Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Viewpoint

New Idea

Saregama India Ltd

IP-driven growth in the Digital Age

Entertainment & Media	Sharekhan code: SAREGAMA	
Reco/View: Positive	CMP: Rs. 480	Price Target: Rs. 640

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral – Negative

Summary

- We initiate viewpoint coverage on Saregama with a positive view assigning a price target (PT) of Rs 640, valuing the company at 40x FY27E eps. At CMP, the stock trades at 46.9/36.8x its FY25/FY26E eps.
- The shift towards subscription model puts the company in a sweet spot given its extensive music IP portfolio combined with affordable mobile data prices and availability of affordable smartphones.
- The management has guided for Rs 1,000 crore music content investment over a three-year period and expects consolidated revenue excluding Carvaan to grow at CAGR of 30% over next three years.
- Acquisition of Pocket Aces has added a new dimension of IP and a distribution network of over 100 million followers, which Saregama will leverage to further popularize its music library.

Saregama is India's oldest music label company with IP offerings across media channels (music, films, web series, short-format and TV serials), delivery platforms (digital and physical) and business models (licensing, advertising and retail). Its large intellectual property portfolio of over 160,000 songs, 70 films, 45 digital series and 6,000 hours of television content, a wide digital footprint and increasing IP library with a growing presence in all leading Indian languages make it well-placed to monetise the growing opportunities in the music industry. We believe as the initial adverse impact from transition to pay wall by streaming companies fades, Saregama is likely see strong and steady growth from music licensing. Despite a soft Q1FY25, the company has reiterated it guidance on music revenues which is a combination of music licensing and artist management businesses and expect it to grow 25-26% in FY25 backed by the strong line-up of new releases. The company expects consolidated revenue excluding Carvaan to grow at CAGR of 30% over next three years. The company has also reiterated its guidance for Rs 1000 crore worth of investments in new music content over the next three years, of which Rs. 300 crore will be done in FY25. We believe that its strong foothold in music licensing business, ramp-up of adjacent categories and proactive business initiatives to connect with the younger audience would result in broad based revenue growth runaway for medium to long term. We initiate viewpoint on Saregama with a positive view assigning a price target (PT) of Rs 640, valuing the company at 40x FY27E eps. At CMP, the stock trades at 46.8/36.8x its FY25/26E eps.

- **Music content IP; shift to subscription model to drive growth:** Music licensing for the company has grown at 23% CAGR over FY19-24. The company has large IP portfolio of over 160,000 songs, over 70 films, 45 digital series and 6,000 hours of television content. The subscription business is growing globally with progressive shift being seen as paid subscription replaces free consumption. Affordable mobile data prices and availability of affordable smartphones would support strong growth of music streaming in India. The company earns an average of Rs 0.10 per stream on free platforms with minimum guaranteed feature. However, the realisation can be expected to see a sharp uptick under the subscription model as streaming platforms distribute ~50% of the subscription revenue across record labels, proportionate to the number of streams (less the minimum guarantee). Although the paywall transition may lead to volatility in music licences revenues we believe as the initial adverse impact fades, Saregama is likely see strong and steady growth from music licensing in the medium to long term.
- **Rising pool of IP content:** The management has guided for Rs 1000 crore music content investment over a three-year period and expects consolidated revenue excluding Carvaan to grow at CAGR of 30% over three years. As more and more urban and rural customers start consuming content through internet, the demand by OTT and television broadcast platforms for regional content, particularly in Indian regional languages is expected to grow substantially in the next few years. The company aims to acquire 25-30% of all new music which is going to be released in India over the next few years thereby augmenting the IP pool. Further, the acquisition of Pocket Aces enhances its IP and distribution network adding 3000+content pieces.
- **Proactive engagement with younger audience to pay off significantly in medium to long term:** The company aims to monetise budding artists creating IPs by partnering with them to produce music and video content and fostering their visibility. Additionally, the company organizes live concerts and events, giving artists opportunities to showcase talents and attract followers. The acquisition of Pocket Aces has added a new dimension of IP and a distribution network of over 100 million followers, which Saregama will leverage to further popularize its music library among the 18-35 audience segment. The company is constantly catering to the content needs of younger class of audience by investing aggressively in new music, creating derivatives and cover versions of popular songs from its catalogue, entering into the business of live events and expanding the horizon of Yoodlee vertical by releasing web series on digital platforms. This approach is not only helping the company connect with the younger audience but also diversifies the revenue streams, paving way for a broad-based growth in the years to come.

Our Call

Valuation – Initiate viewpoint on Saregama with Positive view assigning price target of Rs 640: Saregama with its IP offerings across media channels (music, films, web series, short-format and TV serials), delivery platforms (digital and physical) and business models (licensing, advertising and retail) is geared with various monetisation levers which will aid the company to achieve strong and consistent revenue growth. The company investments in acquiring new content and proactively connecting with younger class of audiences is likely to provide a strong head start resulting in a paradigm shift in its revenue growth trajectory over medium to long term. We expect Sales/PAT CAGR of 20%/16% over FY24-27E. We believe Saregama's strong foothold in music licensing business, ramp up in adjacent categories and proactive business initiatives to connect with younger class of audience is likely to result in broad based revenue growth over medium to long term. We initiate viewpoint on Saregama with a positive view assigning a price target (PT) of Rs 640, valuing the company at 40x FY27 E eps. At CMP, the stock trades at 46.9/36.8x its FY25/26E eps.

Key Risks

Increasing competition from domestic and international players. Slower than expected paid-subscriber addition, High Content costs may impact margins. Rise in digital piracy.

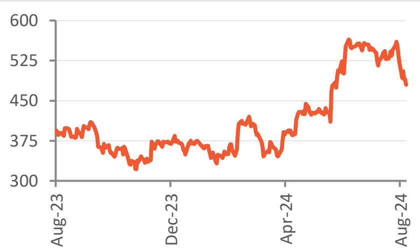
Company details

Market cap:	Rs. 9,256 cr
52-week high/low:	Rs. 581 / 310
NSE volume: (No of shares)	6.1 lakh
BSE code:	532163
NSE code:	SAREGAMA
Free float: (No of shares)	7.9 cr

Shareholding (%)

Promoters	59.2
FII	17.2
DII	3.2
Others	20.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-10.9	11.8	34.2	21.6
Relative to Sensex	-10.1	1.7	22.8	0.9

