

CMP: INR 606

Rating: Buy

Target Price: INR 813

Stock Info

BSE	532375
NSE	TIPSINDLTD
Bloomberg	TPS:IN
Reuters	TIPS.BO
Sector	Media & Entertainment
Face Value (INR)	1
Mkt Cap (INR Mn)	77,827
52 week H/L (INR)	618/280
Avg. Yearly Volume (in ,000)	481

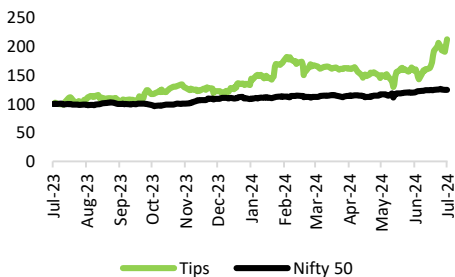
Shareholding Pattern %

(As on June,2024)

Promoters	64.16
Public & Others	35.84

Stock Performance (%)	1m	3m	12m
Tips	34.9	31.1	111.8
Nifty 50	3.7	8.9	24.1

Tips Vs Nifty 50



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Tips Industries Q1FY25 revenue stood at INR 739 Mn, (+40.46% YoY, +16.85% QoQ) above our estimate of INR 676 Mn. EBITDA for Q1FY25 was INR 544 Mn, marking a 55.24% YoY increase and an 80.14% QoQ increase, surpassing our estimate of INR 432 Mn. EBITDA margin rose by 700 bps YoY and by 2584 bps QoQ to 73.6% in Q1FY25, exceeding our estimate of 63.9%. PAT for Q1FY25 was INR 436 Mn, representing a 60.74% increase YoY and a 69.09% increase QoQ, exceeding our estimate of INR 333 Mn. PAT margin increased by 744 bps YoY and by 1821 bps QoQ to 58.9% in Q1FY25, above our estimate of 49.31%. The content cost for the quarter stood at INR 127 Mn compared to INR 122 Mn in Q1FY24, reflecting an increase of 4% compared to the previous year's quarter. In Q1FY25 the company launched a total of 97 new songs. Out of which, 18 were New Film songs and 79 Non-Film songs. Crew & Ishq Vishk Rebound are two back-to-back superhit music album releases. YouTube subscribers base has now reached 104 Mn. In Q1FY25 YouTube views were 62.2 Bn, up by 29% YoY. The interim dividend for Q1FY25 was INR 2 per share, amounting to INR 255.6 Mn. The total payout to shareholders, including both the dividend and the buyback, is INR 721.8 Mn so far in FY25.

Investment Rationale

Warner Music deal: Tips has entered into a new deal with Warner, which is expected to amplify revenues going forward. The company has received an advance payment from Warner, which is being recognized as revenue on a quarterly basis based on actual business performance. The deal has expanded Tips' presence on platforms like Wynk, Hungama, and Gaana, where they previously had limited access. The full impact of the Warner deal is expected to be seen in the third or fourth year of the contract. There's potential for additional revenue if Warner exceeds the minimum guarantee.

Meta Monetization: Tips has also licensed its content to Instagram through Warner, positioning itself to benefit from the growing popularity of short-form video content on platforms like Instagram Reels. However, monetization on Meta platforms is currently limited, primarily based on advertising rather than content-based revenue sharing. While immediate returns may be modest, Instagram Reels are expected to play a significant role in future revenue generation, indicating potential for growth as Meta develops more robust monetization models for music content.

Subscription model of audio OTT platforms: The subscription model for audio OTT platforms in India is still developing. While global numbers are increasing, India lags in paid subscriptions. YouTube has a substantial double-digit paid subscription base, but audio platforms are still in single digits. It's expected to take 2-3 years for significant growth in paid subscriptions. As subscriptions increase, the share of advertising revenue is likely to decrease. This shift could potentially double Tips' revenue as subscription models typically offer better payouts to content owners.

