JM FINANCIAL

Saregama

Tune in to the music

saregama
soul of India



Core DNA is Content IP monetisation – Music content mainstay

New music content spends to consolidate No. 2 position

Initiate with BUY and Dec'23 TP of INR 450 (20% upside from CMP)

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After nearly 2 decades of market conditions-forced hiatus, India's oldest music label 'Saregama' is investing aggressively in new music content in an effort to regain its glory days (in the 20th century). The motivation to re-invent comes mainly from strong tailwinds for the industry, especially fast-growing digital consumption of music and curtailment of revenue leakages. If the company were to successfully execute its strategy, it would not only consolidate its No. 2 position but also help it take concrete strides towards challenging the industry's largest player. To jump-start these efforts, Saregama raised INR 7.5bn through the QIP route in November last year. Since then, it has started acquiring a wide range of film and non-film music content across Hindi and key regional languages. We believe Saregama is well placed to succeed given its pedigree and recent history of outperformance to the industry

RECENT REPORTS



Media and Entertainment: In the eye of the storm



Nazara Technologies: Jack of many games, master of one



CarTrade Tech: There is value at a certain price



ONDC: Disruption or Evolution?



Quick Commerce: The Business of Instant Gratification

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We initiate coverage on Saregama with a BUY rating and a DCF-based Dec'23 TP of INR 450 (implied FY25E PER of 34x). Saregama is presently the second-largest music label in India and is expected to further consolidate its position driven by sharp increase in its share of new content investments. During FY18-FY22, it delivered above-industry growth of c.26% in its music licensing business by leveraging its large catalogue and re-popularising retro content that offset the lack of investments in new content for nearly 2 decades (2000-2020). However, from a sustainable growth perspective, it is imperative that the company invests in new music content as 'c.70% of the total music consumed in a year is <18 months old'. We, therefore, believe if Saregama successfully executes its new content acquisition strategy, its music licensing business can easily deliver ~23% CAGR over FY22-25E (~1.5x industry growth). Further upside can come from faster-than-expected adoption of Audio OTT streaming platforms (~200mn users as of CY21), sharp rise in % share of paid subscriber base (~1.5% as of CY21) and tuck-in acquisitions (similar to acquisition of Mango Music in Jan'22). Growing share of the very high-margin music licensing business in the revenue mix, scale benefits, and divestiture of the loss-making publication business should ensure that margins remain at 26-29% in the near term.

Given the multi-year annuity nature of the flagship music licensing business and expectations of broadly stable operating cash flows, we value Saregama using 15-year DCF assuming a WACC of 12% and Tg of 5%. Key risks include 1) Irrational rise in competitive intensity driving new content cost, 2) Substantial increase in investments towards Carvaan/TV & Films businesses, and 3) Industry consolidation (Zee Music and Sony Music).

OTT streaming platforms driving growth for music industry: EY-FICCI estimate the Indian music industry to report a CAGR of 14.5% over CY21-CY24. Growth is likely to be driven by streaming revenue aided by fast growing penetration of OTT platforms, Youtube and Short-Form Video platforms. While globally, a large proportion of streaming revenue is generated through paid subscriptions, the Indian market is primarily dependent on advertising. If domestic OTT platforms too start pushing end-customers towards paid subscriptions there could be significant incremental upside to industry growth.

New music content investments should lead to above-industry growth: The management believes this is an opportune time to invest in new music content given the strong industry tailwinds. Therefore, after a relative lull towards new content investments of almost 2 decades, it raised INR 7.5bn (~USD 100mn) in Nov'21 to step up investments (organic as well as inorganic). Given that Saregama delivered ~26% CAGR over FY18-FY22 despite lack of investments, we believe the music licensing business can easily deliver ~23% CAGR over FY22-25E (1.5x industry growth) if the management successfully executes its new content acquisition strategy.

Technology investments and decentralised approach give an edge: Small specialised teams extensively use data analytics and predictive models for new content purchase decision making. The company also claims to heavily use data analytics to market the content. Such tactics make Saregama more agile leading to superior performance vis-à-vis the industry.

We expect strong 18% PAT CAGR over FY22-25E, recent correction in valuations offers a good entry point: We forecast strong 22% revenue CAGR for Saregama translating into ~21%/18% EBIT and PAT CAGR over FY22-25E. We expect Saregama to consolidate its No. 2 position amongst music labels in India as we expect 1) independent producers to prefer large, established non-integrated music labels and 2) limited competition for the company in regional music. We initiate with a **BUY** and a TP of INR 450 (implied FY25E PER of 34x).

Recommendation and Price Target	
Current Reco	BUY
Current Price Target (12M)	450
Upside (%)	20.5%

Key Data SARE IN	
Current Market Price	INR374
Market cap (bn)	INR72.0/US$0.9
Free Float	41%
Shares in issue (mn)	192.8
Diluted share (mn)	193.1
3-mon avg daily val (mn)	INR75.6/US$0.9
52-week range	551/346
Sensex/Nifty	57,147/16,984
INR/US$	82.3

Price Performance			
%	1M	6M	12M
Absolute	-12.3	-25.3	-11.4
Relative*	-7.7	-23.4	-6.6

*To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Sales	4,420	5,806	7,308	8,885	10,660
Sales Growth (%)	-15.2	31.4	25.9	21.6	20.0
EBITDA	1,301	1,871	2,070	2,704	3,424
EBITDA Margin (%)	29.4	32.2	28.3	30.4	32.1
Adjusted Net Profit	1,126	1,526	1,622	2,052	2,538
Diluted EPS (INR)	6.5	8.4	8.4	10.6	13.1
Diluted EPS Growth (%)	157.3	29.6	-0.2	26.5	23.7
ROCE (%)	27.9	12.1	12.1	14.6	16.7
ROE (%)	22.3	11.1	10.9	12.7	14.2
P/E (x)	57.6	44.4	44.5	35.2	28.4
P/B (x)	12.8	4.9	4.9	4.5	4.1
EV/EBITDA (x)	54.2	34.0	30.9	23.6	18.5
Dividend Yield (%)	0.5	0.8	0.8	1.0	1.2

Source: Company data, JM Financial. Note: Valuations as of 11/October/2022

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ, FactSet & Visible Alpha
You can also access our portal: www.jmflresearch.com
Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

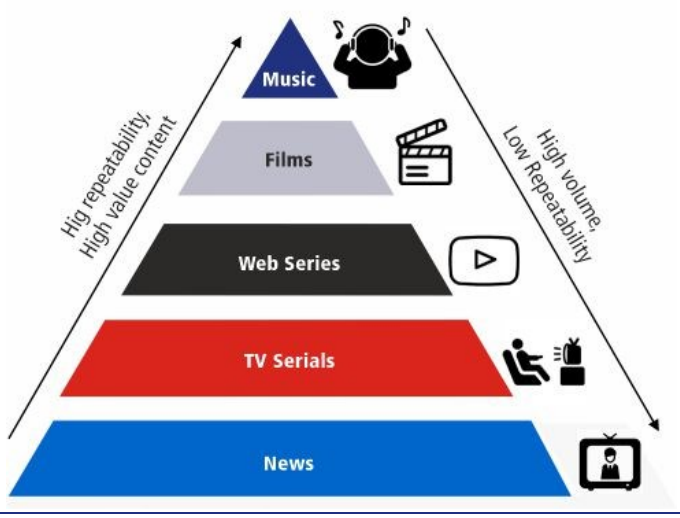
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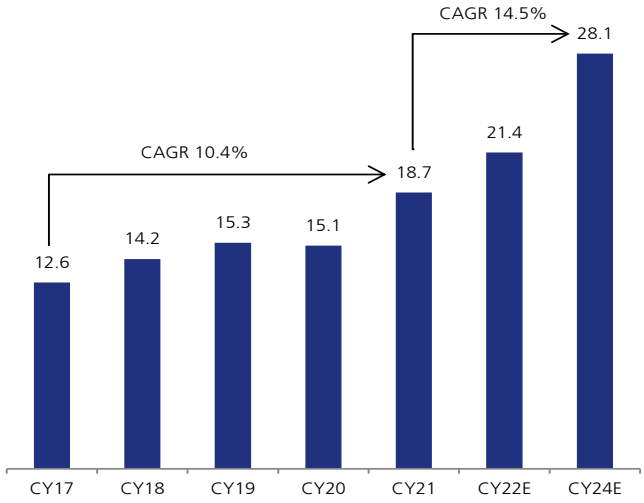
Focus Charts

Exhibit 1. Repeatability and value creation ability of content forms



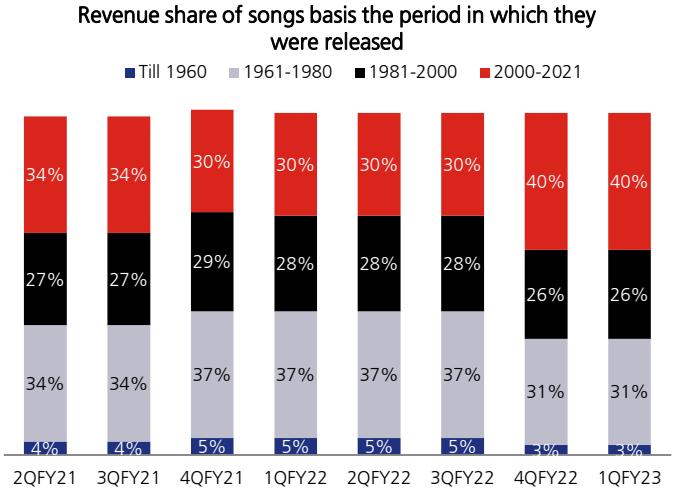
Source: Tips investor presentation, JM Financial

Exhibit 2. India music Industry revenue trend (INR bn)



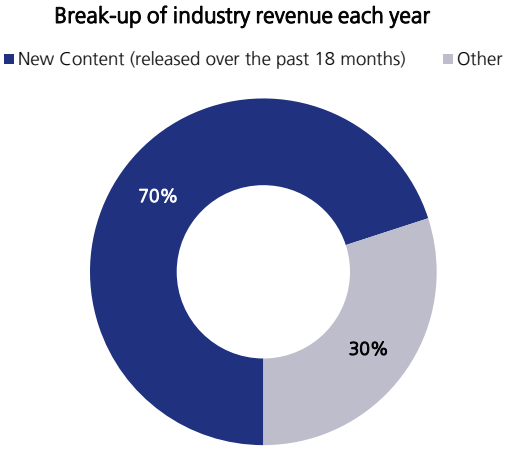
Source: EY FICCI reports, JM Financial

Exhibit 3. Retro music's contribution to Saregama's revenue is significantly high…