Sharekhan Research, Bloomberg

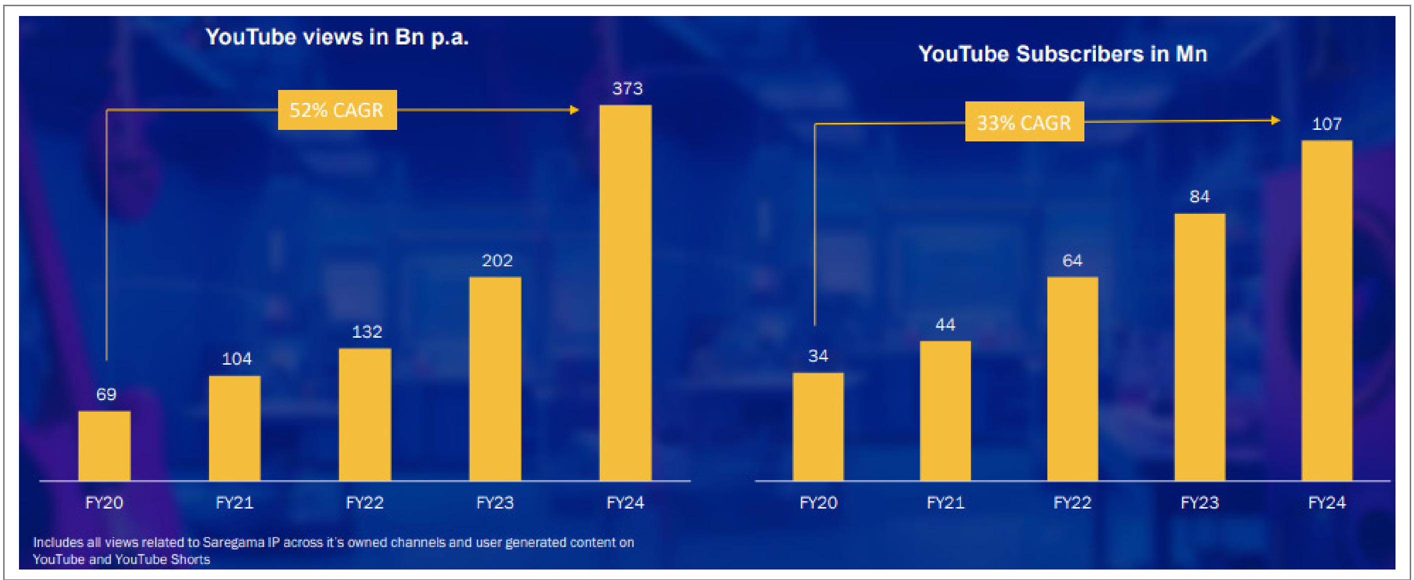
Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Total Revenue	736.6	803.0	968.5	1,168.9	1,396.0
EBITDA margin %	30.0	31	30.3	31.9	33.0
Adjusted Net Profit	185.3	197.6	197.4	251.7	311.1
% YoY growth	21.5	6.6	-0.1	27.5	23.6
EPS (Rs)	9.6	10.2	10.2	13.0	16.1
PER (x)	50.0	46.9	46.9	36.8	29.8
P/BV (x)	6.8	6.6	6.0	5.6	5.1
EV/EBITDA	38.5	34.9	29.3	23.0	18.6
ROE (%)	13.8	13.4	12.4	14.4	16.3
ROCE (%)	14.4	13.8	14.6	17.4	19.9

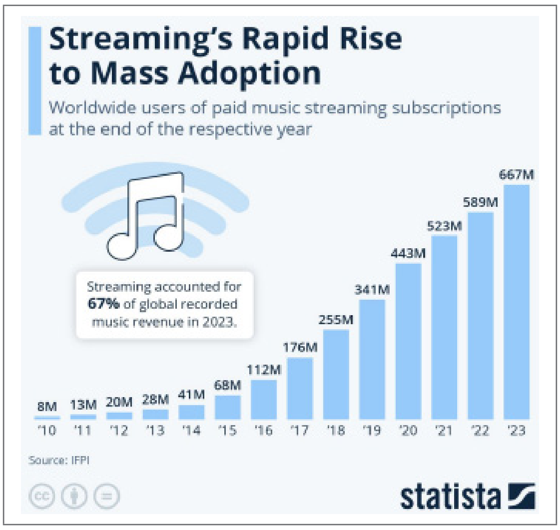
Source: Company; Sharekhan estimates

Key arguments

Strong licensing growth to be driven by investments in new music and shift of streaming platforms moving towards subscription model: Music Licensing has grown at 23% CAGR over FY19-24. Revenues from Licensing agreements with Youtube and other OTT platforms form a chunk of music license revenues for the company. The company has multiple channels on YouTube with a cumulative subscriber base of over 112 million as of Q1FY25. YouTube generates advertising revenues on views which are shared with Saregama. With an increasing subscriber base, revenues from YouTube can grow strongly as it remains one of the most preferred platforms to consume content. The company has guided Rs 1000 crore music content investment over a 3-year period and expects consolidated revenue excluding Carvaan to clock a CAGR of 30% over next three years. Subscription business is growing globally with progressive shift seen as paid subscription replaces free consumption. Affordable mobile data prices, the evolving handset ecosystem along with availability of affordable smartphones and overall growth in smartphone shipments are set to continue to support the growth of music streaming in India. The company earns an average of Rs 0.10 per stream on free platforms with minimum guarantee feature. However, the realisation can be expected to see sharp uptick under the subscription model as streaming platforms distribute ~50% of the subscription revenue across record labels, proportionate to the number of streams (less the minimum guarantee). Although the paywall transition may lead to volatility in music licences revenues we believe as the initial adverse impact fades, Saregama is likely see strong and steady growth from music licensing in the medium to long term.

