

Strong performance led by music licensing growth and driven by advertisement revenues

CMP: INR 478

Rating: Buy

Target Price: INR 606

Stock Info

BSE	532163
NSE	INE979A01025
Bloomberg	SARE:IN
Reuters	SARE.NS
Sector	Media & Entertainment
Face Value (INR)	1
Mkt Cap (INR Mn)	92,163
52 week H/L (INR)	489/295
Avg. Yearly Volume (in ,000)	524

Shareholding Pattern %

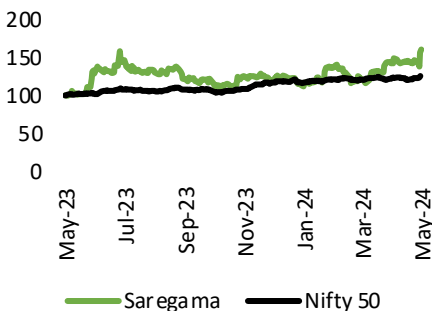
(As on March,2024)

Promoters	59.09
Public & Others	40.91

Stock Performance (%) 1m 3m 12m

Saregama	11.04	17.91	60.54
Nifty 50	2.48	3.35	25.55

Saregama Vs Nifty 50



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

Saregama India Ltd reported its Q4FY24 numbers, with revenue at INR 2,631 Mn (up by 29.2% YoY and 28.8% QoQ), below our estimates of INR 3,259 Mn. The company's strong performance is led by growth in music licensing on account of strong advertisement revenues driven by its investment in new music and the revenues generated through the artist management vertical. Gross margins expanded by 95 bps YoY to 64%, a decrease of 541 bps QoQ, in line with our estimate of 64.8%. EBITDA for the quarter was INR 700 Mn, marking a 42.4% YoY increase and a 6.8% QoQ rise, below our estimate of INR 880 Mn. The EBITDA margin increased by 247 bps YoY to 26.6%, a decrease of 549 bps QoQ, in line with our estimate of 27.0%. PAT for the quarter was INR 539 Mn, up by 23.6% YoY and 3% QoQ, below our estimate of INR 684 Mn. The PAT margin decreased by 92 bps YoY and 512 bps QoQ to 20.5% in Q4FY24, compared to 21.4% in Q3FY24. This quarter's music highlights include A.R. Rahman and Diljit Dosanjh's "Chamkila," Ajay Devgn's "Maidaan," Ram Charan and Kiara Advani's "Game Changer," Yami Gautam's "Article 370," and regional hits from Neelkamal, Pawan Singh, and Rakesh Barot.

Investment Rationale

Aggressive content acquisition strategy: Saregama plans to invest INR 10,000 Mn over the next three years to acquire new music content across languages. This aggressive content build-up should drive revenue growth in its core music licensing business as well as the emerging artist management vertical. The company aims to acquire 25-30% of all new music released in India. While new content expenses have risen steeply, in the next 18-24 months it is expected to stabilize, leading to faster bottom-line growth.

Diversification into video content and digital advertising: Through acquisitions like Pocket Aces, Saregama has diversified into regional video content production and influencer marketing. This provides exposure to the rapidly growing digital advertising market in India as consumption shifts online. Saregama is expected to capture a significant share of this digital ad pie by leveraging the combined strengths of its music IP, digital content creation skills. The new song "Useless Bhavra" featured talents from both Saregama and Pocket Aces, showcasing a successful integration of music IP and influencer marketing. The video vertical is expected to grow at a 25% CAGR over the next 4-5 years.

Beneficiary of shift to paid subscription models: Saregama is bullish on the growth of paid audio OTT subscriptions in India over the next 18-24 months. The company's catalog music is projected to grow at a minimum of 12% per annum, potentially increasing to 16-18% as OTT platforms become fully subscription-based. As one of the largest music IP owners, the company stands to benefit significantly from this transition, which could add to its profitability. Paid subscription revenue for Saregama in India grew over 40% in FY24.