Catalog and remake of old songs: Tips has a strong catalog of songs from 1988 to 2020, which contributes 85-90% of their revenue. The management is confident that this catalog will continue to perform well for at least the next 25 years. They are actively remaking hit songs from their catalog, which are treated as new content due to the fresh investment. The remade songs are reportedly performing well and generating significant revenue. This approach allows Tips to leverage its existing intellectual property while catering to contemporary audience preferences.

Outlook and Valuation: Management has reiterated their guidance of 30% YoY growth in both top line and bottom line for FY25. The company is focusing on quality content acquisition, targeting around 300 song releases in FY25. The Warner deal is anticipated to amplify revenues in the coming years. Management is also optimistic about the growing subscription model in audio OTT platforms. With a conservative approach to content cost management, maintaining it at 25-28% of revenue, and a focus on leveraging both their existing catalog and new acquisitions, Tips appears well-positioned for sustained growth in the evolving digital music landscape. **We expect Tips industries' Revenue/EBITDA/PAT to grow at a CAGR of 35.00%, 35.93%, and 35.67%, respectively, over FY25-27E. We maintain a "BUY" rating at a revised TP of INR 813 per share based on DCF; an upside of 34.1%.**

Exhibit 1: Financial Performance

Year-end March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin (%)	EV/EBITDA	P/E (x)
FY23	1,868	1,019	765	6.0	54.6%	75.4	101.7
FY24	2,416	1,585	1,272	9.9	65.6%	48.3	61.2
FY25E	3,213	2,324	1,845	14.4	72.3%	33.0	41.98
FY26E	4,305	3,130	2,473	19.3	72.7%	24.5	31.33
FY27E	5,855	4,294	3,396	26.6	73.3%	17.6	22.81

Source: Arihant Research, Company Filings

Exhibit 2: Q1FY25 - Quarterly Performance (Consolidated)

Quarterly Results					
Consolidated (INR Mn)	Q1FY25	Q4FY24	Q1FY24	QoQ%	YoY%
Net sales	739.2	632.6	526.2	16.9%	40.5%
Employees benefits expense	28.0	42.7	19.0	-34.4%	47.5%
Other expenses	167.5	288.1	157.0	-41.9%	6.6%
EBITDA	543.7	301.8	350.2	80.1%	55.2%
EBITDA Margin (%)	73.6%	47.7%	66.5%	2584.12	700.46
Depreciation and amortisation expense	5.5	5.0	5.7	8.5%	-4.8%
EBIT	538.2	296.8	344.5	81.4%	56.2%
EBIT margin (%)	72.8%	46.9%	65.5%	2589.83	735.62
Other Income	45.9	53.3	20.3	-13.9%	126.3%
Finance Cost	0.9	0.8	1.2	4.8%	-28.7%
PBT	583.2	349.2	363.5	67.0%	60.4%
Tax	147.6	91.6	92.5	61.1%	59.6%
Reported PAT	435.6	257.6	271.0	69.1%	60.7%
PAT margin (%)	58.9%	40.7%	51.5%	1820.62	743.57
EPS	3.4	2.0	2.1	69.9%	61.5%

	Q1FY25	Q4FY24	Q1FY24	QoQ%	YoY%
Employee exp/Sales	6.74%	6.75%	3.61%	-1.00	313.15
Other exp/Sales	29.34%	45.54%	29.84%	-1619.51	-50.00

Source: Arihant Research, Company Filings

Investment Rationale

Content cost and acquisition: TIPS is maintaining a content cost of 25-28% of revenue, with a target of around INR 800 Mn for FY25. The company follows a conservative approach, aiming to recover content costs within 4-5 years. TIPS writes off the entire content cost in the same quarter, reducing financial risk. Content costs vary significantly based on the type of acquisition (film vs. non-film, big-budget vs. small-budget).