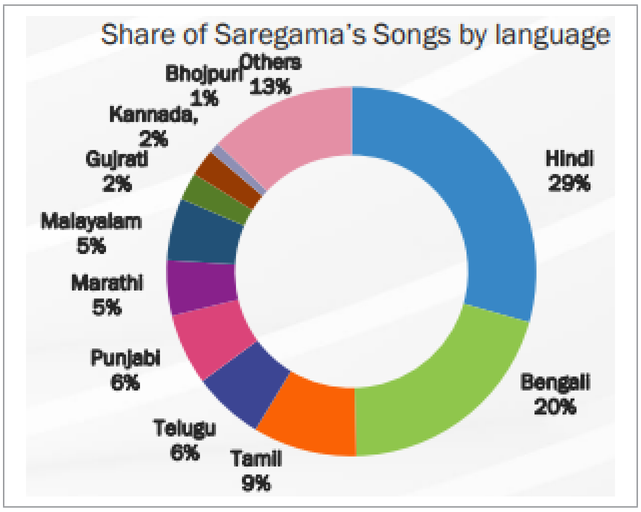


Source: Company, Sharekhan Research



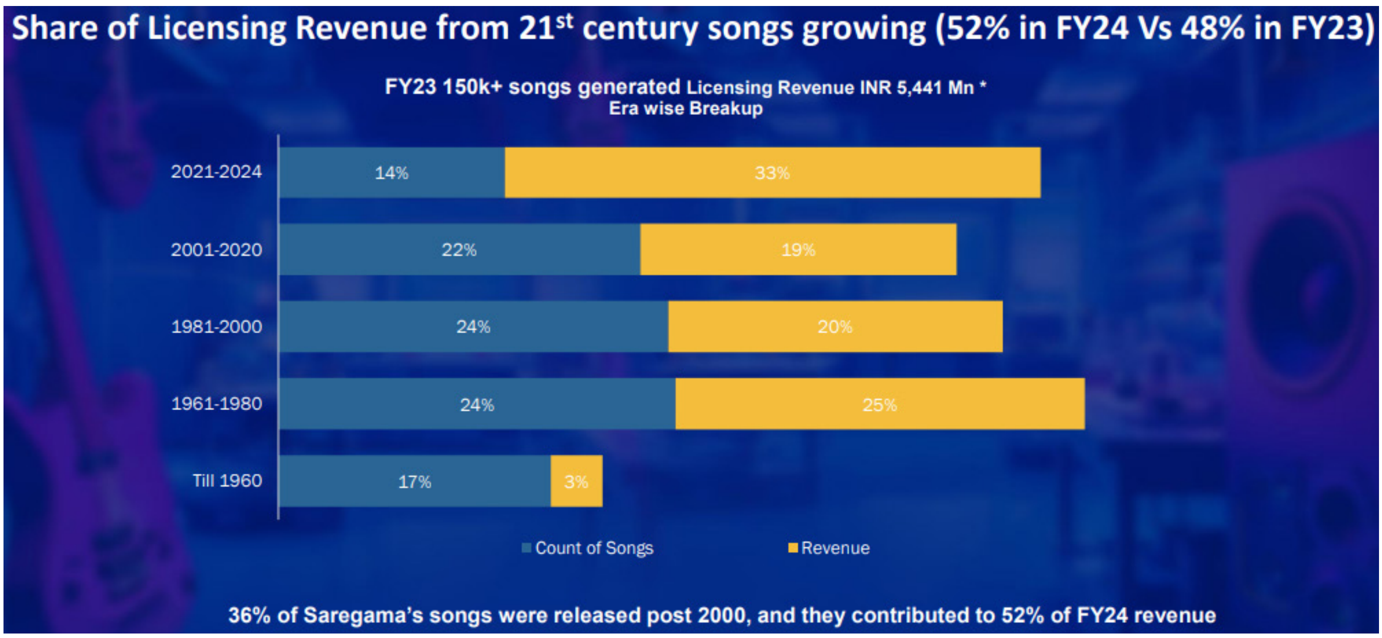
Source: Company, Sharekhan Research

Increasing IP library across leading Indian languages and Pocket Aces acquisition: The company has large IP portfolio of over - 160,000 songs, 70,000 films, 45 digital series and 6,000 hours of television content. As more and more urban and rural customers start consuming content through the Internet, the demand by OTT and television broadcast platforms for regional content, particularly in Indian regional languages is expected to grow substantially in the next few years. The company aims to acquire 25-30% of all new music which is going to be released in India over the next few years. Further, the company had acquired 51.8% stake in Pocket Aces at Rs. 174 crore in a cash deal. The acquisition enhances its IP and distribution network adding 3000+content pieces. Through the acquisition, Saregama is looking to tap the growing young digital audience and leverage its distribution network of over 100 million followers. The company also targets the 35+ age group, who value Convenience over Control for their audio listening experience by music retailing through Carvaan.



Source: Company, Sharekhan Research

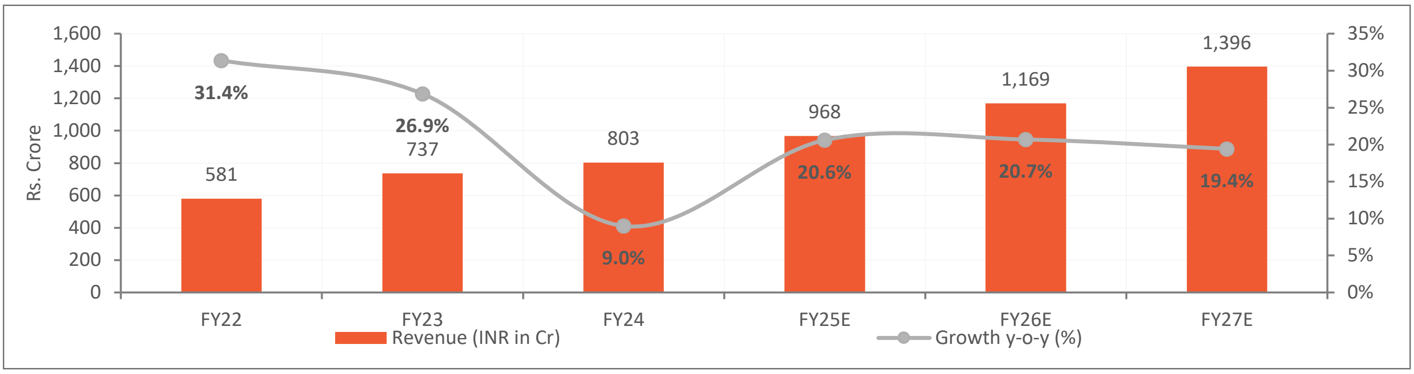
Engaging with younger audience to payoff significantly over the medium to long term: The management is constantly scouring the industry for relevant content and talent that resonates with today's audiences. Performance of new content has been one of the major drivers of its growth in the music licensing. This is evident as 33% of Saregama's songs, released post 2000 contributed to 48% of FY23 revenue and 52% in FY24. The company aims to monetize budding artists creating IPs by partnering with them to produce music and video content and fostering their visibility. The acquisition of Pocket Aces has added a new dimension of IP and a distribution network of over 100 million followers, which Saregama will leverage to further popularize its music library among the 18-35 year-old audience segment. The company is constantly catering to the content needs of younger class of audience by way of investing aggressively in new music, creating derivatives and cover versions of popular songs from its catalogue, entering into the business of live events and expanding the horizon of the Yoodlee vertical by releasing Web Series on digital platforms. This approach is not only helping the company connect with the younger audience but also diversifies the revenue streams, paving way for a broad-based growth in the years to come.