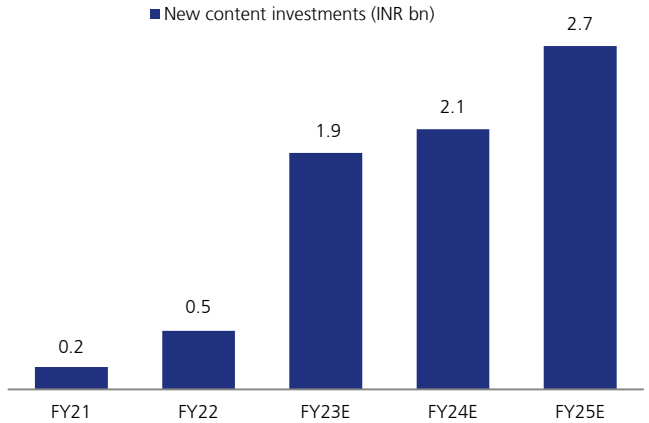
Source: Company, JM Financial

Exhibit 4. …in complete contrast to industry dependence on new content for revenue



Source: Industry experts, JM Financial

Exhibit 5. Saregama, therefore, intends to drastically increase its investments on new content



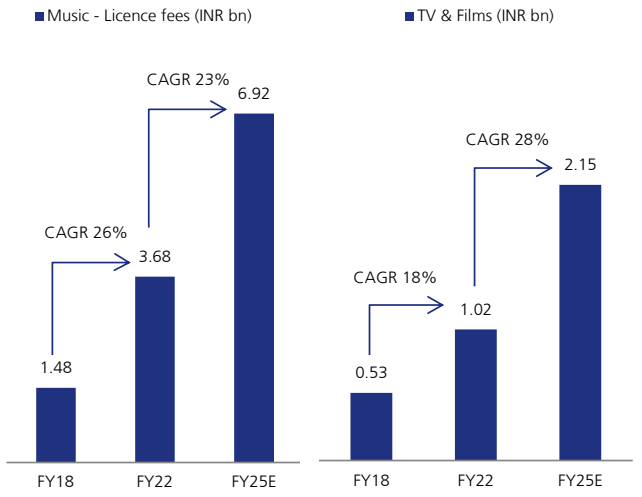
Source: Company, JM Financial

Exhibit 6. Saregama's new content acquisition strategy focuses on film, non-film, as well as regional content

Film Music	Non-Film Music
• Hindi	• Hindi
• Tamil	• Punjabi
• Telugu	• Bhojpuri
• Malayalam	• Gujarati
• Punjabi	• Haryanvi
	• Bengali
65% Spends	35% Spends

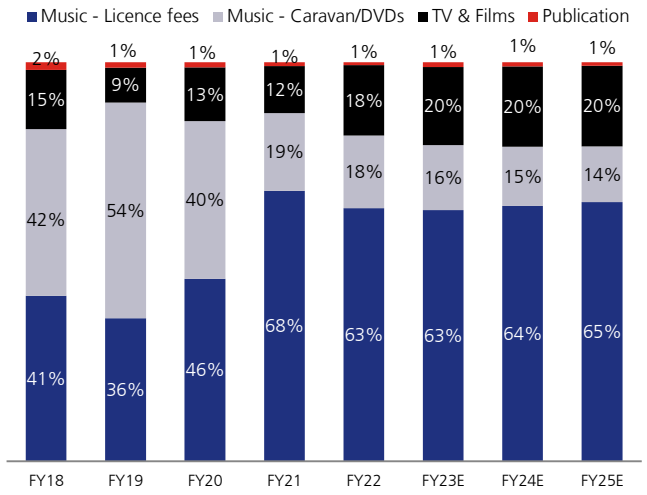
Source: Company, JM Financial

Exhibit 7. We forecast 22% revenue growth for Saregama over FY22-25E driven by Music licensing and TV & Films businesses



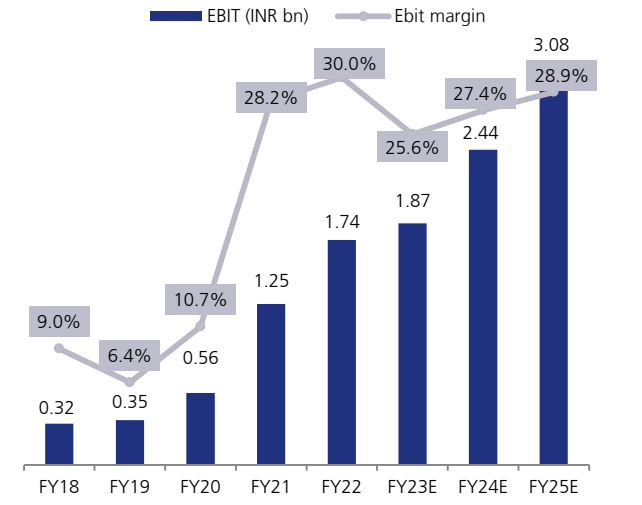
Source: Company, JM Financial

Exhibit 8. Revenue mix change between FY18 and FY22 has driven EBIT margin improvement for Saregama in the past…



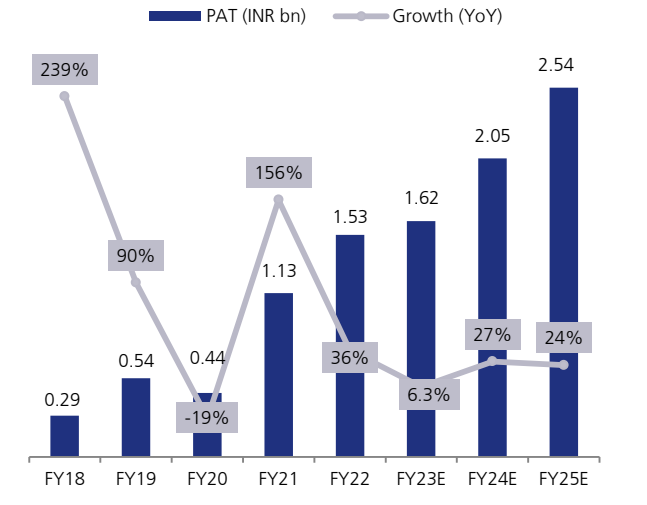
Source: Company, JM Financial

Exhibit 9. … and we expect margins to stabilise around ~26-29% in the near term despite adverse impact of new content investments



Source: Company, JM Financial

Exhibit 10. Strong top line growth and stable margins should lead to 18% PAT CAGR over FY22-25E



Source: Company, JM Financial

Exhibit 11. We value Saregama using 15-year DCF to arrive at a Dec'23 TP of INR 450, which implies an upside of 20% from CMP

Numbers are in INR mn unless stated otherwise	DCF - 1-yr fwd
WACC	**12.0%**
FCF CAGR (FY22-38F)	13.1%
NPV of cash flow (2024-2038F)	41,192
Perpetual growth (%)	5.0%
Implied Exit FCF multiple (X)	**14.3x**
Terminal value	37,863
Enterprise Value	**79,055**
Terminal value as % of EV	48%
Net debt (Mar'23)	-8,230
Equity value	**87,285**
Number of shares outstanding (diluted)	193.1
Enterprise value per share (INR)	409
Equity value per share (INR) - Dec'23 (rounded)	**450**

Source: JM Financial

Exhibit 12. We believe Saregama's premium valuations to global peers are justified due to strong earnings growth expectations

Company	MCap (USD bn)	EV (USD bn)	P / E (x)			EPS CAGR	PEG
			CY22E	CY23E	CY24E	22-24E	
Saregama	**0.9**	**0.8**	**44.5x**	**35.1x**	**28.4x**	**25%**	**1.4x**
Universal Music Group	30.5	33.3	22.4x	19.3x	17.2x	14%	**1.4x**
Warner Music Group	11.5	15.3	23.8x	22.2x	17.1x	18%	**1.2x**
HYBE Co	3.4	3.2	22.8x	22.9x	19.3x	9%	**2.6x**
SM Entertainment Co	1.0	0.9	18.5x	17.7x	16.0x	7%	**2.4x**
Reservoir Media	0.3	0.6	16.5x	12.9x	nm	NA	NA
Believe	0.7	0.5	nm	140.0x	36.5x	NA	NA
Mean (excl. Believe)			**24.7x**	**21.7x**	**19.6x**		
Mean (incl. Believe)			**24.7x**	**38.6x**	**22.4x**		

Source: Bloomberg, JM Financial

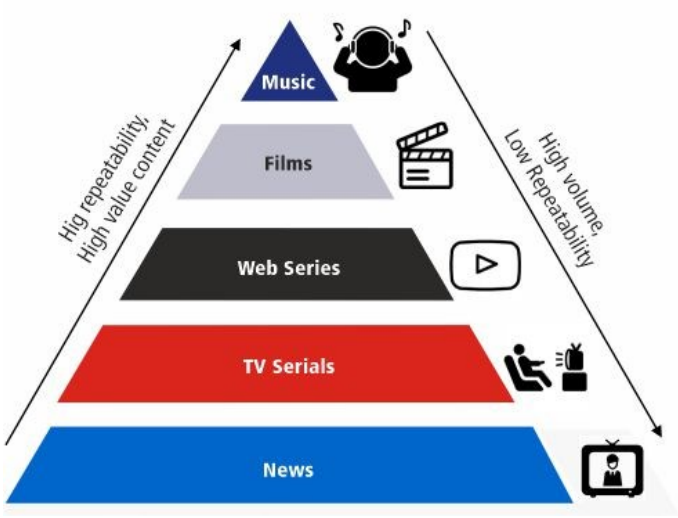
Investment Thesis

Monetisation of content IPs is the core business of Saregama

Demand for content – either in the form of music, films, TV/Web series and news – is becoming everlasting as it is now increasingly becoming an essential part of human lives. In fact, ease of access due to widespread penetration of smart devices and cheap availability of data nowadays is keeping people hooked up on content for the most part of their day. While over the years the medium of content consumption may have changed (e.g., in case of music content it has changed from gramophones to cassettes to satellite TVs to DTH to digital platforms presently), ownership of content IP provides owners the exclusivity to market and distribute the content over multiple decades across different channels. For e.g., an owner of music IPs in India can monetise the content for a period of more than 60 years.

Saregama has consciously built a business model that on the one hand focuses on either outright purchase or creation of new content with IP rights, and on the other hand ensures content monetisation by licensing it to third-party platforms by entering into exclusive or non-exclusive deals. In fact, the company also has its own retail distribution network to monetise its music content.