Outlook and Valuation

Saregama India Ltd. appears well-positioned for strong future growth driven by its aggressive content acquisition strategy and focus on monetizing its IP across audio and video platforms. With plans to double its music vertical revenue to around INR 10,000 Mn in the next 3-3.5 years, Saregama seems confident in capitalizing on the anticipated shift towards paid subscription models for audio OTT platforms in India. The company is targeting adjusted EBITDA margins of 32-33%. Saregama has guided for over 30% consolidated revenue growth in FY25 excluding Carvaan, and a doubling of PBT over the next 3-4 years. **We expect Saregama's revenue, EBITDA, and PAT to grow at a CAGR of 30%, 33%, and 27%, respectively, over FY25-27E and arrive at a TP of INR 606 per share. Accordingly, we maintain a "BUY" rating on the stock.**

Exhibit 1: Financial Performance

Year-end March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin (%)	EV/EBITDA	P/E (x)
FY23	7,366	2,210	1,850	9.60	30.00%	39.41	49.81
FY24	8,030	2,466	1,976	10.25	30.70%	35.20	46.65
FY25E	10,447	3,310	2,433	12.62	31.68%	25.16	37.88
FY26E	13,491	4,381	3,022	15.68	32.47%	19.07	30.49
FY27E	17,674	5,824	3,943	20.45	32.95%	14.45	23.37

Source: Arihant Research, Company Filings

Exhibit 2: Q4FY24 - Quarterly Performance (Consolidated)

Quarterly Results					
Consolidated (INR Mn)	Q4FY24	Q3FY24	Q4FY23	QoQ	YoY
Net sales	2,631	2,043	2,037	28.78%	29.16%
COGS	947	625	752	51.55%	25.83%
GP	1,684	1,418	1,284	18.75%	31.11%
GP Margin	64.01%	69.42%	63.06%	-540.69bps	95.35bps
Employees benefits expense	278	238	208	16.96%	33.93%
Advertisement and sales promotion	267	171	176	56.18%	51.22%
Royalty expense	160	142	202	12.70%	-21.06%
Other expenses	280	212	206	31.72%	35.42%
EBITDA	700	656	492	6.77%	42.37%
EBITDA Margin	26.62%	32.11%	24.15%	-548.76bps	247.04bps
Depreciation and amortisation expense	116	93	65	24.87%	78.46%
EBIT	584	563	427	3.78%	36.88%
EBIT margin	22.21%	27.56%	20.96%	-534.93bps	125.22bps
Other Income	180	150	173	20.19%	4.05%
Finance Cost	4	12	17	-69.42%	-78.11%
PBT	760	700	583	8.55%	30.48%
Tax	221	177	147	24.82%	50.95%
Reported PAT	539	523	436	3.04%	23.60%
PAT Margin	20.49%	25.61%	21.41%	-511.91bps	-92.27bps
EPS	2.80	2.71	2.26	3.22%	23.60%

	Q4FY24	Q3FY24	Q4FY23	QoQ%	YoY%
RMC/Sales	35.99%	30.58%	36.94%	540.69	-95.35
Employee exp/Sales	10.56%	11.63%	10.19%	-106.77	37.60
Advertisement and sales/Sales	10.13%	8.36%	8.66%	177.80	147.84
Royalty expenses/Sales	6.07%	6.94%	9.93%	-86.61	-386.21
Other exp/Sales	10.63%	10.39%	10.13%	23.66	49.08

Source: Arianth Research, Company Filings

Saregama India Ltd– Q4FY24 Concall KTAs
Revenue breakdown

Music licensing and artist management contributed INR 5,440 Mn in FY24. Carvaan business generated INR 1,300 Mn, the video business INR 1,160 Mn, and events INR 130 Mn.

New and upcoming releases

•Key releases this quarter included Diljit Dosanjh's "Chamkila," which boosted both new and old tracks, as well as music from films like Ajay Devgan's "Maidan," "Article 370," and Shankar and Ramcharan's "Game Changers." Saregama's first talent, Mahi, released a hit song "Sorry," and Pawan Singh's Bhojpuri song "Arrah Ballia Chhapra" trended for weeks.