Source: Company, Sharekhan Research

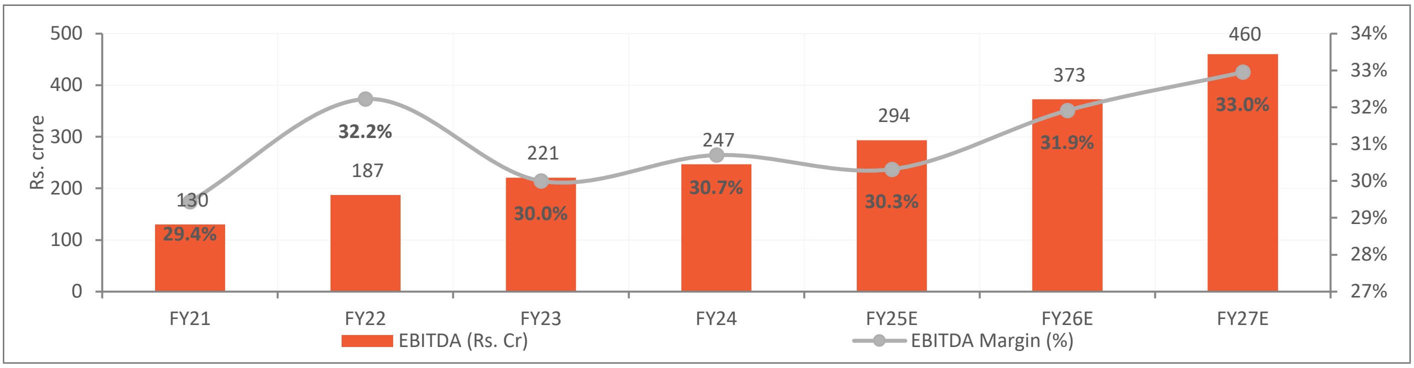
Financials in charts

Revenue trend



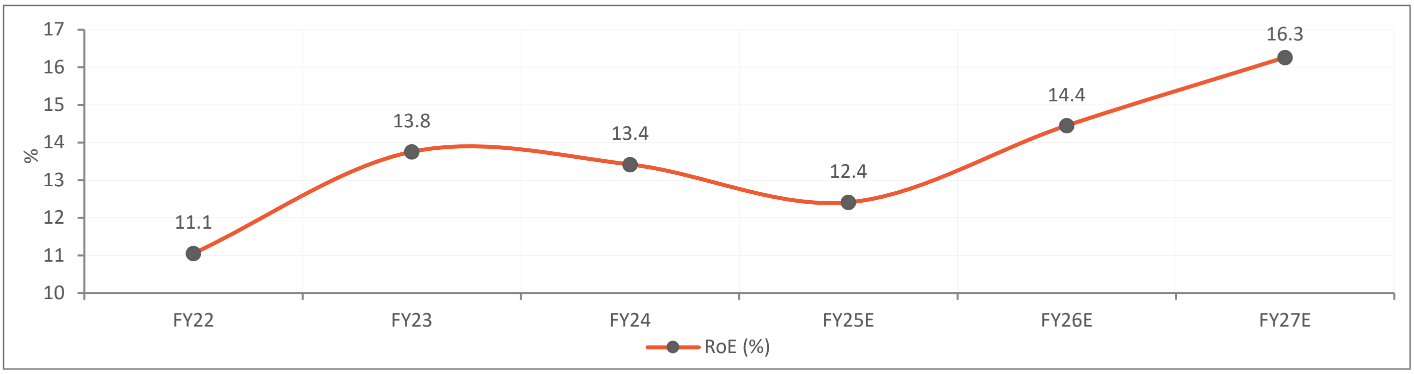
Source: Company; Sharekhan Research

EBITDA & EBITDA margin Trend



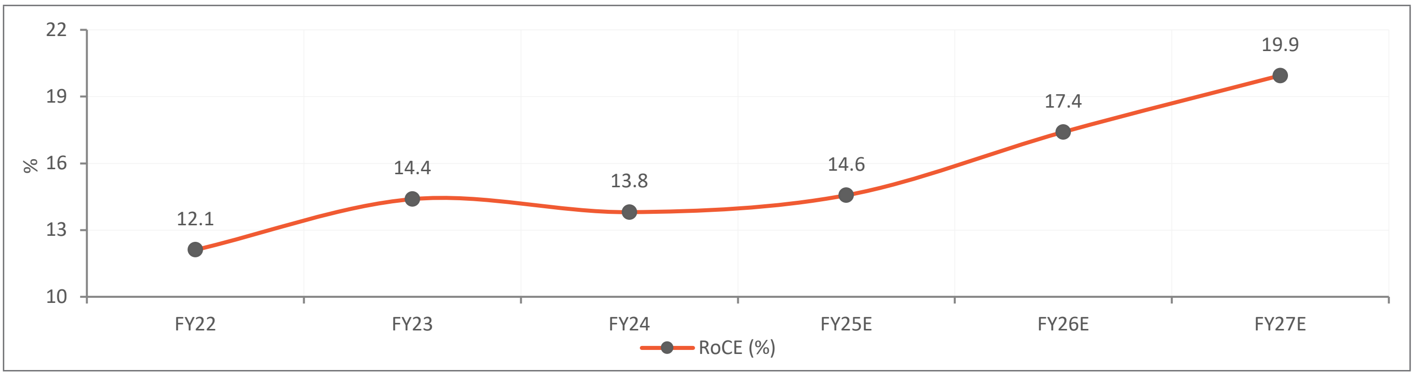
Source: Company; Sharekhan Research

ROE trend



Source: Company; Sharekhan Research

ROCE trend



Source: Company; Sharekhan Research

Key Q1FY25 Result Highlights

- Consolidated revenues stood at Rs 205.3 crore, up 25.7% y-o-y driven by growth across films and music. However, sequential growth was hit by political and IPL advertising.
- EBITDA margins fell 155 bps q-o-q/557 bps y-o-y owing to muted revenues. Adj. EBITDA margin stood at 33.1% in Q1FY25 as compared to 38.1%in Q1 FY24. PAT declined ~32% q-o-q/ 15% y-o-y to Rs 36.9 crore.
- Company expects consolidated revenue (excluding revenue from Carvaan) to grow at 30% CAGR over the next 3-4 years and expects PBT to double over 3-4 years. Annual Adjusted EBITDA margin expected at 32-33%.
- Saregama has reiterated it guidance on music revenues which is a combination of Music Licensing and artist management businesses and expects it to grow 25-26% in FY25.
- The company aims to acquire new music content worth Rs. 1000 crore over the next 3 years, of which Rs. 300 crores will be invested in FY25.
- The company aims to acquire 25-30% of all new music which is going to be released in India over the next few years and have guided for 5-year payback period on new content investment.
- Pocket Aces to break even by year end.
- During the quarter, over 30 new influencers and music artists were added, making the overall portfolio upwards of 150.
- The company has strong line up for the next 12 months with music of some of the biggest films of the year.

Results (Consolidated) Rs cr

Particulars	Q1FY25	Q1FY24	Y-o-Y (%)	Q4FY24	Q-o-Q (%)
Net Sales	**205**	**163**	**263**	**25.7**	**-22.0**
Operational Cost	68	34	95	97.8	-28.2
Gross Profit	137	129	168	6.5	-18.4
Employee benefits expense	26	20	28	31.6	-5.4
Royalties	15	16	16	-5.1	-5.2
A&P	24	19	27	27.4	-9.0
Other expenses	20	24	28	-15.8	-27.8
Total Operating Cost	153.8	113.3	193.0	35.8	-20.3
Operating Profit	**51.5**	**50.0**	**70.0**	**2.8**	**-26.5**
Depreciation	13	7	12	80.8	9.7
Finance Cost	0	1	0	0	0
Other Income	12	18	18	-30.5	-32.3
Profit Before Tax	50.7	59.1	76.0	-14.2	-33.3
Tax Expense	13.6	15.8	22.1	-13.6	-38.5
PAT	**37.1**	**43.3**	**53.9**	**-14.4**	**-31.2**
PAT after MI	**36.9**	**43.5**	**53.99**	**-15.1**	**-31.6**
EPS (Rs.)	1.9	2.3	2.80	-15.1	-31.6
Margin(%)				**BPS**	**BPS**
GPM	66.9	79.0	64.0	-1,207	289
EBITDA	25.1	30.6	26.6	-557	-155
NPM %	18.0	26.6	20.5	-863	-254

Source: Company; Sharekhan Research

Company Background

Saregama is India's oldest and leading entertainment company with intellectual property rights in music, film, television and print media with one of the most extensive music libraries. It has a large intellectual property portfolio of over - 160,000 songs, 70 films, 45 digital series and 6,000 hours of television content. Its music library includes the intellectual property right to the sound recordings (the masters) and publishing rights (musical compositions and lyrics). Its music library covers a variety of Indian languages including Hindi, Bengali, Tamil, Marathi, Telugu, Malayalam, Punjabi and Kannada. Its music IP also includes devotional songs, classical compositions, ghazals and folk songs The company's primary source of revenue comprise of license fees from music streaming applications, social media platforms, video streaming platforms, broadcasting platforms, brands and societies. In addition, the company retails music directly to consumers through the Carvaan audio player with pre-loaded music. Yoodlee Films is the company's movie and digital web-series production arm that is focused on creating content targeted at younger audiences across the world who primarily consume content on personal devices. The company monetizes these movies primarily by licensing them for limited period to third-party digital platforms and Indian television channels. The company also produces television series content for South Indian broadcast channels. They monetize these serials by selling of commercial times (advertising inventory) aired during their program on the particular television channel.