Music acquisition and release (film and non-film): Tips is focusing more on quality over quantity in content acquisition. The company plans to release about 300 songs in FY25, including 3-4 Hindi films and 10-12 regional films. Tips is developing its own non-film music and recreating old songs internally. The company is partnering with producers like Balaji and Northern Lights for content acquisition. Tips' own production house, Tips Films, is expected to contribute 2-3 films.

In-house ERP: Pulse is a new in-house ERP system implemented by Tips. It manages content delivery, reporting, and analytics. The system is expected to improve processes and prepare the company for future growth. The implementation cost is minimal as it's an in-house product.

Tips Industries Q1FY25 Concall highlights

Guidance: The company reaffirmed its goal to achieve 30% growth in both revenue and profit in FY25. In Q1FY25, the company's profit growth was 61%, significantly crossed the 30% target. For FY25, plans include releasing 3-4 Hindi films and 10-12 regional films. The aim is to write off any unrecovered costs within the same quarter and year to avoid financial baggage. The overall strategy focuses on maximizing content performance and leveraging strategic partnerships to sustain growth.

Content budget FY25

The company has a budget of INR 80 cr for this year and plans to stay within that range, ensuring no impact on the bottom line or top line. Company is confident on the financial security. The company aims to maintain content costs between 27-30% of the top line.

Subscription

It is expected to take 2-3 years for audio platforms to catch up with larger platforms like YouTube in terms of paid subscriptions. Efforts are being made to limit free usage and encourage users to subscribe to premium services. (In 2023, streaming accounted for 67% of total revenues, with 48.9% of all streams being subscription-based).

Partnership

The company acquires content from external producers like Balaji and Northern Lights while also developing its own content (Tips Films) and recreating old songs in-house.

Remaking all hit songs from their catalogue within the next 10-12 years to give them new life.

Warner Music advance payment kept for quarterly business consolidation.

The deal has expanded TIPS Industries' content availability to new platforms like Wink, Hungama, and Instagram, which were previously not in the company's portfolio.

Wynk

Wynk deal settled at INR 12 cr, with INR 5 cr already received in Q1FY25 and rest INR 7 crores is expected in Q2.

Meta Monetization

Although monetization on Meta platforms is primarily advertising-based, the inclusion of Instagram Reels is anticipated to play a significant role in future revenue generation.

Competition

Despite having a smaller catalog of songs, the company's tracks perform well compared to competitors. Overall, the company is in a stronger position relative to its rivals.

ERP

The company has launched an in-house ERP system called Pulse, designed to automate content management, reporting, and analytics.

New Songs

Acquiring new content from outside partners that is expected to perform well over the next 25 years.

"Choli Ke Peeche" and "Naina" have crossed significant milestones, while "Ishq Vishk" and "Gore Gore Mukhde pe" have shown exceptional performance, with several upcoming releases showing promising results.

Content

Plan to release 100 songs this year, expanding to 300 songs next year while maintaining similar spending levels.

Content acquisition strategy focuses on both film and non-film sources.

Spiritual songs and higher-cost film content are part of the broader content strategy.

Cost recover time

Aiming to recover the cost of investment in new content within 4-5 years.

YouTube remains a significant revenue driver contributing between 45-50% of the company's total revenue.

Story in charts (INR Mn)