Exhibit 13. Repeatability and value creation ability of content forms



Source: Tips Investor Presentation, JM Financial

Exhibit 14. Investment in Music IP rights is like – Invest Once, Earn dividends for next 60+ years

Country	Sound Recording Rights	Publishing Rights
India	60 yrs	Life of Author +60 yrs
USA	70 yrs	Life of Author +70 yrs
UK	70 yrs	Life of Author +70 yrs
Australia	70 yrs	Life of Author +70 yrs
Japan	70 yrs	Life of Author +70 yrs

Source: Company, JM Financial

Digitisation is driving up the monetisation potential of music assets

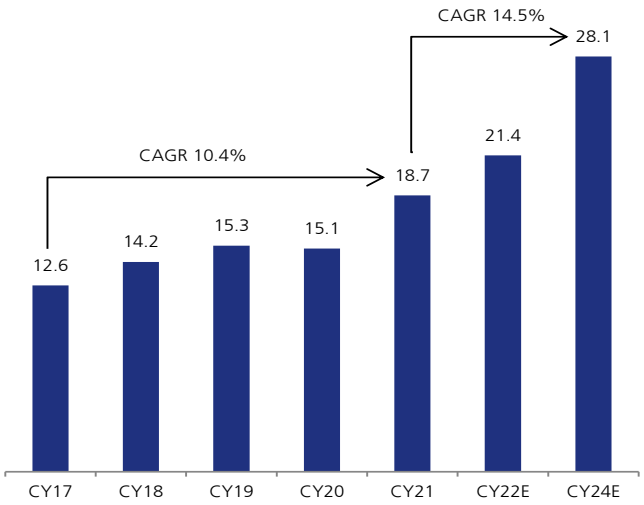
Music tends to have the highest monetisation potential amongst various forms of content, due to high repeatability (number of times the content is accessed) and longevity (shelf life). It is the most widely accessed content – it is accessed not only on a standalone basis, i.e., listening to a song but also integrated with other forms of content-access activities such as watching a song, movie, serial, advertisement or playing a game. Longer shelf life adds to music's monetisation potential. Moreover, music labels that have increased their investments in technology are now able to track and collect data points that identify point of access of their content. This in combination with stringent laws and enforcement of IP protection laws by the judiciary is reducing piracy and increased demand for license issuance from music labels prior to access.

Audio-Video OTT streaming platforms driving growth for music industry in India

The Indian recorded music industry reported 10.4% CAGR between CY17-21 to reach INR 18.7bn, even though new content releases (especially films) were affected during Covid, piracy (unlicensed streaming and web downloads) related losses still continue (although declining) and paid-subscription revenue contribution remains less than 10% of total streaming revenue compared to the global average of ~70%. Audio and Video streaming together account for ~87% of the revenue, with other digital forms contributing ~3% (Source: The Indian Music Industry - IMI). Youtube remains the most dominant platform for

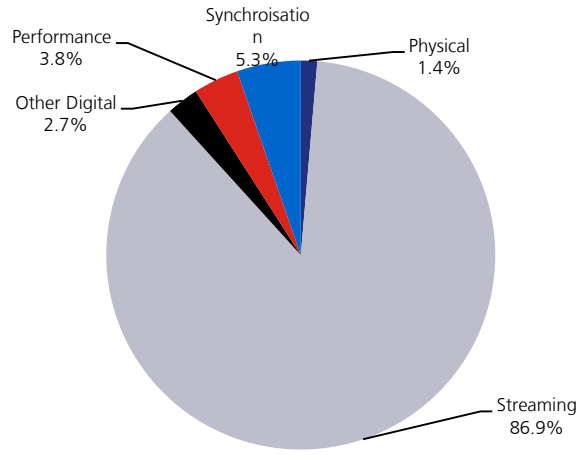
music consumption in India, followed by audio OTT platforms and short form video apps. Going ahead, we expect digital platforms to continue to drive strong growth for the music industry supported by fast-growing penetration of smartphones, cheap data costs and growing popularity of streaming platforms that not only offer free-of-cost content (in lieu of intermittent advertisements) but also ensure on-demand access to high quality music. Fast-growing music consumption on live streaming and short form video apps should also lead to better monetisation opportunities for the industry. However, dependence on ad-supported streaming revenue will likely continue to be high at least in the near term due to the huge popularity of Youtube, high competitive intensity amongst audio OTT platforms, and likely consumer reluctance to pay for music subscriptions.

Exhibit 15. India music industry revenue trend (INR bn)



Source: EY FICCI reports, JM Financial

Exhibit 16. Indian recorded music industry: Revenue break-up – CY21



Source: IMI – India Trends 2021, JM Financial

Large catalogue provides Saregama a natural moat against competition

Saregama believes it has a natural advantage amongst all music content-focused players operating in India as it not only carries the legacy of India's first-ever recorded song (in its erstwhile form – The Gramophone Company) but also because it owns the largest music catalogue of over 142k songs in India (Source: Company). This creates a natural entry barrier for new competition as Saregama not only tends to get the best possible monetisation deals from third-party distributors but also tends to have relatively low marketing costs on a per unit basis. The company was able to build such a large catalogue primarily on account of the absolute monopoly that it enjoyed for the better part of the 20th century. Barring T-Series (unlisted), none of the other domestic or international players have a catalogue anywhere close to Saregama. Moreover, organically building a catalogue close to that of Saregama would be a herculean task for any other player (excluding T-Series), given that only a limited number of songs are released each year. In which case, the only viable option for a player interested in building a large catalogue would be to acquire a bunch of smaller catalogues available for sale. Here too, competition remains tough as all large players (including Saregama) are well-funded. Consequently, the company believes that the ability to sweat out its catalogue is far better than any other new platform.

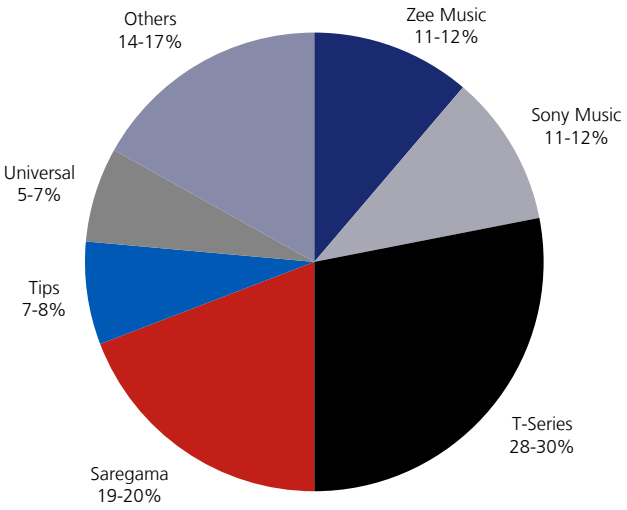
Exhibit 17. Large catalogue can act as a huge entry barrier for new entrants in music industry

Advantage of Scale

- Lower Cost to Market a Song
- Higher Monetisation per Song
- Top 3 (Universal, Sony, Warner) - Control 67% of Music Market globally (excluding India)
- In India, the top 2 music labels (T-Series and Saregama) together control ~50% of the music market in revenue terms due to their large catalogue

Source: Company, JM Financial

Exhibit 18. Relative market share of organised players basis revenue in India (FY22E)

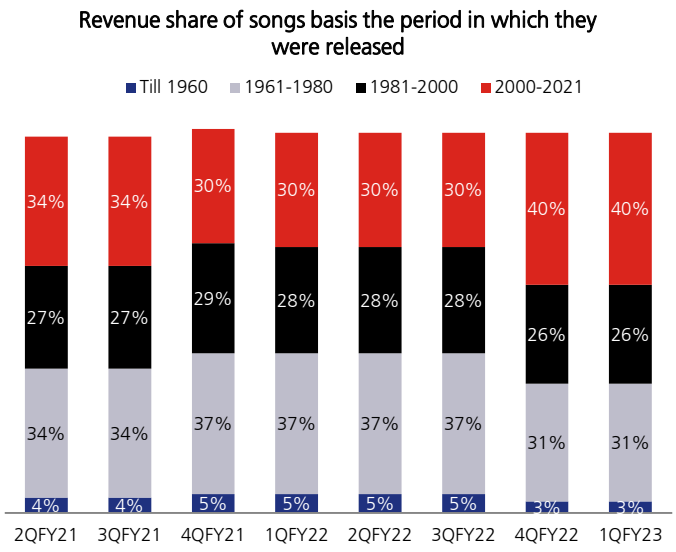


Source: Industry experts, JM Financial estimates

Saregama focussed on cementing its positioning in the music content format…

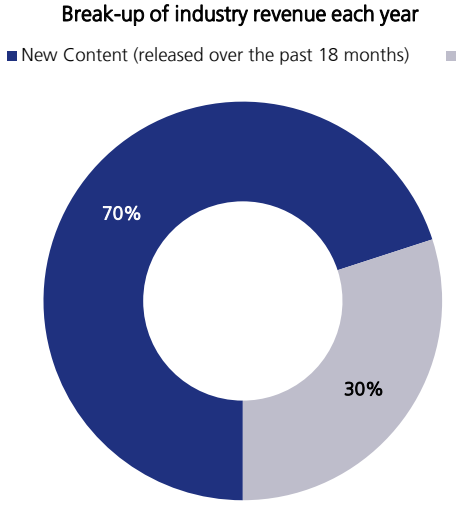
Saregama delivered industry beating growth during FY18-22 in its music licensing business by focusing on efficiencies – re-popularising its retro music content, entering into legal licensing contracts with all possible third-party distributors, and re-negotiating these deals in short durations of 1-2 years to take advantage of a fast-growing market. However, from a sustainable growth perspective, it is imperative that the company invests in new music content. This is because around 70% of the total music consumed in a year is less than 18 months old. In other words, music labels have a disproportionately high dependence on new music content to generate revenue and those who fail to invest regularly in new, good quality content are more likely to get relegated over a period of time. With the dual purpose of staying relevant and ensuring consolidation of its market position, Saregama raised INR 7.5bn in Nov'21. As per the company, these funds would be deployed towards acquiring new content (30-35% of total available content for acquisition each year). Funding was necessary because the company had made very little new content investments for almost 2 decades and had limited cash on the balance sheet to challenge the well-funded competition. We believe if Saregama is able to execute the strategy diligently, it will not only solidify its current No. 2 position (based on revenue) but may also end up narrowing the gap with the market leader.