Strategic Overview

Saregama aims at being a pure-play content company capitalising on the global content consumption boom driven by the ever-increasing digitisation.

Monetisation of Existing IPs

Through licensing to every 3rd party Digital (music, video, social) and TV platform.

Carvaan transitions from being a Product with only one-time margin to a Platform for Music lovers with recurring advertising, transaction and subscription revenue

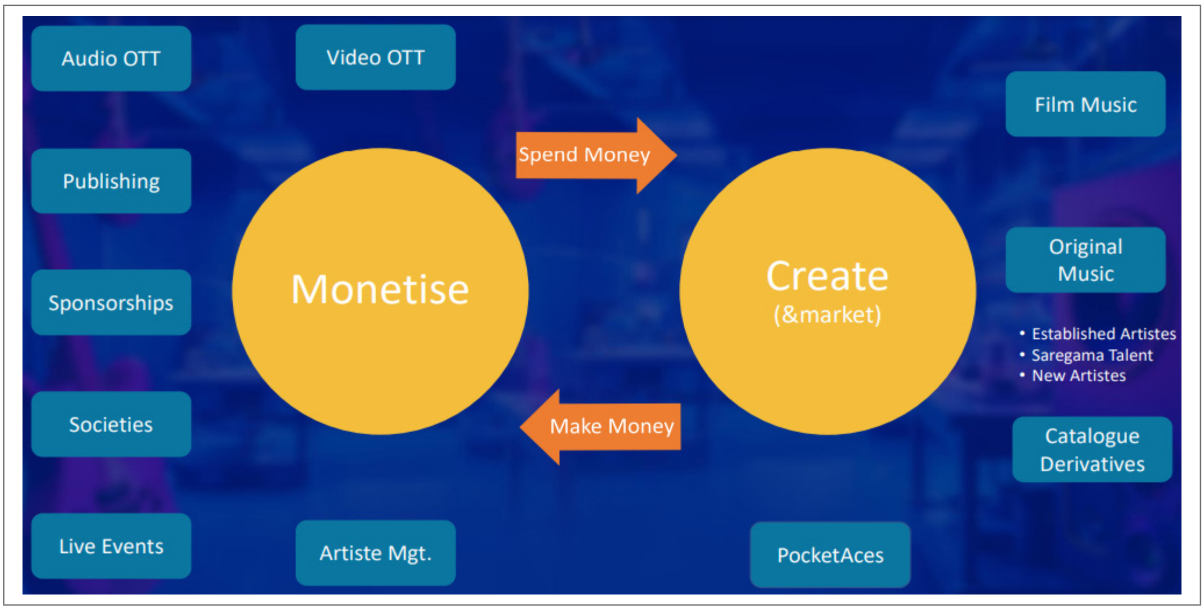
Building of New IPs

It is cementing leadership position with New film and non-film music acquisition across Hindi, Tamil, Telugu, Bhojpuri, Gujarati, Punjabi, Malayalam, Bengali and other regional languages.

Producing theatrical Films in only regional languages and web series in all languages. Revenue is secured through pre-licensing to digital platforms. Scale allows lower cost of production

Building live music-based events IP, preferably around Saregama owned music.

Monetisation of IP



Source: Company, Sharekhan Research

Revenue Streams

1. **Music Licensing and Artiste Management:** Saregama's main revenue source is from Music Licensing. It contributed ~68% of the revenues in FY24 and has clocked 23% CAGR over FY19-24. The company receives license fees from social media platforms, music streaming applications, video streaming platforms, broadcasting platforms, brands and societies. The company is confident that their catalogue part of music will continue growing at a minimum of 12% per annum. The company expects that over the next 18 to 24 months, as OTT platforms start turning pay all catalogue music may start growing between 16% to 18%.

   - **Artist Management:** Under the new initiative, the company is looking at monetising artists who are involved in creating IPs. The company signs up with the artists and collaborates with them to create high-quality music and video content helping artists gain visibility within the music industry. Saregama organizes and sponsors live concerts, events, and performances featuring artists, providing them with a platform to showcase their skills and build a fan base

   - **Social media platforms:** The company has licensing agreements with social media platforms including video sharing applications. Saregama has 32 channels on YouTube with a cumulative subscriber base of over 112 million as of Q1FY25. YouTube generates advertising revenues on views which are shared with Saregama. This also applies to advertising running on 3rd party content that is using any of Saregama's IP (song, lyrics, music composition, dialogues) within the video. The company also has licensing agreements with various other social media platforms and short-format video sharing applications including Facebook, Instagram, amongst others. Saregama has issued 1-2 yrs fixed-fee licenses to other social media platforms, allowing their users to upload videos containing Saregama songs.

   - **Music streaming apps:** The company licenses music for online streaming to various Indian and international music streaming applications and platforms (OTT media). The segment has seen more than 20% y-o-y growth for Saregama and is expected to grow even faster with streaming platforms moving towards subscription model. The growth is driven by increasing number of users owing to growth in smartphones and higher usage due to cheaper data along with falling piracy. The company has licensing agreements with Spotify, Amazon Prime Music, YouTube Music, Apple Music, Pandora, Deezer, Resso, Wynk Music, Hungama Music and JioSaavn, amongst others. Saregama earns every time a customer listens to Saregama owned song on any OTT app.

   - **Video Streaming Platforms:** Yoodlee Films is Saregama's production house focussed on creating content for theatrical releases and third-party digital platforms & TV. The company has entered into license agreements with program producers on video steaming platforms, like Netflix, Disney+ Hotstar, Amazon Prime Video, Sony LIV, ALT Balaji and MX player amongst others. These platforms use the company's music in their original movies and digital series. Saregama issues fixed fee licenses to Program Producers for use of its music in their Programs that they in turn license to Video Streaming Platforms. The company has released 25 movies and web series, of which 14 have been shown on Netflix, four have been shown on Disney+ Hotstar , five have been shown on Zee5 and 2 on Amazon Prime/Mini.