•Future releases are lined up, featuring major films from Dharma Productions, Jio Studios, and regional superstars, including projects like "Kalki 2898 AD."

Saregama India Ltd– Q4FY24 Concall KTAs**Artist management**

- The company has begun reporting artist management separately for greater transparency.
- The company monetizes artists through live events, weddings, and brand endorsements. They manage 123 artists under Pocket Aces and 9 under Saregama Talent, with investments in new content expected to enhance their popularity.
- The company plans to balance acquiring both premium, established artists' content and investing in new artists, considering the different risk-reward profiles.

Video vertical

- The surge in smartphone ownership and affordable data are major growth drivers for this vertical.
- In Q4, four films were released. Two, in Malayalam and Punjabi, performed very well and generated profits.
- "Malaikottai Vaaliban" a Malayalam film underperformed at the box office. The financial impact was mitigated by a policy of recovering at least 70% of film costs through satellite and digital licensing before theatrical release.
- Three additional Punjabi films planned for Q4 were postponed due to the farmer agitation in Punjab, IPL, and political rallies. One of these, "Shinda Shinda No Papa," has since been released and is performing well in theaters. Another planned Q4 film will be released in June.
- Q4 also saw the release of "Crushed" Season 4 on Amazon Mini TV. FilterCopy, the company's largest youth Instagram channel, achieved 1.2 bn views in FY24, indicating a growing advertising base.
- The ROI from music associated with the company's films is higher than that from third-party films, due to the elimination of third-party margins.

Live events

- The company re-evaluated its strategy and will implement a new approach in FY25.
- Planned events include shows by Diljit Dosanjh and an exhibit of "Disco Dancer" in Australia. Shows featuring Pocket Aces talent, like Viraj, have seen success in Mumbai.

Carvaan

- A new retail strategy for Carvaan has been rolled out, focusing on e-commerce and modern trade stores, exiting individual shops. This change led to flat revenue and break-even for Carvaan this year.
- In FY25, Carvaan revenues are expected to decline, but profitability is expected to reach mid-level single digits.

Youtube

YouTube revenue might face some pressure in Q1 due to IPL and political advertising but is expected to rebound from June, aligning with positive GDP growth.

Charge-off policy for new music

New music acquisition costs are charged off based on the release timing and marketing expenses. Marketing costs, which are about 20% of a song's cost, are charged off immediately, while the remaining 80% is amortized over the first year.

Performance of music based on release type

Music acquisition costs are significantly lower for films released directly to digital platforms compared to theatrical releases. Theatrical releases generally yield higher returns but come at a higher acquisition cost.

Other highlights

- Investment in new music content reached close to INR 2,000 Mn this year, an 80% increase from FY23.
- Music learning app will be refined over the next 2-3 months before a major push. The app also promotes new song releases.
- The increase in intangible assets from INR 1,140 Mn to INR 5,130 Mn is mainly due to the acquisition of Pocket Aces, contributing over INR 3,000 Mn in goodwill. The remaining INR 1,000 Mn pertains to new music assets acquired during the FY24.
- OTT revenue declined due to platforms shifting to a subscription model, eliminating previous minimum guarantees. However, this decline was offset by growth in revenue from YouTube, newer content, and the artist management vertical.
- For FY25, the negative impact from audio OTT platforms turning paid has been largely accounted for in FY24 and will be fully integrated by Q1. From Q2 onwards, the company expects a return to previous growth rates in OTT.

DCF Valuation

Valuation Assumptions

g (World Economic Growth)	3.00%
Rf	7.11%
Rm	13.20%
Beta (2 Yr)	0.8
CMP (INR)	478

WACC

We	99.94%
Wd	0.06%
Ke	11.74%
Kd	7.67%
WACC	11.74%

Valuation Data

Total Debt (long term borrowings) (2023)	54
Cash & Cash Equivalents (2023)	5,421
Number of Diluted Shares (2023)	193
Tax Rate (2024)	27.00%
Interest Expense Rate (2024)	10.50%