Exhibit 3 : Continuous and expanding revenue growth

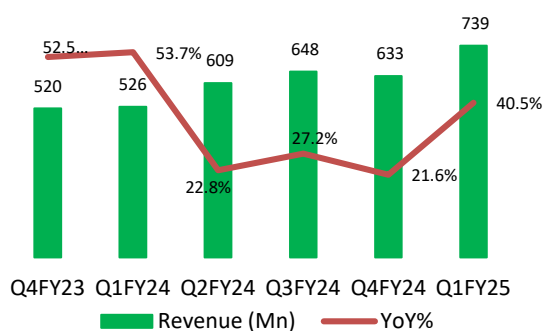


Exhibit 4 : Improvement in EBITDA margin

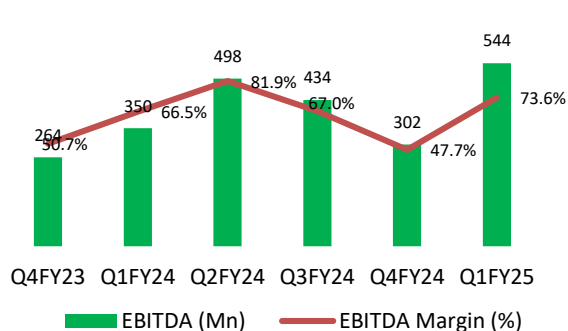


Exhibit 5: Steady growth in net profit (61% YoY in Q1FY25)