Exhibit 19. Retro music's contribution to Saregama's revenue is significantly high…



Source: Company, JM Financial

Exhibit 20. …in complete contrast to industry dependence on new content for revenue



Source: Industry experts,, JM Financial

Exhibit 21. New content acquisition strategy: Focus on film, non-film, as well as regional content

Film Music	Non-Film Music
• Hindi	• Hindi
• Tamil	• Punjabi
• Telugu	• Bhojpuri
• Malayalam	• Gujarati
• Punjabi	• Haryanvi
	• Bengali
65% Spends	35% Spends

Source: Company, JM Financial

… and plans tuck-in catalogue acquisitions to fill the gap created by 2000-2015 inactivity

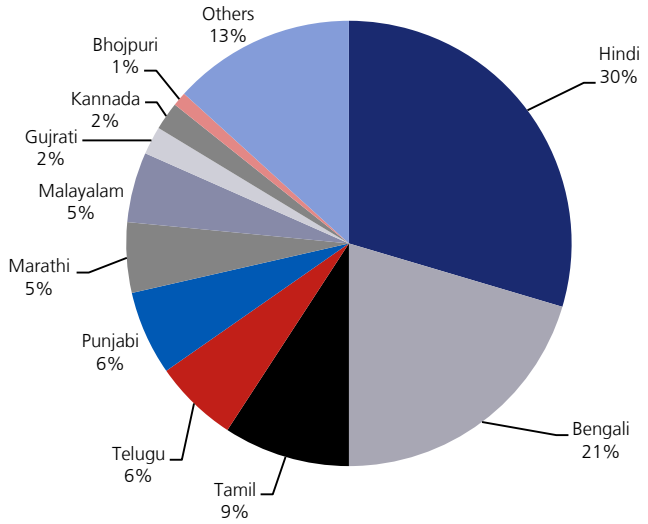
Saregama had virtually stopped acquiring new content (barring a few regional music content investments) during 2000-2015 (the height of digital piracy). This has led to a significant gap in its catalogue that it intends to fill by doing tuck-in acquisitions of smaller labels. The company's inorganic growth intentions are also driven by the fact that due to scale advantage and wider distribution capabilities it stands to derive significantly better monetisation than any smaller music label. One such acquisition was that of Mango Music through which the company was able to add c. 1,500 Telugu music IPs from 280 movies to its total catalogue. Going ahead, we expect the company to continue to add smaller music labels that fits its requirement.

Saregama is one of the few large music labels with a pan-India focus

Our industry interactions suggest ~50% of the film music revenue can be attributed to non-Bollywood movies, indicating a high reliance of the industry on regional language content. Saregama has, therefore, been very active on the non-Hindi music side, which is also reflected in its catalogue mix. In fact, even during 2000-15, when the company had almost stopped new content investments in Hindi, it continued to invest in regional music. Going ahead, Saregama intends to aggressively focus on acquiring Tamil and Telugu film music (besides Bollywood film music). Saregama also intends to aggressively invest in non-film music content acquisition in languages such as Hindi, Gujarati, Bhojpuri, Bengali, Marathi,

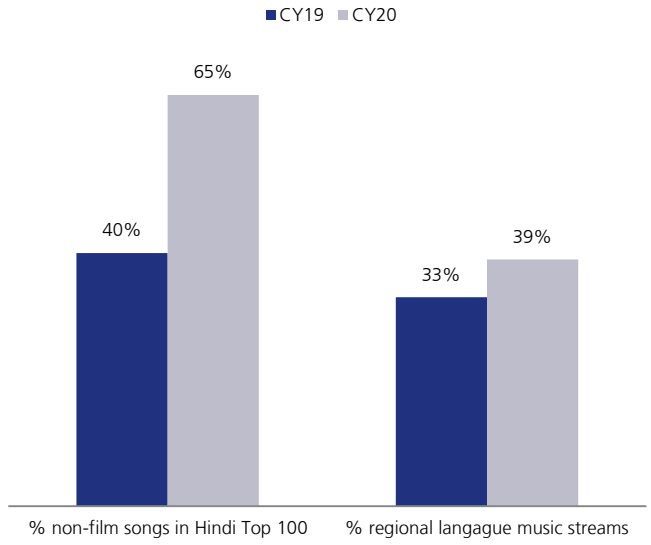
Tamil, Telugu, and Malayalam, and in devotional music. Given its broadly pan-India focus, Saregama is likely to emerge as a much stronger player on the back of these investments, as most other large players continue to focus on monetisation of Bollywood and music in two or three other languages.

Exhibit 22. Saregama – Songs mix



Source: Company, JM Financial

Exhibit 23. Regional language demand trend



Source: EY FICCI Mar'21, JM Financial

Focus on agile operations driven by technology investments and decentralised approach

Saregama management claims that it is highly tech-focused and believes in a decentralised approach to decision-making. In fact, it claims that the decision to purchase new music content is generally driven by small specialised teams based on the type and language of the content (that does not involve any senior management). These teams extensively use data analytics and predictive models on top of their own judgment to decide the type of content to buy, probability of its success, and its eventual revenue potential. Each of these teams is a treated like a profit centre with dedicated budgets and has their own payback period and ROIs. The company also claims to rely heavily on data analytics to market the content. For e.g., identification of the right set of influencers for a particular song is based on a wide range of data points. Such tactics have made the company more agile, leading to superior performance in the recent past vis-à-vis the industry.

Exhibit 24. New content acquisition strategy – Inputs used for predictive modelling



Source: Company, JM Financial

Strong repertoire of new and retro content can give an edge during contract negotiations

Large music labels enter content licensing contracts of 1-2 years with third-party digital licensors such as streaming apps and short video format apps. Such short-duration contracts safeguard the economic interests of the music labels in case of unforeseen events and also allow the label to renegotiate the deal with better terms given the strong growth trends. Broadly, there are two types of contracts: 1) variable deals with minimum guarantee, and 2) fixed fee deals. In the first type of contract, music licensors agree to pay music labels a revenue of INR 0.1 every time one of its free users streams the latter's music content. If it is paid subscriber stream, the music label is entitled to a certain share of the revenue earned by the licensor. Certain music labels such as Saregama also tend to get a guaranteed fixed fee component in lieu of licensing their content irrespective of the actual times the content IP of licensee is used. Moreover, if the total per stream revenue during a contracted period exceeds the minimum guaranteed amount paid, the music labels are entitled to being paid an amount over and above the minimum guarantee. This amount is commonly referred to as overflows. Fixed fee deals, as the name suggests, are very straightforward contracts with tenure of licence and fees decided at the very outset. While contracts with digital streaming apps are typically variable in nature, short form video format players typically prefer the latter. Factors that go into contract negotiations include the size and quality of the catalogue. While Saregama's largely retro content provides scale advantage, investments in fresh content, which is considered superior quality due to higher monetisation potential, can likely give it an edge during contract negotiations.

Exhibit 25. Types of music licensing contracts with third-party distributors

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

Source: Company, JM Financial

Independent producers likely to gravitate towards non-integrated music labels

Historically, film music has dominated the Indian consumers' mindspace. As a result, producers use intermittent songs to drive the storyline of most movies, which often also ends up determining the eventual fate of their movies. Producers, therefore, typically spend around 2-3% of the total movie budget on music creation. They are also very judicious about whom they choose as partners for music distribution and promotion, as popularity of their songs, which are typically are released a few months prior to the actual movie release date, can help them generate significant audience interest, in turn driving up the revenue potential from satellite, digital and theatrical rights. Sensing the opportunity to benefit not only from music distribution but also production, several music labels in the past such as T-Series, Tips, Zee and Sony have vertically integrated both these operations. This sometimes puts independent movie producers (who do not have own capabilities to distribute and promote their music) at a significant disadvantage if they have sold the music rights of their movies to a music label that also has its in-house movie releasing in a similar time-period, as the latter is more likely to focus its resources on promoting own production over the former's. Consequently, we believe independent movie producers are likely to gravitate towards non-integrated music labels like Saregama who do not have any such conflict of interest and have similar monetisation capability (if not better) as the competition. In this context, Saregama also benefits from a much stronger balance sheet (post the recent fund-raise) as it enhances the producer's confidence on the quality of promotion.

Exhibit 26. Illustrative list of film music content acquired by Saregama post fund-raise

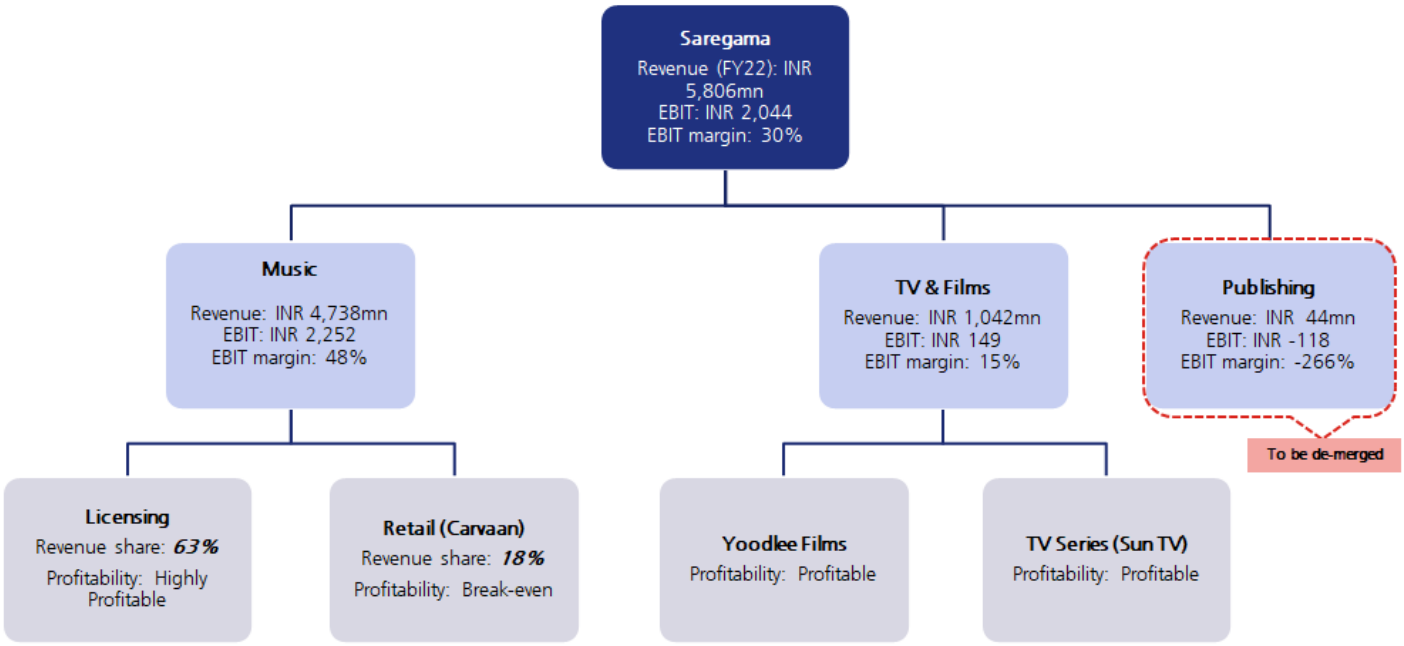
Movie Name	Music Release Status	Production House	Main Cast	Director
Sarkaru Vaari Paata (Telugu)	Released	Mythri Movie Makers 14 Reels Plus G. Mahesh Babu Entertainment	Mahesh Babu Keerthy Suresh	Parasuram
Gangubai Kathiawadi (Bollywood)	Released	Bhansali Productions Pen India Limited	Alia Bhatt	Sanjay Leela Bhansali
Kurup (Malayalam)	Released	Dulquer Salmaan	Dulquer Salmaan	Srinath Rajendran
Godfather (Bollywood)	Released	Konidela Production Company	Chiranjeevi Salman Khan	Mohan Raja
Shyam Singha Roy (Telugu)	Released	Niharika Entertainment	Nani Sai Pallavi Krithi Shetty	Rahul Sankrityan
Rocky Aur Rani Ki Prem Kahani (Bollywood)	Yet to be released	Dharma	Ranveer Singh Alia Bhatt	Karan Johar
Rola (Bollywood)	Yet to be released	Dharma	Vicky Kaushal Tripti Dimri	Anand Tiwari
Pipa (Bollywood)	Yet to be released	RSVP Movies	Ishaan Khatter and Mrunal Thakur	Raja Krishna Menon
Anniyan (Hindi Remake)	Yet to be released	Pen Studios	Ranveer Singh	Shankar
Maidaan (Bollywood)	Yet to be released	Zee Studios Bayview Projects	Ajay Devgn Md Ridoanul Haq Siyam	Amit Ravindernath Sharma
TBA	Yet to be released	Maddock film	Vicky Kaushal Sara Ali Khan	Laxman Utekar