   - **Broadcast Platforms:** Saregama licenses its music to Television Channels for use in various TV serials, reality shows, promotions, etc., and also to Production houses for use in ads running on TV, Digital including Social Media and Radio. Saregama issues 1-2 yrs fixed-fee licenses to TV channels for use of its music in programs running on their channels.

   - **Brand License:** The company licenses music to brands for use in their advertisements shown, inter alia, on television, social media and radio.

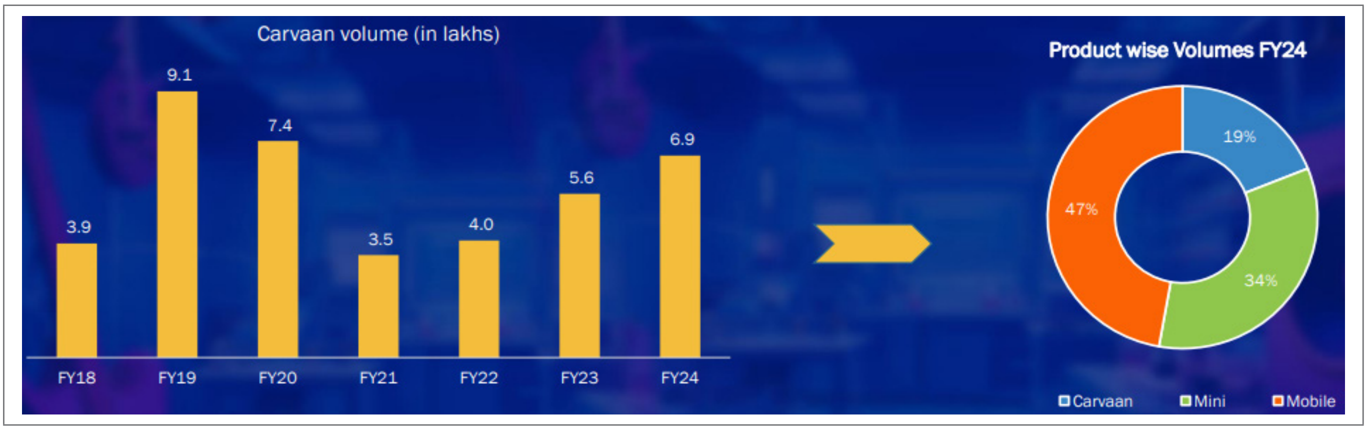
   - **Societies:** The company also licenses music library to a collective body, PPL, for public performance licensing of our music. The company is also a member of IPRS, which issues music publishing licenses to users.

Licensing Partners

Source: Company, Sharekhan Research

2. **Music Retailing :** Launched in 2017, Carvaan audio player has inbuilt speakers with preloaded retro songs, allowing customers to listen to music anytime without any advertising breaks. This product also provides bluetooth speaker and FM radio functionality. Carvaan audio player has been extended to a platform, which supports streaming of music and podcasts through a Wi-Fi based return path. Music retailing has grown at 15% CAGR over FY21-FY24. The company has rolled out a new retail strategy for Carvaan, wherein they will be retailing it only from e-commerce and modern trade stores. Over these next few months, they will completely get out of individual shops. The company expects revenues of Carvaan to decline in FY25.

Carvaan Sales Trend



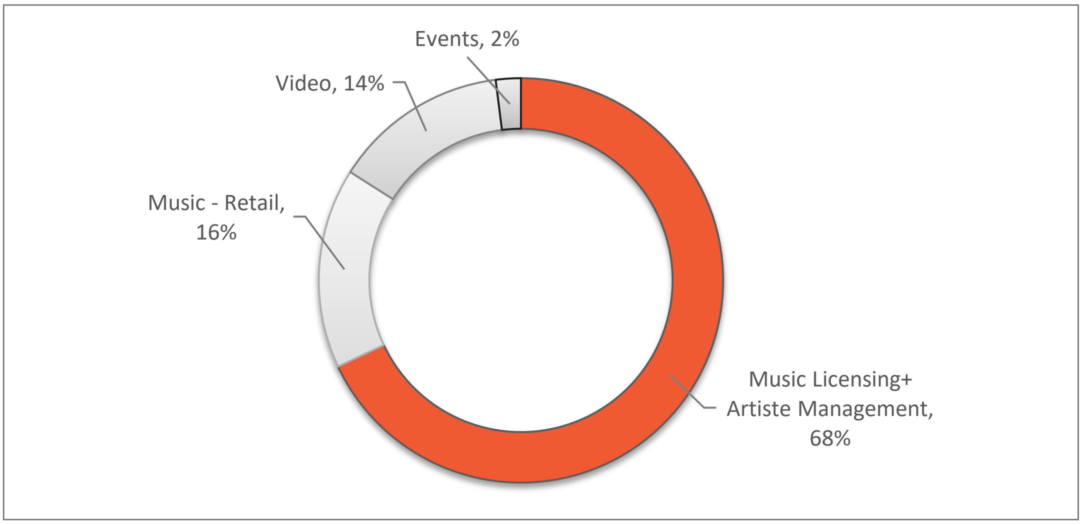
Source: Company, Sharekhan Research

3. Videos

- **Yoodlee Films:** Yoodlee Films is Saregama's production house focused on creating content for theatrical releases and third-party digital platforms & TV. The company's movie and digital web-series production arm is focused on creating content targeted at younger audiences across the world who primarily consume content on personal devices. The company monetizes these movies primarily by licensing them for limited period to third-party digital platforms and Indian television channels. Saregama issues period-based licenses for its movies to these platforms for a fixed-fee. The focus is on output deals to generate assured revenues up front but with the IP staying with Saregama. The company is able to mitigate the adverse impact of their films not performing well at the box office through their internal policy that minimum 70% cost of the film has to be recovered through satellite and digital licensing, even before the theatrical release. FY25 releases include second instalment of the highly successful Punjabi Comedy 'Ni Main Sass Kuttni' and Gippy Grewal Movie "Shinda Shinda No Papa" in Punjabi.
- **TV Serials:** Saregama is leading TV series content producer for Southern channels. Saregama has created approximately 6,000 hours of content for Sun TV over the last 20 years. The IP of all these serials is owned by Saregama. Saregama is already monetising the serials on Youtube and Facebook and plans to do the same on other video platforms too. The revenue stream is through sale of commercial time (advertising slot). The Company also monetises these serials on digital platforms like YouTube and Facebook and plans to do the same on other video platforms too.

4. Events: Saregama enhances its collaborations with artists by arranging captivating live shows. Revenue is generated from ticket Sales, sponsorships and through IP of digital content of these performances.

Revenue Break-Up FY2024 (%)



Source: Company, Sharekhan Research

Pocket Aces – A complementary fit

Saregama has acquired 51.8% stake in Pocket Aces at Rs. 174 crores in a cash deal. Pocket Aces is a digital Entertainment start-up. The purpose of the acquisition is to tap the growing young digital audience and leverage its distribution network of over 100 million followers. The acquisition enhances its IP and distribution network adding over 3000 content pieces. Further, the acquisition can aid in cross promotion thereby increasing visibility and reach for both. The acquisition can also be aimed at popularizing the Saregama music library with the young digital audience.