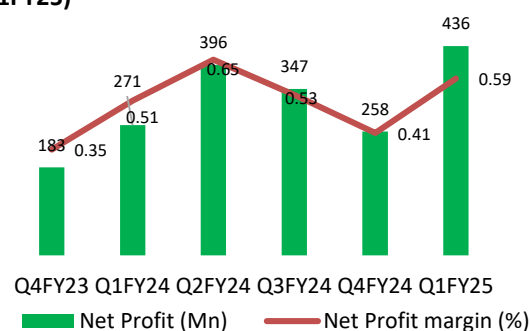


Exhibit 6: Healthy momentum of EPS

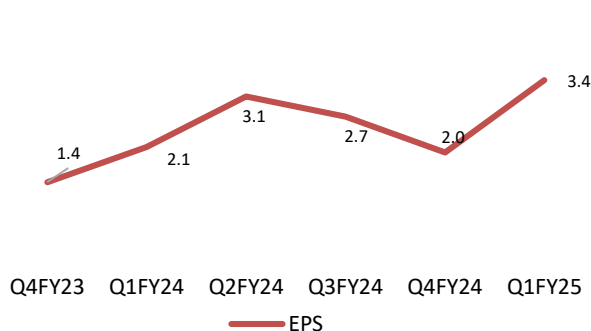


Exhibit 7: Interest Cost, Dividend, Buyback

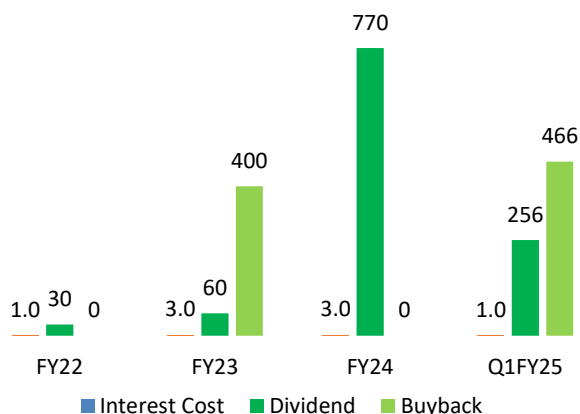


Exhibit 8: Lower content costs improved margins

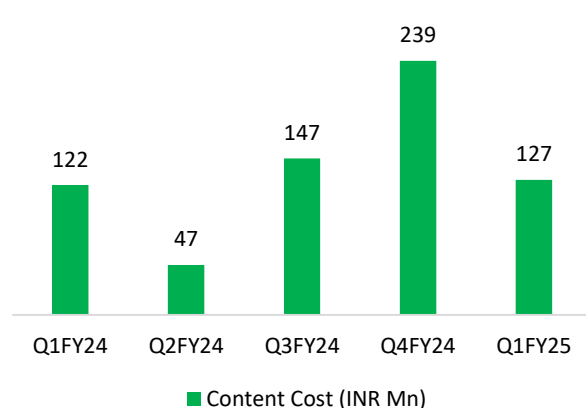


Exhibit 9: YouTube Views (Bn) per quarter

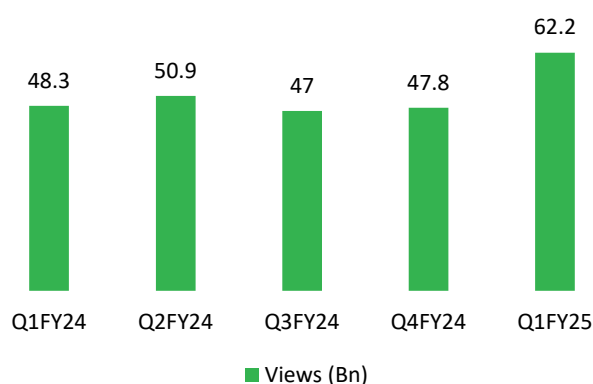
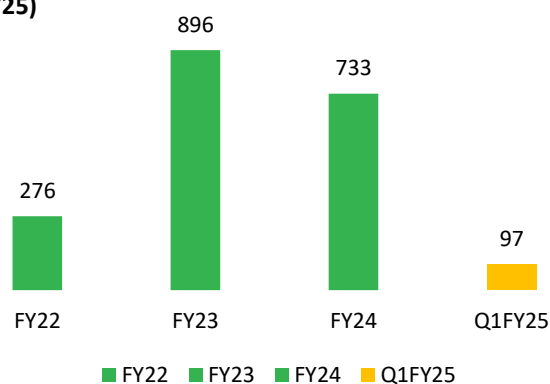


Exhibit 10: New Songs Added (97 New releases in Q1FY25)



Source: Company, Arianth Research

DCF Valuation

Valuation Assumptions

g (World Economic Growth)	3.00%
Rf	7.11%
Rm	13.20%
Beta (2 Yr)	0.8
CMP (INR)	606

WACC

We	99.9%
Wd	0.1%
Ke	12.0%
Kd	7.9%
WACC	11.98%

Valuation Data

Total Debt (long term borrowings) (2024)	50
Cash & Cash Equivalents (2024)	1,312
Number of Diluted Shares (2024)	128
Tax Rate (2024)	0
Interest Expense Rate (2024)	0

MV of Equity 77,466

Total Debt 50

Total Capital 77,516

FCFF & Target Price

FCFF & Target Price	Explicit Forecast Period										Linear Decline Phase		Terminal Yr
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	
Year													
EBIT * (1-Tax Rate)	1,722	2,319	3,181	4,238	5,478	6,864	8,329	9,777	11,089	12,139	12,808	13,192	
Dep	27	38	52	68	89	111	135	159	180	197	208	214	
Purchase of Assets	64	86	117	157	203	254	308	362	410	449	474	488	
Changes in Working Capital	-847	-800	-1,159	-1,696	-2,026	-2,596	-3,188	-3,685	-4,206	-4,609	-4,850	-5,003	
FCFF	2,532	3,071	4,275	5,846	7,391	9,318	11,344	13,259	15,065	16,496	17,391	17,921	
% Growth in Post Tax EBIT		34.7%	37.2%	33.2%	29.3%	25.3%	21.3%	17.4%	13.4%	9.5%	5.5%	3.0%	
As % of Post Tax EBIT													
Dep	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	
Purchase of Assets	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	
Changes in Working Capital	-49.2%	-34.5%	-36.4%	-40.0%	-37.0%	-37.8%	-38.3%	-37.7%	-37.9%	-38.0%	-37.9%	-37.9%	
FCFF	2,532	3,071	4,275	5,846	7,391	9,318	11,344	13,259	15,065	16,496	17,391	17,921	
Terminal Value												1,99,594	
Total Cash Flow	2,532	3,071	4,275	5,846	7,391	9,318	11,344	13,259	15,065	16,496	17,391	2,17,514	

Enterprise Value (EV)	1,02,631
Less: Debt	50
Add: Cash	1,312
Equity Value	1,03,892

Equity Value per share (INR) 813

% Returns 34.1%

Rating BUY

WACC (%)