Source: Company, Media articles, JM Financial

Understanding Saregama's business model

Saregama's business model is primarily focused on music content acquisition/creation and monetisation. It is also engaged in creation of films (mainly low-budget, regional films) and TV/Web series content followed by its IP monetisation as the company intends to benefit from growing demand for video content-on-demand and regional language content. Based upon the type of content and the manner in which it is monetised, the company operates under four major business verticals as shown below.

Exhibit 27. Saregama: Business structure



Source: Company, JM Financial

Music Licensing

Music licensing is the company's flagship business in which it licenses acquired or in-house created music content IPs to third-party platforms (both online as well as offline). Typically, these licensing deals are on a non-exclusive basis. Saregama owns one of the largest catalogues of music content IPs in India primarily on account of the strong monopoly that it enjoyed for a large part of the 20th century. However, in the early part of the 21st century, the company had temporarily reduced its focus on this business due to adverse impact of piracy on the economics of the business. Over the last few years, Saregama has renewed its focus on this vertical on account of strong tailwinds created by the emergence of third-party online digital distribution platforms such as Youtube, Audio OTTs and, of late, the short format video platforms. Piracy also has been coming down due to government and judicial intervention, leading to lower revenue leakages.

Ownership of music content IPs entails two types of rights to Saregama – 1) Sound Recording Rights, and 2) Publishing Rights. The company monetises these rights as shown in the exhibits below.

Exhibit 28. IP ownership of music content offers long shelf life for monetisation

Types of rights	What it entails?	Monetisation Period	Contribution to Saregama's Licensing revenue	Channel for third-party distributors
Sound Recording Rights	License to play a song	60 Years	85%	Direct licensing Contracts
Publishing Rights	License to use the song lyrics and composition	Life of Author + 60 Years	15%	The Indian Performing Right Society Limited (IPRS)

Source: Company, JM Financial

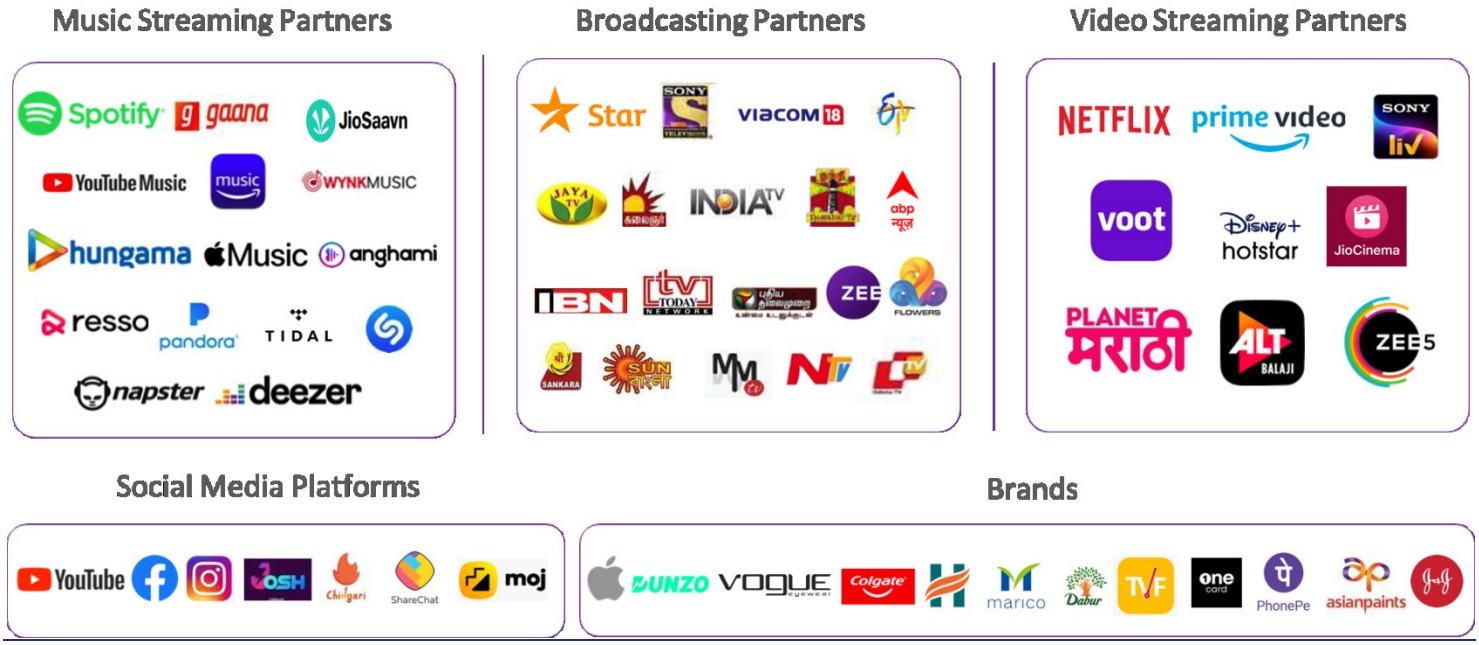
Saregama licenses its sound recording rights to third-party distributors by entering into a wide range of customised contracts as shown (Exhibit 29).

Exhibit 29. Types of music licensing contracts with third-party distributors

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

Source: Company, JM Financial

Exhibit 30. Music licensing partners for Saregama



Source: Company

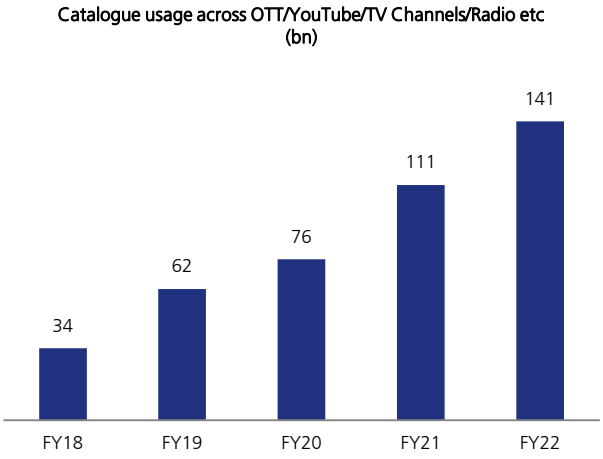
Historically, retro music content has been the primary driver of revenue for Saregama in complete contrast to the industry where 70%+ of the revenue earned is through new content (released over the last 18 months).

Exhibit 31. Video streaming platforms using Saregama-owned music



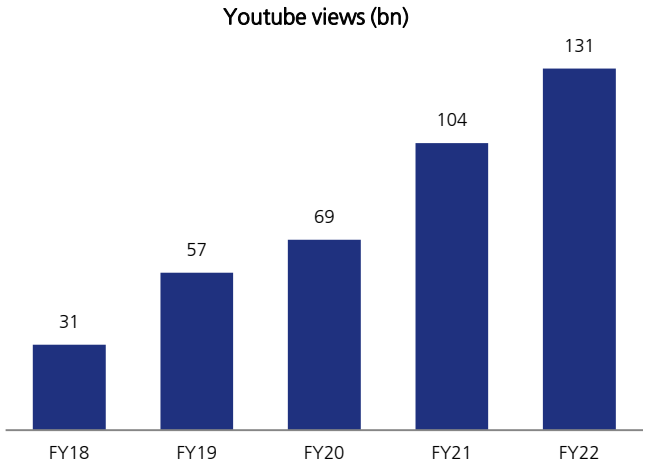
Source: Company

Exhibit 32. Catalogue usage



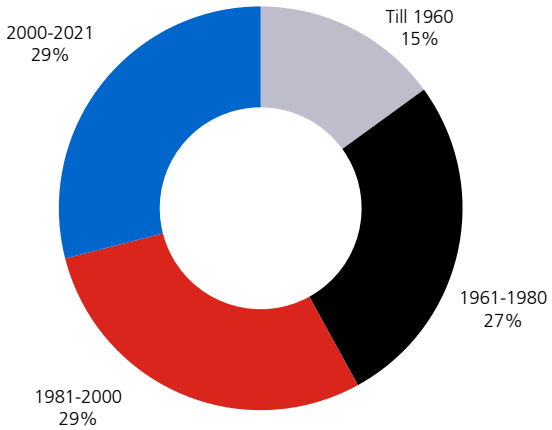
Source: Company, JM Financial

Exhibit 33. YouTube views



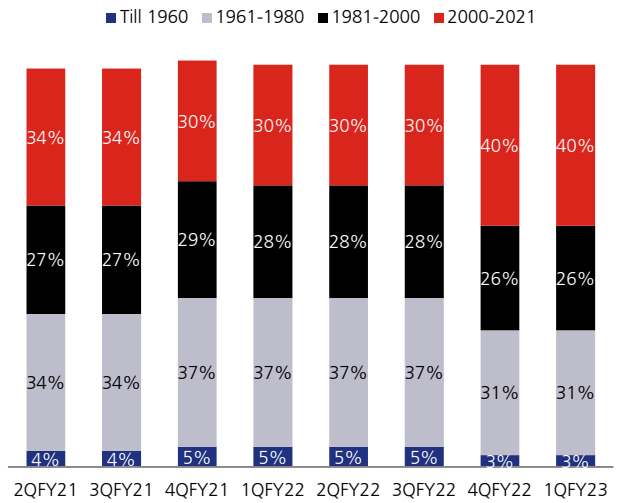
Source: Company, JM Financial. Note: Views includes all views related to Saregama IP across its owned channel and user generated content

Exhibit 34. Period-wise songs catalogue with Saregama (as of 1QFY23)



Source: Company, JM Financial

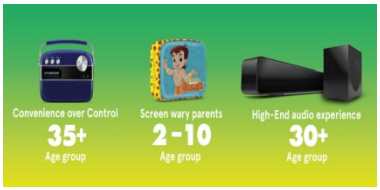
Exhibit 35. Revenue share of songs basis the period in which they were released



Source: Company, JM Financial

Music Retail (Carvaan)





Carvaan is the retail-focused business vertical of the company that was launched in 2017 with an aim of popularising its strong retro music catalogue collection. The vertical focuses on monetisation of the company's music IPs by selling Carvaan-branded portable electronic devices to customers who are 35+ years old. There are multiples variants of Carvaan products that contain a wide range of songs based on singers, lyricists, music composers, actors, moods, etc. Initially, the product was positioned as a gifting option for the young (to the old), and corporates. However, following the success of the product, the company launched other variants that are targeted at families or kids aged 2-10 years. The company retails all these variants through 20k+ retail outlets and all leading e-commerce platforms at MRP (ranging from INR 2,490 to INR 20,990).