Business Vertical

- **Direct to Consumer content:** Short-form video content published on own channels such as Filter Copy, Gobble, Dice, Nutshell and producing 50+ videos every week. Working with 200+ Brand Partners.
- **Artiste Management:** Largest on revenue and numbers, Clout manages 150+ digital influencers and artists. The goal is to use the Company's IP creation power to promote the artistes and then monetize them through brand endorsements.
- **OTT content:** It creates digital web-series for licensing to Video OTT platforms (Hotstar, Netflix, Amazon Mini TV, Voot).

Key Strengths

- Revenue from operations was Rs.104.4 crore in FY23. Revenue has grown by 34% CAGR over the last four years and is expected to grow even faster in future
- Only media house with 'Youth" positioning in the market: Attractive to platforms, creative talent and brands
- Its Influencer Management business, Clout, is the biggest in India, both in terms of number of digital influencers and revenue
- Pillars of IP creation, distribution and access to talent make a smooth flywheel for offering to Brands

Building Synergies

- The companies complement content creation for different customer segments. Saregama focusses on mainstream culture, pocket aces thrives on counter-culture.
- Pocket Aces resonates with the young audience creates a great pull for youth-centered Content Creators and Brands. Saregama to leverage for its New/Old Music.
- Access to 100 million digital followers of Pocket Aces creates a big marketing leverage.
- Gaining access to Saregama's 160,000 music assets would enable Pocket Aces to offer its influencers a highly lucrative opportunity to develop Branded Content business, thereby solidifying Pocket Aces' position as the industry leader in Influencer Management.
- **Video Content -** Saregama focuses on theatrical films while Pocket Aces is big on Web Series. Both rely on Digital OTT for their returns.
- **Artiste Management -** Pocket Aces is big on Influencers while Saregama's focus is Singers. Both rely on making Artiste big through Content, and then monetizing them through Brands & Live Events.

FINANCIALS

Income Statement (Consolidated) **Rs cr**

Particulars	FY2023	FY2024	FY2025E	FY2026E	FY2027E
Net Sales	**737**	**803**	**968**	**1,169**	**1,396**
y-o-y %	27%	9%	21%	21%	19%
Operational Cost	225	232	295	354	417
Gross Profit	**512**	**571**	**674**	**815**	**979**
Gross Profit Margin	69.4%	71.1%	69.6%	69.7%	70.1%
Employee benefits expense	75	93	113	132	153
Royalties	66	61	65	81	97
A&P	77	76	85	89	93
Other expenses	73	94	118	141	176
Total Operating Cost	516	556	675	796	936
Operating Profit	**221**	**247**	**294**	**373**	**460**
y-o-y %	18%	12%	19%	27%	23%
OPM %	**30.0%**	**30.7%**	**30.3%**	**31.9%**	**33.0%**
Depreciation	21	36	57	64	72
Finance Cost	6	3	3	3	3
Other Income	54	64	30	30	30
Profit Before Tax	248	271	263	336	415
Tax Expense	63.0	73.2	65.8	83.9	103.7
PAT	185.0	197.6	197.4	251.7	311.1
Reported PAT after MI	**185.3**	**197.6**	**197.4**	**251.7**	**311.1**
Adjusted PAT	**185.0**	**197.6**	**197.4**	**251.7**	**311.1**
y-o-y %	21%	7%	0%	27%	24%
NPM %	25.2%	24.6%	20.4%	21.5%	22.3%

Source: Company; Sharekhan Research

Consolidated Balance Sheet Rs cr

Particulars	FY2023	FY2024	FY2025E	FY2026E	FY2027E
Equity Capital	**19**	**19**	**19**	**19**	**19**
Reserves & Surplus	1323	1450	1568	1719	1890
Non-controlling Interest	3	3	3	3	3
Total Equity	**1345**	**1473**	**1591**	**1742**	**1913**
Total Loans	0	2	2	2	2
Deferred Tax Liabiliites/Assets	46	47	27	27	27
Total Equity & Liabilities	**1392**	**1522**	**1620**	**1771**	**1942**
Net Fixed Assets	340	746	786	831	880
Gross PPE	234	240	261	287	316
Intangible Assets	157	591	667	751	843
Depreciation & Amortisation	52	88	146	210	282
Capital WIP	1	3	3	3	3
Investments	790	652	652	652	652
Current Assets	**575**	**636**	**662**	**754**	**864**
Trade receivables	148	159	199	240	287
Inventories	164	239	202	242	286
Cash & Bank balances	17	57	60	70	90
Loans	79	22	22	22	22
Other current assets	167	159	179	179	179
Current Liabilities & Provisions	312	512	480	466	453
Current Liabilities	**221**	**441**	**409**	**395**	**382**
Provisions	91	71	71	71	71
Net Current Assets	**262**	**124**	**183**	**288**	**411**
Total Assets	**1392**	**1522**	**1620**	**1771**	**1942**

Source: Company; Sharekhan Research

Consolidated Cash Flows Statement Rs cr

Particulars	FY2023	FY2024	FY2025E	FY2026E	FY2027E
Cash flow from operating activities	93	93	152	194	254
Cash flow from investing activities	-148	17	-67	-80	-91
Cash flow from financing activities	-75	-85	-82	-104	-143
Net change in cash and cash equivalents	**-130**	**25**	**3**	**10**	**20**
Opening cash balance	153	17	57	60	70
Closing cash balance	**17**	**57**	**60**	**70**	**90**
Free cash flows	**-10**	**1**	**55**	**83**	**133**

Source: Company; Sharekhan Research

Key Ratios

Particulars	FY2023	FY2024	FY2025E	FY2026E	FY2027E
Margins & tax rates (%)					
GPM	69.4	71.1	69.6	69.7	70.1
OPM	30.0	30.7	30.3	31.9	33.0
NPM	25.2	24.6	20.4	21.5	22.3
Tax rate	25.4	27.0	25.0	25.0	25.0
Growth ratios (y-o-y %)					
Revenue	26.9	9.0	20.6	20.7	19.4
Operating profit	18.1	11.6	19.1	27.1	23.3
Reported PAT after MI	21.2	6.8	-0.1	27.5	23.6
Per share (Rs.)					
Adjusted EPS	9.6	10.2	10.2	13.0	16.1
Book value (BVPS)	70.7	73.1	79.4	86.4	94.8
Valuation ratios (x)					
P/E	50.0	46.9	46.9	36.8	29.8
Price / Book value (BV)	6.8	6.6	6.0l	5.6	5.1
EV / EBIDTA	38.5	34.9	29.3	23.0	18.6
Market cap / Sales (x)	12.6	11.5	9.6	7.9	6.6
Working capital (Days)					
Inventory	266	376	250	250	250
Debtors	73	72	75	75	75
Creditors	114	147	100	100	100
Financial ratios					
Fixed asset turnover ratio (x)	3.3	3.6	4.0	4.4	4.8
Operating cash flow/EBIDTA (%)	73%	59%	81%	74%	78%
Debt / Equity (x)	-0.6	-0.4	-0.4	-0.4	-0.4
RoE (%)	13.8	13.4	12.4	14.4	16.3
RoCE (%)	14.4	13.8	14.6	17.4	19.9

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Indian Media & Entertainment Sector on growth path led by digitization

According to FICCI-EY report, Indian M&E sector grew by 8% in 2023, reaching INR2.3 trillion ($27.9 billion), 21% above its pre-pandemic levels in 2019. The Indian Media & Entertainment Sector is expected to grow at 10% per annum on the back of digitisation. The drivers of growth for the music industry are easy availability of smart phones, cheap data, fall in piracy, streaming turning paid, and growth in digital advertising. The biggest driver is digital advertising which grew by 15% last year to Rs. 57,600 crore. This is primarily due to explosion in consumption of content on digital platforms. Streaming is witnessing a rapid rise owing to mass adoption. Streaming accounted for 67% of global recorded music revenue in 2023.