MV of Equity	92,163
Total Debt	54
Total Capital	92,217

FCFF & Target Price												
FCFF & Target Price		Explicit Forecast Period					Linear Decline Phase					Terminal Yr
Year	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
EBIT * (1-Tax Rate)	2,073	2,718	3,577	4,579	5,698	6,886	8,077	9,185	10,116	10,781	11,105	11,438
Dep	470	657	924	1,109	1,409	1,717	1,989	2,274	2,506	2,665	2,749	2,831
Purchase of Assets	1,149	1,282	1,679	1,832	1,994	2,066	2,100	2,204	2,226	2,264	2,221	2,288
Changes in Working Capital	-825	-1,587	-2,127	-2,405	-3,235	-3,874	-4,458	-5,151	-5,649	-6,006	-6,205	-6,383
FCFF	2,219	3,680	4,948	6,262	8,348	10,411	12,424	14,405	16,046	17,188	17,837	18,364
% Growth in Post Tax EBIT		31.13%	31.58%	28.01%	24.43%	20.86%	17.29%	13.72%	10.14%	6.57%	3.00%	3.00%
As % of Post Tax EBIT												
Dep	22.69%	24.16%	25.82%	24.22%	24.74%	24.93%	24.63%	24.76%	24.77%	24.72%	24.75%	24.75%
Purchase of Assets	55.43%	47.15%	46.94%	40.00%	35.00%	30.00%	26.00%	24.00%	22.00%	21.00%	20.00%	20.00%
Changes in Working Capital	-39.78%	-58.37%	-59.45%	-52.53%	-56.78%	-56.26%	-55.19%	-56.08%	-55.84%	-55.70%	-55.87%	-55.81%
FCFF	2,219	3,680	4,948	6,262	8,348	10,411	12,424	14,405	16,046	17,188	17,837	18,364
Terminal Value												2,10,237
Total Cash Flow	2,219	3,680	4,948	6,262	8,348	10,411	12,424	14,405	16,046	17,188	17,837	2,28,601

Enterprise Value (EV)	1,11,494	Terminal Growth (%)										
Less: Debt	54	606.09	2.25%	2.50%	2.75%	3.00%	3.25%	3.50%	3.75%	4.00%		
Add: Cash	5,421	10.99%	629	643	658	674	691	709	728	749		
Equity Value	1,16,860	11.24%	608	621	635	650	666	682	700	719		
Equity Value per share (INR)	606	11.49%	588	601	614	627	642	657	674	691		
		11.74%	570	581	593	606	620	634	649	665		
		11.99%	552	563	574	586	599	612	626	641		
		12.24%	535	545	556	567	579	591	604	618		
		12.49%	519	529	539	549	560	572	584	597		
		12.74%	504	513	523	532	543	553	565	577		
% Returns	26.8%											
Rating	BUY											

Source: Arianth Research, Company Filings

Story in charts (INR in Mn)