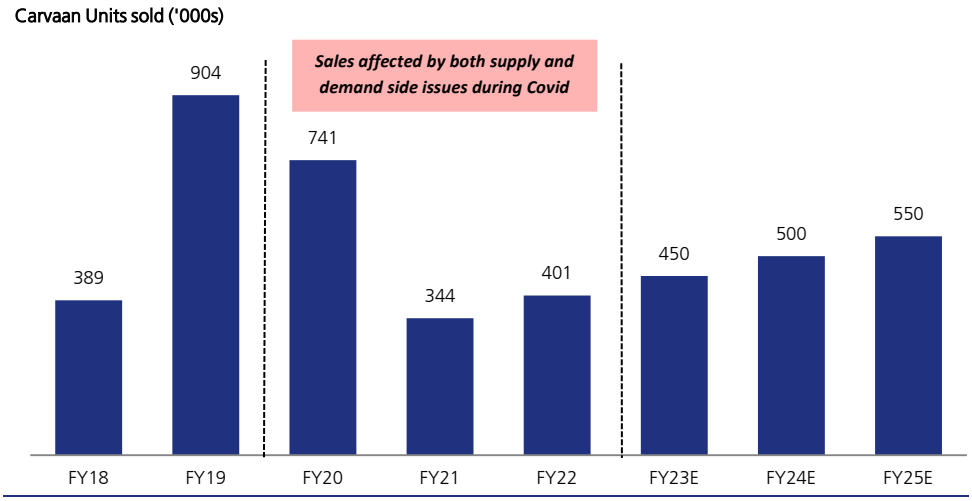
The company is also making efforts to transform the Carvaan business from one-time revenue to recurring revenue stream. In this regard, it has launched a new variant of Carvaan that not just offers preloaded Saregama songs but is akin to a platform that also supports 3rd party music and podcasts through streaming functionality.

Sales of Carvaan saw strong demand in the initial 2-3 years of launch. However, post onset of the Covid-19 pandemic, the vertical has been weathering a mix of supply side and demand side issues, leading to muted sales. In fact, even after post Covid-normalisation in India, the business continues to be impacted by supply side issues in China.

Given the huge untapped market opportunity, the absolute monopoly it enjoys, and the fact that the strategy to popularise retro music has been fairly successful in the past, the Saregama management remains hopeful of a turnover in fortunes of this vertical once supply chain issues are sorted out as demand-side concerns are no longer a hindrance. The business currently operates at break-even operating profit levels.

We forecast only muted growth for the business over FY22-25E given the muted recent trend, business uncertainties, and the management treading cautiously when it comes to investment (that could, in turn, have an adverse impact on profitability).

Exhibit 36. Launched in 2017, Carvaan business after initial 2 years of success has been weathering a mix of supply side and demand side issues, leading to muted trend



Source: Company, JM Financial

Yoodlee Films



Launched in 2018, Yoodlee Films is the youngest business vertical of Saregama. The business focuses on creating low-budget video content – films, and web series. The company owns the IP of the content created. In the initial few years post launch, the company used to license the content only to third-party OTT platforms and TV channels on an exclusive deal basis (for a period ranging between 3 and 11 years), but of late Saregama has also started doing theatrical releases in the case of regional movies.

According to the company, work on content creation starts only if it has been pre-licensed to a digital platform and the price is also pre-negotiated. This is done to mitigate risk as far as possible. The only films where the company claims to take a certain amount of risk is regional

movies content (mainly Malayalam, Punjabi, and Marathi movies). In such cases, 70-80% of the cost of the movie is underwritten by a licensing deal with digital platforms and TV channels.

Saregama intends to launch over 60 films and web series episodes over the next 3-4 years. The launch pipeline and recent management commentary suggests the Yoodlee films business is likely to see very strong growth. Gross profit margin in the business is typically 15-20%.

Exhibit 37. Illustrative list of films and web series for Yoodlee Films

Content Type	Release status	Cast	Director
Movie			
Anweshippin Kandethum (Malayalam)	Released	Tovino Thomas	Darwin Kuriakose
Oye Makhna (Punjabi)	Yet to be released	Ammy Virk	Simerjit Singh
Padavettu (Malayalam)	Yet to be released	Nivin Pauly	Liju Krishna
Kaapa (Malayalam)	Yet to be released	Prithviraj Sukumaran	Shaji Kailas
Shinda Shinda No Papa (Punjabi)	Yet to be released	Gippy Grewal	Amarpreet Chabbra
Web Series			
Pakeezah remake	Yet to be released	TBA	Bilal Amrohi
Invisible Woman	Yet to be released	Suniel Shetty & Esha Deol	Rajesh M. Selva

Source: Media Reports, JM Financial

TV Serials

This vertical primarily focuses on creating TV serials in Tamil for Sun TV. Over 6k+ hours of content has been produced for Sun TV over the last 20 years. Saregama owns the content IPs and currently produces 9-10 hours of content per week as it presently has three serials running on Sun TV's flagship channel.

Saregama monetises the content by selling ad slots on TV. Of late, the company has also started distributing the content through Youtube.



Key catalysts with potential to accelerate industry growth

Faster-than-expected audio OTT subscriptions growth

According to EY FICCI, 197 million people in India streamed music online in 2021 on a monthly basis, while there were only about 3 million paid streaming subscriptions (~1.5% of the total streaming app user base). The numbers are low even though paid subscriptions generally get sold as a bundled package with telco data packs and other forms of digital services. Despite that, industry estimates suggest paid subscriptions would not grow beyond 7 million by CY24. However, we do note that the audio OTT industry is ripe for consolidation as there are already around 15 domestic and international players. Moreover, the growing focus of private investors on profitability could force audio OTT platforms to limit free streaming access for their consumers. We see significant upside potential to paid subscriptions growth if any of these two scenarios were to play out. This, in turn, could lead to a sharp increase in revenue for music labels as our analysis suggests that each paid subscriber generates at least 5 times revenue compared to a free streamer.

Maturity of short format video apps

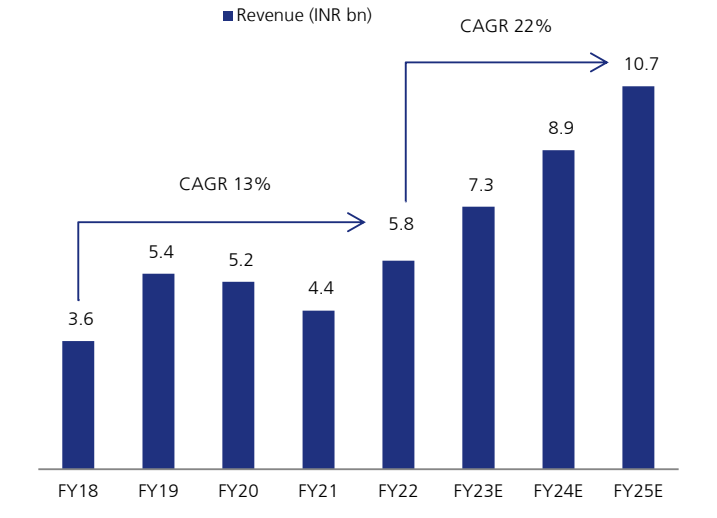
Music labels in India presently have only fixed license fee contracts with short format video platforms (such as Chingari, Moj, Josh and Sharechat amongst others) as the latter are yet to identify a sustainable business model. However, as these platforms continue to grow, at some point of time they will be able to build a sustainable revenue model with the potential to generate substantial advertising income, just like YouTube and music OTT platforms. Once that happens music labels would likely be able to push these platforms towards variable license fee contracts that will, in turn, lead to substantial bump-up in industry revenue.

Financial Analysis

Expect 22% topline CAGR driven by music licensing business over FY22-25E

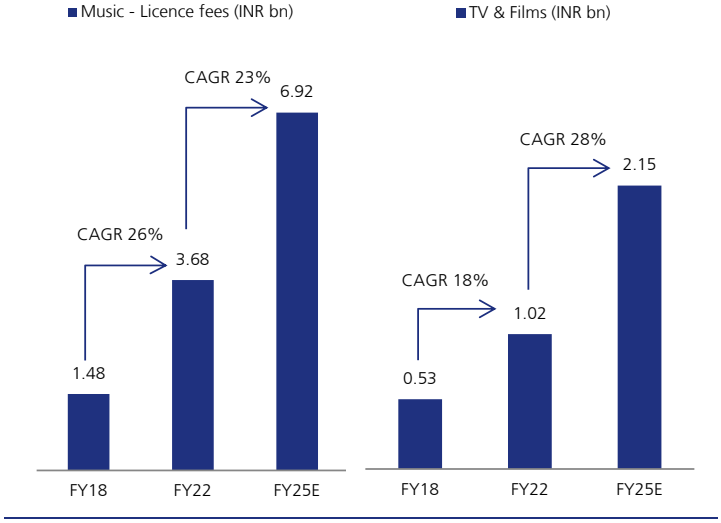
During FY18-22, Saregama delivered 13% topline CAGR on the back of 25.6%/17.9% growth in its music licensing and Yoodlee businesses. Carvaan, on the other hand, shrank by 8.2% due to a mix of supply and demand-side issues during Covid. Going ahead, we expect the music licensing business to report CAGR of 23.4% over FY22-25E driven by a sharp increase in new music investments. The company is also expected to report 28.1% CAGR over FY22-25E in its TV & Films business basis its launch pipeline for Yoodlee films. However, we forecast Carvaan to report only moderate growth of 12.2% due to continued supply chain concerns. Overall, we expect Saregama to report 22.4% topline growth over FY22-25E.