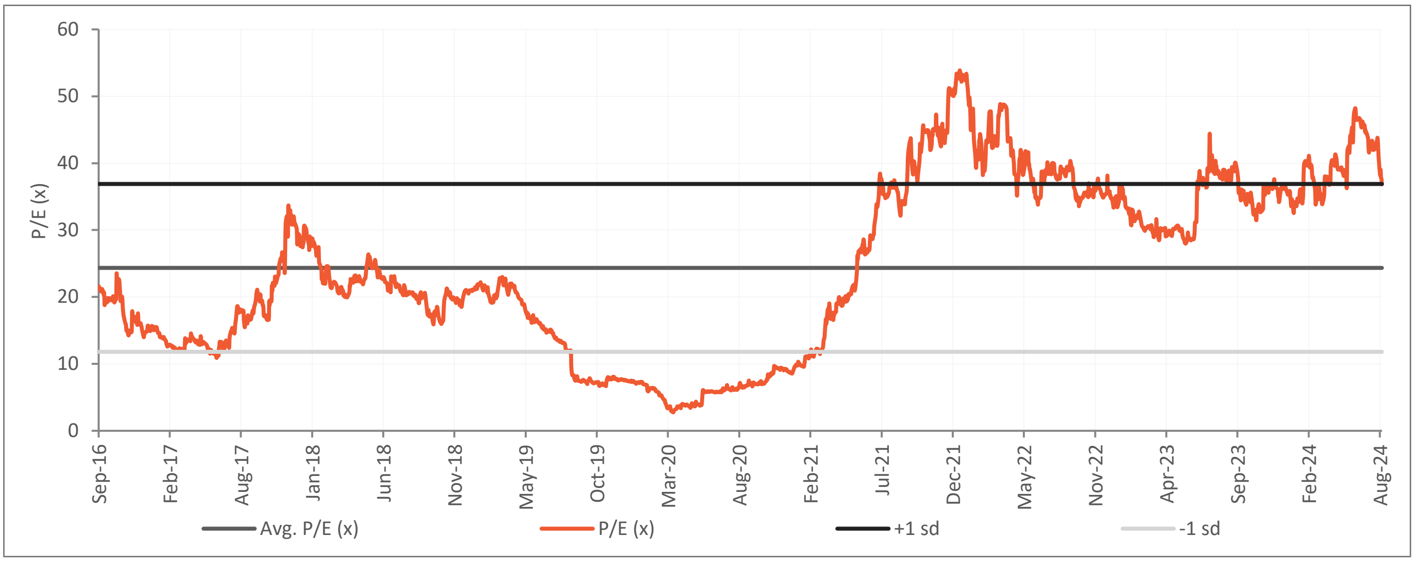
■ Company Outlook – Well placed to monetise existing and new IP content

The company's large intellectual property portfolio, wide digital footprint and increasing IP library with a growing presence in all leading Indian languages make its well placed to monetise the growing opportunities in the music industry. The company has reiterated its guidance on music revenues, which is a combination of music licensing and artist management businesses and expect it to grow 25-26% in FY25 owing to the strong line-up of new releases. The company has also reiterated its guidance of Rs 1000 crore worth of new music content investments over the next 3 years, of which Rs. 300 crores will be in FY25. The acquisition of Pocket Aces has added a new dimension of IP and a distribution network of over 100 million followers, which Saregama will leverage to further popularize its music library among the 18–35-year old audience segment.

■ Valuation – Initiate viewpoint with Positive view; assigning price target of Rs. 640

Saregama with its IP offerings across media channels (music, films, web series, short-format and TV serials), delivery platforms (digital and physical) and business models (licensing, advertising and retail) is geared with various monetisation levers which will aid the company to achieve strong and consistent revenue growth. The company's investments in acquiring new content and proactively connecting with younger class of audiences is likely to provide a strong head start resulting in a paradigm shift in its revenue growth trajectory over medium to long term. We expect Sales/PAT CAGR of 20%/16% over FY24-27E. We believe Saregama's strong foothold in music licensing business, ramp up in adjacent categories and proactive business initiatives to connect with younger class of audience is likely to result in broad based revenue growth over medium to long term. We initiate viewpoint on Saregama with a positive view assigning a price target (PT) of Rs 640, valuing the company at 40x FY27 E EPS. At CMP, the stock trades at 46.9/36.8x its FY25/26E EPS.

One-year forward P/E (x) band



Source: Company, Sharekhan Research

About company

Saregama is India's oldest music label company with IP offerings across media channels (music, films, web series, short-format and TV serials), delivery platforms (digital and physical) and business models (licensing, advertising and retail). The company's primary source of revenue comprises of license fees from music streaming applications, social media platforms, video streaming platforms, broadcasting platforms, brands and societies. In addition, the company retails music directly to consumers through Carvaan audio player with pre-loaded music. The acquisition of Pocket Aces has added a new dimension of IP and a distribution network of over 100 million followers, which Saregama will leverage to further popularize its music library among the 18-35 audience segment.

Investment theme

Saregama with its IP offerings across media channels (music, films, web series, short-format and TV serials), delivery platforms (digital and physical) and business models (licensing, advertising and retail) is geared with various monetisation levers which will aid the company to achieve strong and consistent revenue growth. Saregama has a strong presence in the music licensing business and is expanding into other related categories, along with proactive business strategies to engage with a younger audience. This is expected to contribute to significant and consistent revenue growth for the company over the medium to long term.

Key Risks

- Increasing competition from domestic and international players.
- Slower than expected paid-subscriber addition
- High Content costs may impact margins.
- Rise in digital piracy.

Additional Data

Key management personnel

Sanjiv Goenka	Chairman
Vikram Mehra	Managing Director
Pankaj Chaturvedi	Chief Financial Officer
Kumar Ajit	Executive Vice President, Music & Retail

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Sprott Resource Lending Corp	4.79
2	MALABAR INDIA FUND LTD	3.25
3	Amansa Holdings Pvt Ltd	2.63
4	Jayshree Nirman Ltd	1.84
5	Republic of Singapore	1.36
6	HILL FORT INDIA FUND LP	1.27
7	Emirate of Abu Dhabi United Arab E	1.24
8	Vanguard Group Inc/The	1.07
9	BlackRock Inc	0.58
10	Caisse de Depot et Placement du Qu	0.39

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

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