Exhibit 3 : Continuous and expanding revenue growth

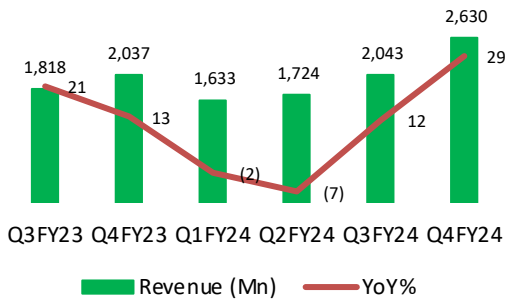


Exhibit 4: Strong margins driven by IP monetization

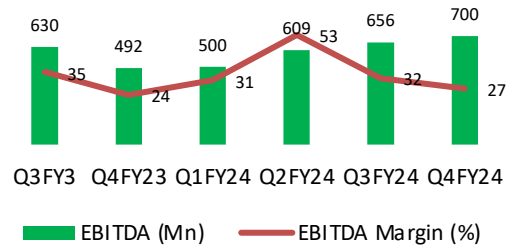


Exhibit 5: Consistent and steady growth in net profit

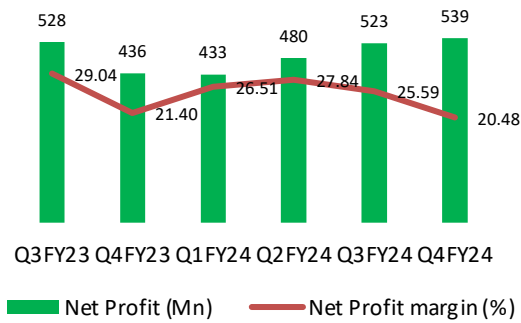


Exhibit 6: Healthy momentum of EPS

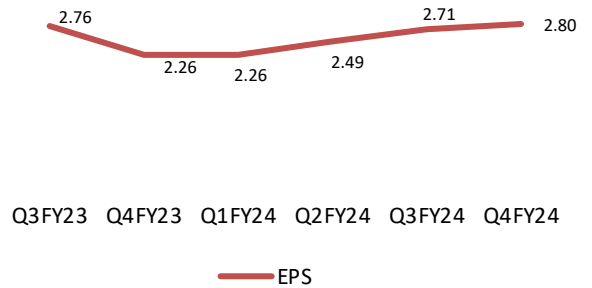


Exhibit 7: Music – Licensing + Artist Management Revenue Per Quarter (INR Mn)

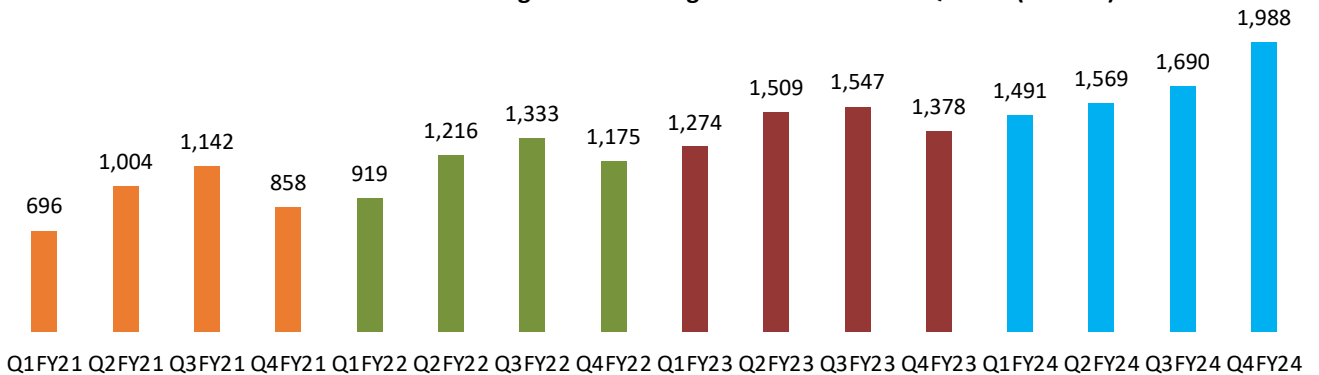


Exhibit 8: Youtube Views (Bn) Per Quarter

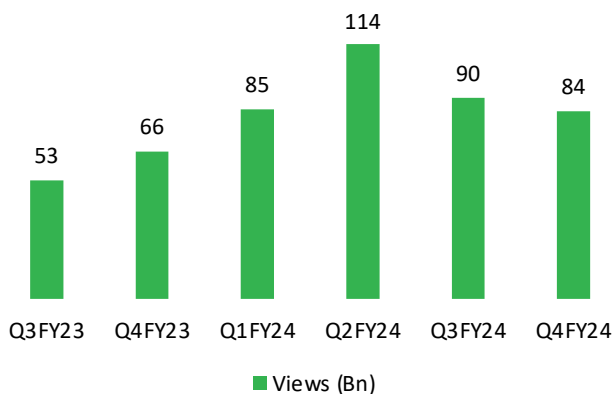
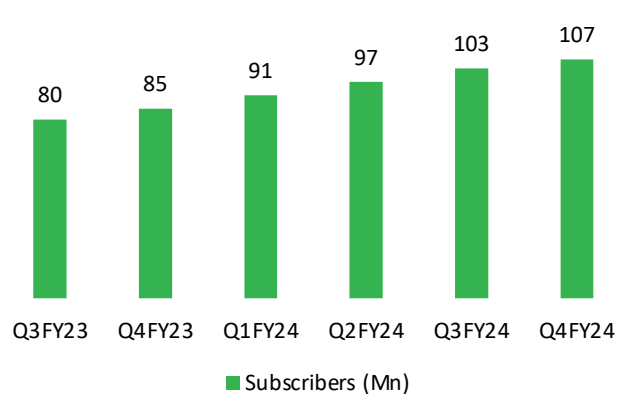