Exhibit 38. We expect revenue CAGR of 22% between FY22-25E…



Source: Company, JM Financial

Exhibit 39. … led by music licensing and Yoodlee businesses

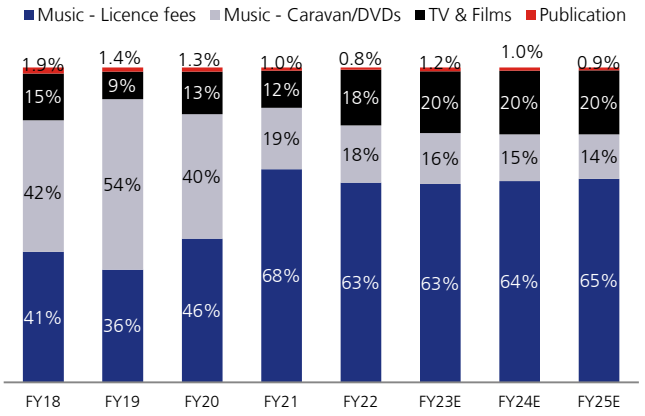


Source: Company, JM Financial

EBIT margin likely to stabilise ~26-29%

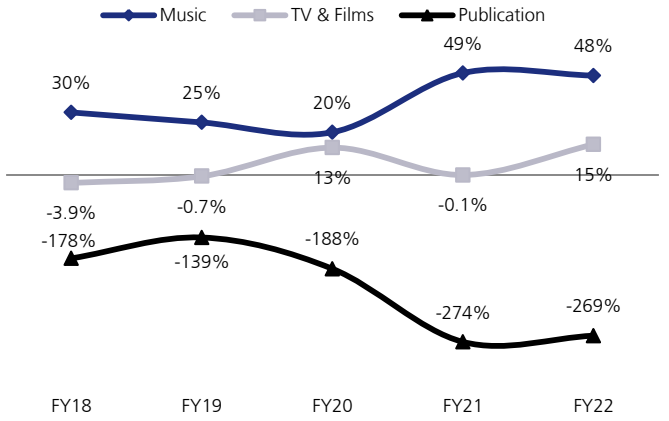
Saregama's EBIT margin improved from 9% in FY18 to 30% in FY22 due to sharp improvement in its revenue mix (revenue share of high-margin music licensing business improved from 41% in FY18 to 63% in FY22), Covid-related cost savings (A&P spends and employee expenses) and absence of new content investments. Going ahead, overall business margin is likely to stabilise around 26-29% as sharp increase in new content investments will likely have some adverse impact on margins in the near term. On the other hand, the proposed divestment of the loss-making publishing business through a de-merger could have a positive impact on the group margin profile.

Exhibit 40. Revenue mix changed sharply between FY18 and FY22



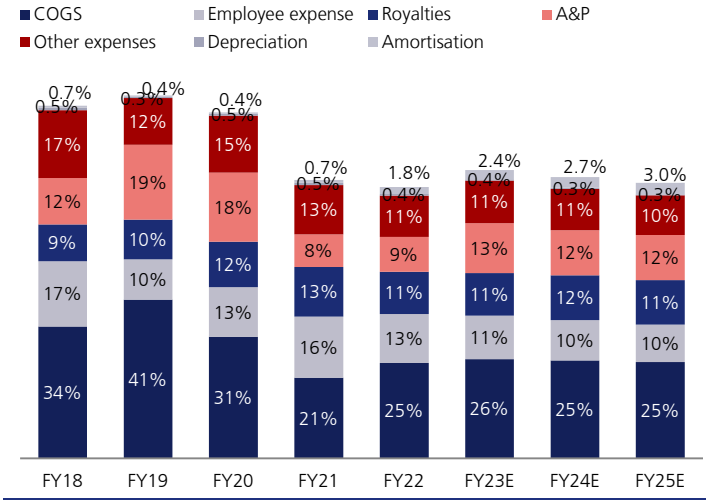
Source: Company, JM Financial

Exhibit 41. Segment-wise EBIT margin (excl. unallocated costs)



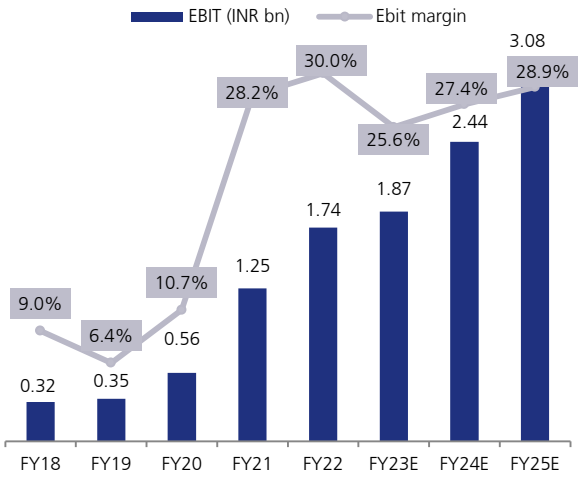
Source: Company, JM Financial

Exhibit 42. Key operating expenses as % of revenue



Source: Company, JM Financial

Exhibit 43. Expect EBIT margin to stabilise ~26-29%

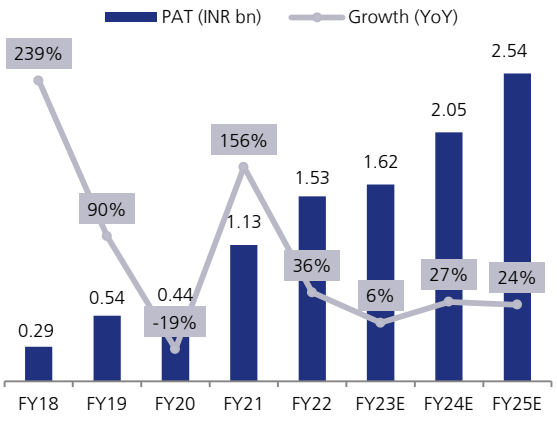


Source: Company, JM Financial

Forecast PAT growth of 18% over FY22-25E; balance sheet cash to keep profitability ratios under check

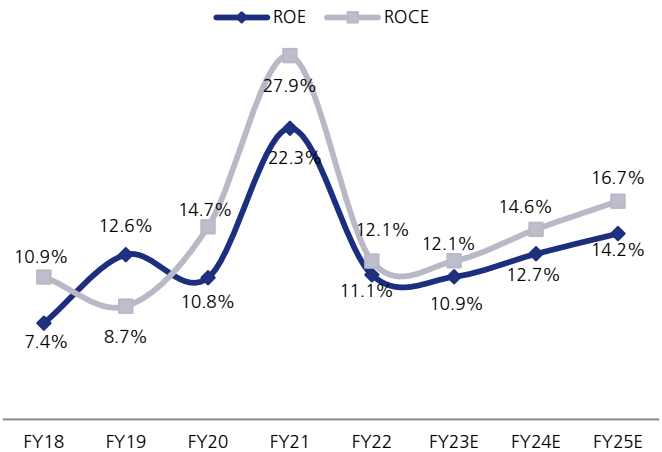
We forecast Saregama to deliver 18.5% PAT CAGR over FY22-25E driven by 20.9% CAGR in operating profit. However, profitability ratios are likely to remain under check in the near term due to adverse impact of balance sheet cash.

Exhibit 44. Expect 18% PAT CAGR over FY22-25E



Source: Company, JM Financial

Exhibit 45. Profitability ratio trend

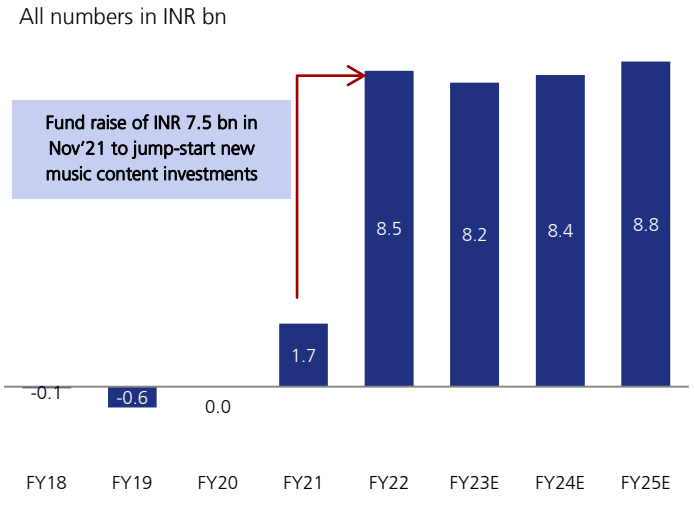


Source: Company, JM Financial

Strong balance sheet and free cash flows

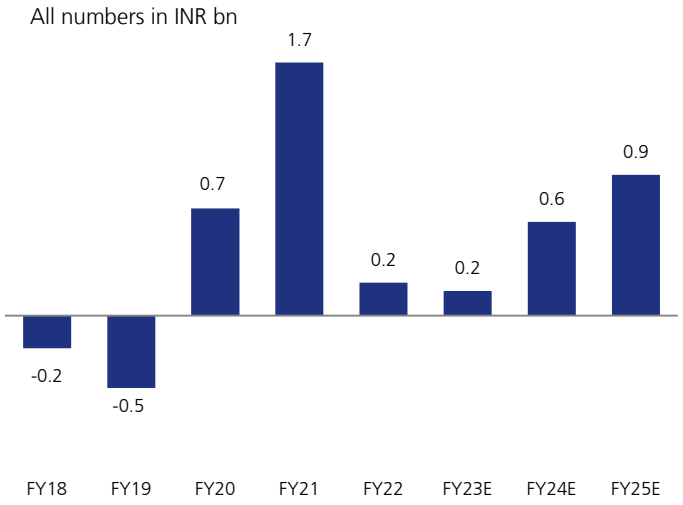
Saregama generated FCF of INR 2.4bn between FY20 and FY21, which it used to wipe out a small amount of borrowings on its balance sheet. In Nov'21, Saregama raised INR 7.5bn through the QIP route to jump-start investments in new music content. Basis the company's guidance, we believe the funds raised should support its new investment pipeline over the next 3-4 years. Post that, we believe the company should be able to sustain follow-up investments through own cash accruals.