WACC (%)	Terminal Growth (%)								
	2.25%	2.50%	2.75%	3.00%	3.25%	3.50%	3.75%	4.00%	
11.23%	845	865	885	906	929	953	979	1007	
11.48%	816	834	853	873	894	917	941	966	
11.73%	789	806	823	842	862	883	905	928	
11.98%	763	779	795	813	831	850	871	893	
12.23%	739	753	769	785	802	820	839	860	
12.48%	716	729	744	759	775	792	810	829	
12.73%	694	707	720	734	749	765	782	799	
12.98%	673	685	698	711	725	740	755	772	

Source: Arianth Research, Company Filings

Industry trends

Exhibit 11: Sustainably increasing market share: Revenues surged 1.8x over the last two years

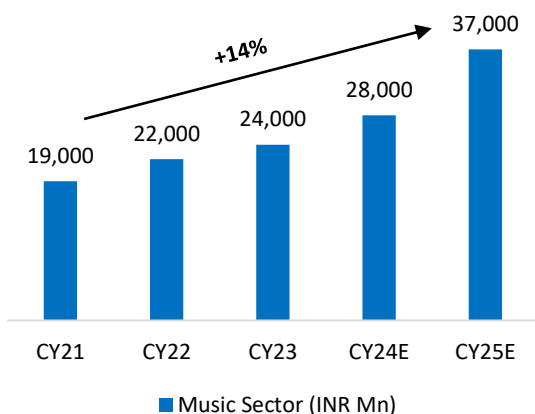


Exhibit 12: Tips Industries outperformed sector growth by 2.8x over the past four years.