Exhibit 9: Youtube Subscribers (Mn) Per Quarter



Source: Company, Arianth Research

Key Financials

Income statement (INR Mn)					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Gross Sales	7,366	8,030	10,447	13,491	17,674
Net Sales	7,366	8,030	10,447	13,491	17,674
YoY (%)	26.86%	9.01%	30.11%	29.13%	31.00%
Adjusted COGS	2,250	2,320	2,984	3,781	4,914
YoY (%)	57.25%	3.11%	28.60%	26.71%	29.97%
Personnel/ Employee benefit expenses	750	932	1,202	1,540	2,000
Advertisement and sales promotion	775	760	959	1,224	1,586
Royalty expense	643	613	788	1,018	1,335
Manufacturing & Other Expenses	737	940	1,205	1,547	2,016
Total Expenditure	5,156	5,565	7,137	9,110	11,850
YoY (%)	18.09%	11.58%	34.26%	32.34%	32.94%
EBITDA	2,210	2,466	3,310	4,381	5,824
YoY (%)	18.09%	11.58%	34.26%	32.34%	32.94%
EBITDA Margin (%)	30.00%	30.70%	31.68%	32.47%	32.95%
Depreciation	208	362	470	657	924
% of Gross Block	5.38%	7.26%	7.35%	7.91%	8.37%
EBIT	2,002	2,104	2,840	3,724	4,900
EBIT Margin (%)	27.17%	26.20%	27.18%	27.60%	27.72%
Interest Expenses	57	32	31	29	28
Non-operating/ Other income	536	637	524	446	490
PBT	2,481	2,708	3,333	4,140	5,362
Tax-Total	630	732	900	1,118	1,419
Profit After Tax	1,850	1,976	2,433	3,022	3,943
PAT Margin	25.12%	24.60%	23.29%	22.40%	22.31%
Shares o/s/ paid up equity sh capital	193	193	193	193	193
Adj EPS	10	10	13	16	20
Dividend per share	3	4	5	5	6
Dividend payout (%)	31.26%	39.04%	35.66%	31.90%	26.90%
Retained earnings	1,272	1,204	1,565	2,058	2,882

Balance sheet (INR Mn)					
Year-end March	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds					
Equity Share Capital	193	193	193	193	193
Reserves & Surplus/ Other Equity	13,262	14,533	16,966	19,988	23,931
Networth	13,455	14,726	17,159	20,181	24,124
Unsecured Loans/ Borrowings/ Lease Liabilities	15	38	40	40	41
Other Liabilities	1,947	1,797	1,836	1,835	1,847
Total Liabilities	3,586	5,612	6,012	6,465	7,132
Total Funds Employed	17,041	20,338	23,171	26,646	31,256
Application of Funds					
Net Fixed Assets	3,418	7,478	5,382	6,799	8,808
Investments/ Notes/ Fair value measurement	3,491	1,817	2,234	2,763	3,437
Current assets	12,520	12,221	17,086	19,073	21,597
Inventory	1,643	2,393	2,595	3,288	4,273
Days	219	317	317	317	317
Debtors	1,480	1,587	1,990	2,575	3,373
Days	63	70	70	70	70
Other Current Assets	1,928	1,642	2,041	2,562	3,310
Cash and Cash equivalent	5,083	5,421	8,930	8,659	8,055
Current Liabilities/Provisions	3,080	2,969	3,181	3,471	3,942
Creditors / Trade Payables	703	934	1,067	1,256	1,622
Days	54	62	56	54	54
Liabilities	922	738	771	805	840
Net Current Assets	9,441	9,252	13,904	15,602	17,655
Total Asset	17,041	20,338	23,171	26,646	31,256
Total Capital Employed	7,600	11,086	9,267	11,044	13,601

