	**22.1**	**17.9**
EBITDA margin (%)	32.2	30.0	30.1	31.1	32.1
EBIT margin (%)	30.0	27.2	26.1	27.5	28.5
Effective tax rate (%)	25.3	25.4	25.2	25.2	25.2
NOPLAT (pre-IndAS)	**1,300**	**1,493**	**1,738**	**2,384**	**2,955**
Shares outstanding (mn)	192.8	192.8	192.8	192.8	192.8

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	193	193	193	193	193
Reserves & Surplus	13,584	13,228	14,617	16,657	19,303
Net worth	**13,777**	**13,421**	**14,810**	**16,850**	**19,496**
Minority interests	32	34	31	28	25
Deferred tax liability (net)	562	464	464	464	464
Total debt	**13**	**7**	**7**	**7**	**7**
Total liabilities & equity	**14,384**	**13,926**	**15,312**	**17,349**	**19,992**
Net tangible fixed assets	2,141	2,207	2,552	2,833	3,036
Net intangible assets	619	1,183	1,875	2,762	3,767
Net ROU assets	13	7	7	7	7
Capital WIP	0	0	0	0	0
Goodwill	0	0	1,890	1,890	1,890
Investments [JV/Associates]	1,475	21	21	21	21
Cash & equivalents	**8,545**	**7,470**	**5,210**	**5,299**	**6,018**
Current assets (ex-cash)	3,795	5,050	5,810	6,744	7,658
Current Liab. & Prov.	2,495	3,115	3,157	3,311	3,508
NWC (ex-cash)	**1,300**	**1,935**	**2,654**	**3,433**	**4,150**
Total assets	**14,384**	**13,926**	**15,312**	**17,349**	**19,992**
Net debt	(8,824)	(8,566)	(6,305)	(6,395)	(7,114)
Capital employed	14,384	13,926	15,312	17,349	19,992
Invested capital	**4,073**	**5,331**	**8,978**	**10,925**	**12,850**
BVPS (Rs)	71.5	69.6	76.8	87.4	101.1
Net Debt/Equity (x)	(0.6)	(0.6)	(0.4)	(0.4)	(0.4)
Net Debt/EBITDA (x)	(4.7)	(3.9)	(2.4)	(1.8)	(1.6)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	**20.9**	**17.9**	**18.2**	**21.6**	**23.2**

Source: Company, Emkay Research

Cash flows

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	2,044	2,481	2,625	3,495	4,305
Others (non-cash items)	(139)	(432)	51	111	141
Taxes paid	(572)	(668)	(661)	(880)	(1,084)
Change in NWC	(389)	(447)	(719)	(779)	(717)
Operating cash flow	**944**	**934**	**1,297**	**1,947**	**2,645**
Capital expenditure	(727)	(1,031)	(1,392)	(1,587)	(1,704)
Acquisition of business	0	0	0	0	0
Interest & dividend income	0	0	0	0	0
Investing cash flow	**(6,303)**	**(1,481)**	**(2,943)**	**(1,243)**	**(1,313)**
Equity raised/(repaid)	7,332	0	0	0	0
Debt raised/(repaid)	0	0	0	0	0
Payment of lease liabilities	0	0	0	0	0
Interest paid	(10)	(6)	(36)	(36)	(36)
Dividend paid (incl tax)	(578)	(578)	(578)	(578)	(578)
Others	28	(168)	0	0	0
Financing cash flow	**6,772**	**(752)**	**(614)**	**(614)**	**(614)**
Net chg in Cash	1,414	(1,299)	(2,261)	90	718
OCF	944	934	1,297	1,947	2,645
Adj. OCF (w/o NWC chg.)	555	488	578	1,168	1,928
FCFF	217	(97)	(95)	359	941
FCFE	172	(154)	(131)	324	906
OCF/EBITDA (%)	50.5	42.3	48.4	54.0	59.5
FCFE/PAT (%)	11.3	(8.3)	(6.7)	12.4	28.1
FCFF/NOPLAT (%)	**16.7**	**(6.5)**	**(5.5)**	**15.1**	**31.8**

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	47.0	38.7	36.5	27.4	22.2
P/CE(x)	43.3	34.8	30.9	23.6	19.3
P/B (x)	5.2	5.3	4.8	4.3	3.7
EV/Sales (x)	10.8	8.6	7.4	5.6	4.7
EV/EBITDA (x)	33.6	28.6	24.4	18.1	14.5
EV/EBIT(x)	36.1	31.6	28.2	20.5	16.4
EV/IC (x)	15.4	11.8	7.3	6.0	5.0
FCFF yield (%)	0.3	(0.2)	(0.1)	0.6	1.5
FCFE yield (%)	0.2	(0.2)	(0.2)	0.5	1.3
Dividend yield (%)	0.8	0.8	0.8	0.8	0.8
DuPont-RoE split					
Net profit margin (%)	26.3	25.2	22.1	22.6	23.3
Total asset turnover (x)	0.6	0.5	0.6	0.7	0.7
Assets/Equity (x)	1.1	1.0	1.0	1.0	1.0
RoE (%)	**16.2**	**13.6**	**13.9**	**16.5**	**17.7**
DuPont-RoIC					
NOPLAT margin (%)	22.4	20.3	19.5	20.6	21.4
IC turnover (x)	1.7	1.6	1.2	1.2	1.2
RoIC (%)	**38.6**	**31.8**	**24.3**	**24.0**	**24.9**
Operating metrics					
Core NWC days	81.7	95.9	108.9	108.1	109.5
Total NWC days	**81.7**	**95.9**	**108.9**	**108.1**	**109.5**
Fixed asset turnover	2.1	2.1	1.6	1.4	1.3
Opex-to-revenue (%)	43.1	39.5	40.8	42.5	41.6

Source: Company, Emkay Research

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Ratings	Expected Return within the next 12-18 months.
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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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