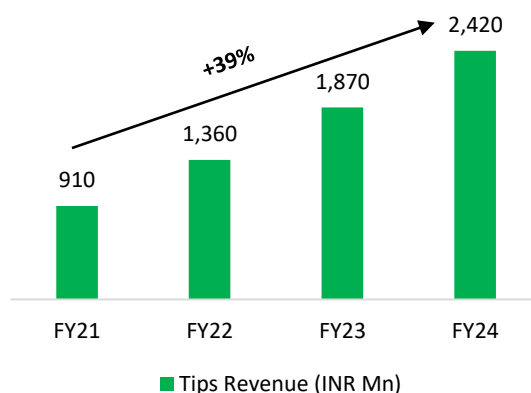


Exhibit 13: Global Music Revenue Sources

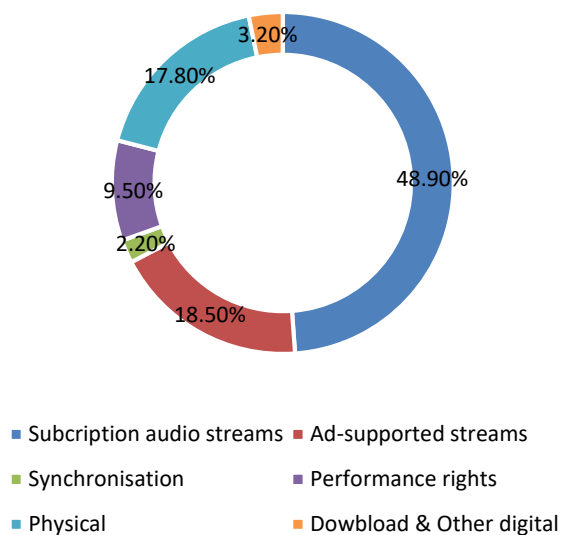


Exhibit 14: Digital Advertising – Key Driver of Indian Music Industry

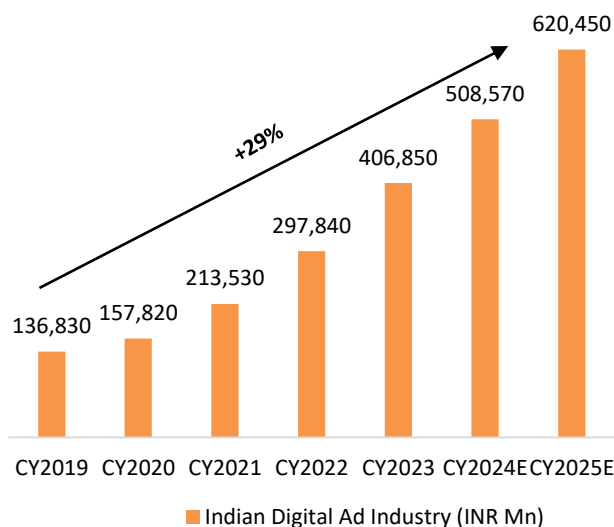


Exhibit 15: Peer Analysis as on FY24

Particular (INR Mn)	CMP	Market Cap	Sales	EBITDA	ROE	PE(X)	EV/EBITDA (X)
Tips Industries	606	77,827	2,416	1,585	70.8%	61.2	48.3
Saregama India	541	1,04,310	8,030	2,466	13.4%	52.8	40.1
Zee Entertainment Enterprise Ltd	137	13,126	86,372	9,110	1.3%	93.2	14.2
Shemaroo Entertainmnet Ltd	169	4,597	7,072	-3	-7.4%	-	-

Source: Arianth Research, Company Filings

Key Financials

Income statement (INR Mn)					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Gross Sales	1,868	2,416	3,213	4,305	5,855
Net Sales	1,868	2,416	3,213	4,305	5,855
YoY (%)	37.8%	29.3%	33.0%	34.0%	36.0%
Personnel/ Employee benefit expenses	73	109	118	155	205
YoY (%)	17.19%	48.73%	7.76%	32.06%	32.23%
Manufacturing & Other Expenses	775	722	772	1,020	1,357
Total Expenditure	849	831	889	1,175	1,562
YoY (%)	18.18%	55.49%	46.66%	34.70%	37.17%
EBITDA	1,019	1,585	2,324	3,130	4,294
YoY (%)	18.18%	55.49%	46.66%	34.70%	37.17%
EBITDA Margin (%)	54.56%	65.59%	72.32%	72.70%	73.33%
Depreciation	13	20	27	38	52
% of Gross Block	10.42%	11.42%	11.86%	12.16%	12.37%
EBIT	1,006	1,565	2,296	3,092	4,242
EBIT Margin (%)	53.85%	64.77%	71.47%	71.82%	72.44%
Interest Expenses	3	3	4	4	3
Non-operating/ Other income	54	144	191	257	349
PBT	1,056	1,705	2,484	3,345	4,587
Tax-Total	291	434	639	873	1,191
Net Profit After Tax	765	1,272	1,845	2,473	3,396
PAT Margin	40.97%	52.64%	57.43%	57.43%	58.00%
Shares o/s/ paid up equity sh capital	128	128	128	128	128
Adj EPS	6	10	14	19	27
Dividend per share	26	835	1,023	1,534	2,045
Dividend payout (%)	3.39%	65.64%	55.42%	62.04%	60.22%
Buyback amount	400	0	0	0	0
Retained earnings	739	437	823	939	1,351

Balance sheet (INR Mn)					
Year-end March	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds					
Equity Share Capital	128	128	128	128	128
Reserves & Surplus/ Other Equity	1,233	1,667	2,492	3,430	5,888
Networth	1,362	1,795	2,620	3,558	6,015
Unsecured Loans/ Borrowings/ Lease Liabilities	1	7	7	7	7
Other Liabilities	0	0	0	0	1
Total Liabilities	565	1,594	1,668	1,853	2,055
Total Funds Employed	1,927	3,389	4,288	5,411	8,071
Application of Funds					
Net Fixed Assets	51	80	111	152	167
Investments/ Notes/ Fair value measurement	224	547	821	984	1,181
Current assets	1,646	2,756	3,351	4,269	6,716
Debtors	203	263	292	393	534
Days	37	33	33	33	33
Other Current Assets	343	268	437	612	862
Cash and Cash equivalent	969	1,312	1,052	1,066	2,244
Current Liabilities/Provisions	533	834	840	950	1,067
Creditors / Trade Payables	160	147	85	112	136
Days	43	35	35	35	32
Other Liabilities	365	674	741	815	898
Net Current Assets	1,113	1,922	2,511	3,319	5,649
Total Asset	1,927	3,389	4,288	5,411	8,071
Total Capital Employed	814	1,467	1,777	2,092	2,422