Cash Flow Statement (INR Mn)					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Profit After tax	2,481	2,708	3,333	4,140	5,362
Adjustments: Add					
Depreciation and amortisation	208	362	470	657	924
Interest adjustment	-479	-604	-493	-416	-462
Change in assets and liabilities	2,158	2,504	3,278	4,227	5,465
Inventories	-588	-750	-202	-693	-985
Trade receivables	-402	-108	-403	-585	-798
Trade payables	57	231	133	189	365
Other Liabilities and provisions	545	-184	63	66	70
Other Assets	-207	218	-239	-291	-349
Taxes	-135	116	-161	-274	-429
Net cash from operating activities	1,429	2,044	2,453	2,640	3,338
Net Sale/(Purchase) of tangible and intangible assets, Capital work in progress	-831	-4,422	1,626	-2,074	-2,933
Net Sale/(Purchase) of investments	4,373	1,211	-353	-459	-597
Others	-255	1,100	460	375	413
Net cash (used) in investing activities	3,286	-2,111	1,733	-2,158	-3,117
Interest expense	-39	88	-20	-24	-26
Dividend paid	-578	-771	-868	-964	-1,060
Other financing activities	-2,253	-1,001	2	5	8
Net cash (used) in financing activities	-2,870	406	-677	-754	-825
Closing Balance	5,083	5,421	8,930	8,659	8,055
FCF	1,155	1,650	547	1,387	1,628
Capex (% of sales)	14.11%	12.00%	11.00%	9.50%	9.50%

Key Ratios					
Year-end March	FY23	FY24	FY25E	FY26E	FY27E
Solvency Ratios					
Debt / Equity	0.00	0.00	0.00	0.00	0.00
Net Debt / Equity	-0.38	-0.36	-0.52	-0.43	-0.33
Debt / EBITDA	0.00	0.02	0.01	0.01	0.01
Current Ratio	-2.30	-2.18	-2.69	-1.97	-1.38
DuPont Analysis					
Sales/Assets	0.43	0.39	0.45	0.51	0.57
Assets/Equity	1.27	1.38	1.35	1.32	1.30
RoE	13.75%	13.42%	14.18%	14.98%	16.34%
Per share ratios					
Reported EPS	9.60	10.25	12.62	15.68	20.45
Dividend per share	3.00	4.00	4.50	5.00	5.50
BV per share	69.78	76.37	88.99	104.67	125.12
Cash per Share	8.54	11.19	15.18	18.07	21.88
Revenue per Share	38.20	41.65	54.19	69.97	91.67
Profitability ratios					
Net Profit Margin (PAT/Net sales)	25.12%	24.60%	23.29%	22.40%	22.31%
Gross Profit / Net Sales	69.45%	71.10%	71.44%	71.97%	72.19%
EBITDA / Net Sales	30.00%	30.70%	31.68%	32.47%	32.95%
EBIT / Net Sales	27.17%	26.20%	27.18%	27.60%	27.72%
ROCE (%)	14.34%	12.11%	14.21%	16.07%	17.94%
Activity ratios					
Inventory Days	218.71	317.37	317.39	317.39	317.39
Debtor Days	63.37	69.71	69.52	69.66	69.66
Creditor Days	53.85	62.03	56.15	54.48	54.48
Leverage ratios					
Interest coverage	35.02	64.93	92.26	127.35	176.39
Debt / Asset	0.0	0.0	0.0	0.0	0.0
Valuation ratios					
EV / EBITDA	39.41	35.20	25.16	19.07	14.45
PE (x)	49.81	46.65	37.88	30.49	23.37
OCF/EBITDA (%)	64.67	82.89	74.10	60.27	57.32

Arihant Research Desk

[Email: research@arihantcapital.com](mailto:research@arihantcapital.com)

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880