Cash Flow Statement (INR Mn)					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Profit after tax	765	1,272	1,845	2,473	3,396
Adjustments: Add					
Depreciation and amortisation	13	20	27	38	52
Interest adjustment	-51	-140	-188	-253	-345
Change in assets and liabilities	754	1,986	2,708	3,791	5,148
Inventories	0	0	0	0	0
Trade receivables	-23	-61	-29	-101	-140
Trade payables	119	-14	-62	27	24
Other Liabilities and provisions	301	308	67	74	82
Other Assets	62	-91	-77	-160	-227
Taxes	-17	-6	-6	-7	-11
Net cash from operating activities	1,158	1,513	1,861	2,991	3,988
Net Sale/(Purchase) of tangible and intangible assets, Capital work in progress	1	-48	-59	-79	-67
Net Sale/(Purchase) of investments	0	0	0	0	0
Others	-59	-179	-82	93	152
Net cash (used) in investing activities	-58	-227	-140	14	86
Interest expense	9	11	-2	5	8
Dividend paid	-26	-835	-1,023	-1,534	-2,045
Other financing activities	-430	-842	-1,024	-1,538	-942
Net cash (used) in financing activities	-749	-943	-1,980	-2,992	-2,896
Closing Balance	969	1,312	1,052	1,066	2,244
FCF	1,157	1,562	1,920	3,070	4,055
Capex	1	42	64	86	117

Key Ratios					
Year-end March	FY23	FY24	FY25E	FY26E	FY27E
Solvency Ratios					
Debt / Equity	0.03	0.028	0.018	0.015	0.010
Net Debt / Equity	-0.71	-0.72	-0.40	-0.29	-0.37
Debt / EBITDA	0.04	0.03	0.02	0.02	0.01
Current Ratio	-0.94	-0.82	-0.45	-0.33	-0.51
DuPont Analysis					
Sales/Assets	0.97	0.71	0.75	0.80	0.73
Assets/Equity	1.41	1.89	1.64	1.52	1.34
RoE	56.2%	70.85%	70.43%	69.50%	56.46%
Per share ratios					
Reported EPS	5.96	9.90	14.43	19.34	26.57
Dividend per share	0.20	6.50	8.00	12.00	16.00
BV per share	10.60	13.98	20.49	27.83	47.06
Cash per Share	2.47	5.83	5.33	6.16	10.67
Revenue per Share	14.54	18.81	25.13	33.68	45.81
Profitability ratios					
Net Profit Margin (PAT/Net sales)	40.97%	52.64%	57.43%	57.43%	58.00%
EBITDA / Net Sales	54.56%	65.59%	72.32%	72.70%	73.33%
EBIT / Net Sales	53.85%	64.77%	71.47%	71.82%	72.44%
ROCE (%)	72.14%	61.25%	66.61%	69.32%	60.57%
Activity ratios					
Inventory Days	0.00	0.00	0.00	0.00	0.00
Debtor Days	37.31	33.49	33.18	33.33	33.26
Creditor Days	43.47	34.76	34.76	34.76	31.74
Leverage ratios					
Interest coverage	351.67	449.01	599.02	849.12	1226.07
Debt / Asset	0.02	0.01	0.01	0.01	0.01
Valuation ratios					
EV / EBITDA	75.43	48.30	33.04	24.53	17.61
PE (x)	101.71	61.20	41.98	31.33	22.81
OCF/EBITD (%)	113.60	95.51	80.09	95.57	92.89

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Absolute Return**Research Analyst
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