Exhibit 46. As of Mar'22, Saregama had net cash of INR 8.5bn, a significant proportion of which is likely to be deployed towards new music content investments and M&A



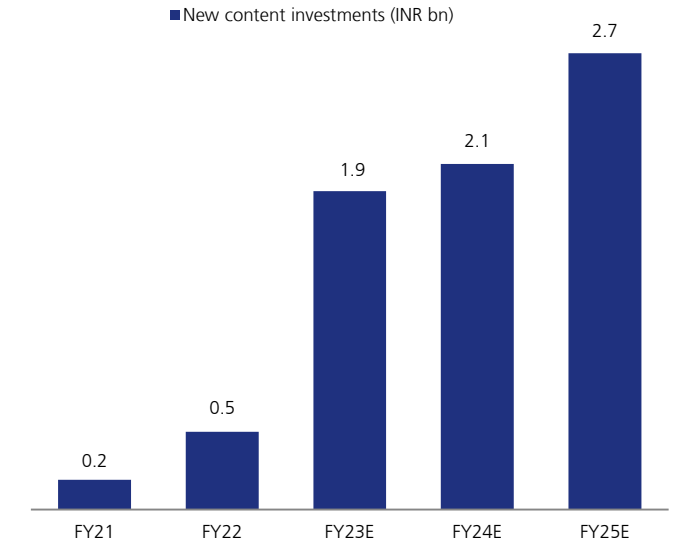
Source: Company, JM Financial

Exhibit 47. We expect the company to report strong free cash over the next 3 years even after factoring in new content investments of INR 6.7bn



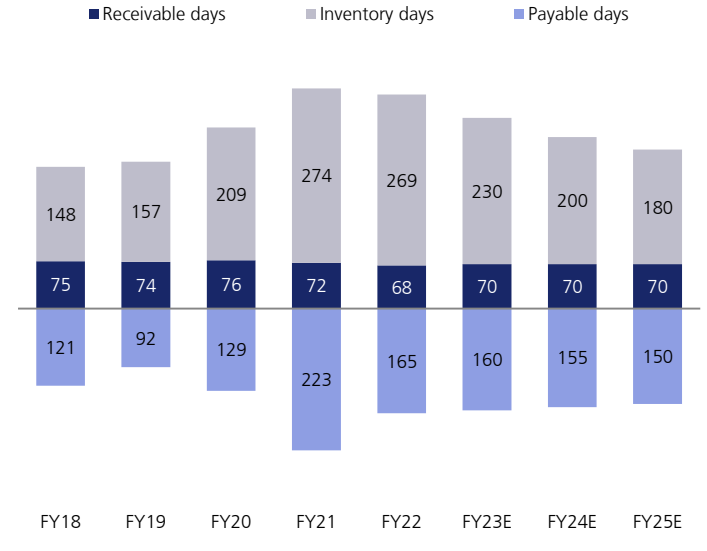
Source: Company, JM Financial

Exhibit 48. New music content investments



Source: Company, JM Financial

Exhibit 49. Working capital trend



Source: Company , JM Financial

Valuation Methodology

Saregama a play on strong industry tailwinds and large, well-diversified catalogue

Monetisation potential of music industry in India continues to improve on the back of fast-growing digitisation. Growing popularity and penetration of OTT streaming platforms (both music as well as video) and short format video apps will likely create incremental revenue growth opportunities for the industry. While more than 70% of the industry revenue is generated by new music content, ownership of IP rights to a large music catalogue helps in driving size benefits when finalising licensing contracts with third-party distributors. Given this context, we believe Saregama's music licensing vertical (~63% of its total revenue in FY22) is well poised to deliver on revenue growth as it already owns one of the largest music catalogues in the country, and its plans to aggressively acquire new music content should help it consolidate its No. 2 position. The company is also well diversified in terms of its language mix and the growing popularity of regional music may play to its advantage due to limited presence of large, organised competition. High focus on agile operations driven by technology investments and decentralised approach to decision-making drive our confidence in the company's ability to execute its organic as well as inorganic investments strategy.

Expectation of robust earnings growth justifies valuations premium

We expect Saregama to report robust Revenue/EBIT/PAT CAGR of 22.4%/20.9%/18.5% over FY22-25E. We note that there could be further upside to our forecasts if penetration of paid subscriptions on music OTT platforms is faster than expected and/or short video format platforms are able to build a monetisable business model. Saregama's share currently trades at 35x/28x FY24/25E PER versus global listed peer average of 22x/20x. We believe the company's stock deserves to trade at a premium to global peers due to 1) relatively stronger topline growth expectations 2) likely sustenance of improved margin profile due to change in revenue mix, and 3) large catalogue, which provides a natural moat against competition.

Exhibit 50. Comparable Valuation comp

Company	MCap (USD bn)	EV (USD bn)	EV / Revenue (x)			Rev CAGR	EV / EBITDA (x)			EBITDA CAGR	P / E (x)			EPS CAGR	PEG
			CY22E	CY23E	CY24E	22-24E	CY22E	CY23E	CY24E	22-24E	CY22E	CY23E	CY24E	22-24E	
Saregama*	**0.9**	**0.8**	**8.7x**	**7.2x**	**6.0x**	**21%**	**30.8x**	**23.5x**	**18.6x**	**29%**	**44.5x**	**35.1x**	**28.4x**	**25%**	**1.4x**
Universal Music Group	30.5	33.3	3.4x	3.1x	2.9x	9%	16.2x	14.3x	12.7x	13%	22.4x	19.3x	17.2x	14%	1.4x
Warner Music Group	11.5	15.3	2.6x	2.5x	2.2x	8%	13.6x	12.5x	10.9x	11%	23.8x	22.2x	17.1x	18%	1.2x
HYBE Co	3.4	3.2	2.8x	2.7x	2.3x	10%	13.9x	13.2x	11.0x	12%	22.8x	22.9x	19.3x	9%	2.6x
SM Entertainment Co	1.0	0.9	1.6x	1.4x	1.2x	15%	9.1x	7.9x	7.4x	11%	18.5x	17.7x	16.0x	7%	2.4x
Reservoir Media	0.3	0.6	4.7x	4.2x	nm	NA	12.9x	11.0x	nm	NA	16.5x	12.9x	nm	NA	NA
Believe	0.7	0.5	0.7x	0.6x	0.5x	24%	19.6x	12.3x	8.9x	49%	nm	140.0x	36.5x	NA	NA
Mean (excluding Believe)			**4.0x**	**3.5x**	**2.9x**		**16.1x**	**13.7x**	**12.1x**		**24.7x**	**21.7x**	**19.6x**		
Mean (including Believe)			**3.5x**	**3.1x**	**2.5x**		**16.6x**	**13.5x**	**11.6x**		**24.7x**	**38.6x**	**22.4x**		

Source: Bloomberg, JM Financial. Note: Valuation as of 11 October 2022, For Saregama CY22/23/24 = FY23/24/25. * indicates based on JM Financial estimates

We initiate on Saregama with a 'BUY' rating and TP of INR 450

Given the multi-year annuity nature of its flagship music licensing business and expectations of broadly stable operating cash flows, we value Saregama's stock using a 15-year DCF (WACC of 12% and Tg of 5%) to arrive at a Dec'23 FV of INR 450 (implied FY25E PER of 34x). We initiate on Saregama with a 'BUY' rating.

Exhibit 51. Key DCF Assumptions

Mar YE (INR mn)	FY20	FY21	FY22	FY23F	FY24F	FY25F	FY26F	FY27F	FY32F	FY38F	CAGR FY22-27	CAGR FY27-32	CAGR FY32-38
Net revenues	**5,215**	**4,420**	**5,806**	**7,308**	**8,885**	**10,660**	**12,390**	**14,241**	**24,058**	**39,509**	**19.7%**	**11.1%**	**8.6%**
Operating expenses	4,610	3,118	3,935	5,238	6,181	7,236	8,302	9,328	15,920	25,244	18.8%	11.3%	8.0%
EBITDA	**605**	**1,301**	**1,871**	**2,070**	**2,704**	**3,424**	**4,088**	**4,913**	**8,138**	**14,265**	**21.3%**	**10.6%**	**9.8%**
EBITDA margin	**11.6%**	**29.4%**	**32.2%**	**28.3%**	**30.4%**	**32.1%**	**33.0%**	**34.5%**	**33.8%**	**36.1%**	227bps	-67bps	228bps
Depreciation and amortization	46	56	131	200	266	349	430	513	947	1,592	31.4%	13.1%	9.0%
EBIT	558	1,245	1,740	1,870	2,438	3,076	3,657	4,400	7,191	12,673	20.4%	10.3%	9.9%
EBIT margin	**10.7%**	**28.2%**	**30.0%**	**25.6%**	**27.4%**	**28.9%**	**29.5%**	**30.9%**	**29.9%**	**32.1%**	93bps	-101bps	219bps
Effective tax rate	27.9%	25.3%	25.3%	25.2%	25.2%	25.2%	25.2%	25.2%	25.2%	25.2%			

Source: JM Financial

Exhibit 52. Cash flow analysis

Mar YE (INR mn)	FY20	FY21	FY22	FY23F	FY24F	FY25F	FY26F	FY27F	FY32F	FY38F	CAGR FY22-27	CAGR FY27-32	CAGR FY32-38
EBIT - post tax	402	930	1,300	1,399	1,824	2,301	2,736	3,291	5,379	9,479	20.4%	10.3%	9.9%
Depreciation & amortization	46	56	131	200	266	349	430	513	947	1,592	31.4%	13.1%	9.0%
Capital expenditure	83	220	727	715	882	940	979	1,071	1,563	2,391	8.0%	7.9%	7.3%
Change in working capital	388	691	-389	-645	-508	-696	-684	-640	-547	-761	10.5%	-3.1%	5.7%
Free cash flow to firm	**920**	**1,897**	**1,769**	**1,669**	**2,464**	**2,894**	**3,461**	**4,234**	**7,342**	**12,701**	**19.1%**	**11.6%**	**9.6%**
Discount factor at WACC	0.65	0.73	0.82	0.92	1.03	1.15	1.29	1.45	2.55	5.03			
DCF as of Dec'23	0	0	0	0	2,395	2,512	2,682	2,930	2,881	2,524			

Source: JM Financial

Exhibit 53. DCF assumptions & calculations

WACC	12.0%
	DCF - 1-yr fwd
FCF CAGR (FY22-38)	13.1%
NPV of cash flow (2024-2038F)	41,192
Perpetual growth (%)	5.0%
Implied Exit FCF multiple (X)	**14.3x**
Terminal value	37,863
Enterprise Value	**79,055**
Terminal value as % of EV	48%
Net debt (Mar'23)	-8,230
Equity value (Rs mn)	**87,285**
Number of shares outstanding (diluted)	193.1
Enterprise value per share (Rs)	409
Equity value per share (Rs, rounded-off)	**450**

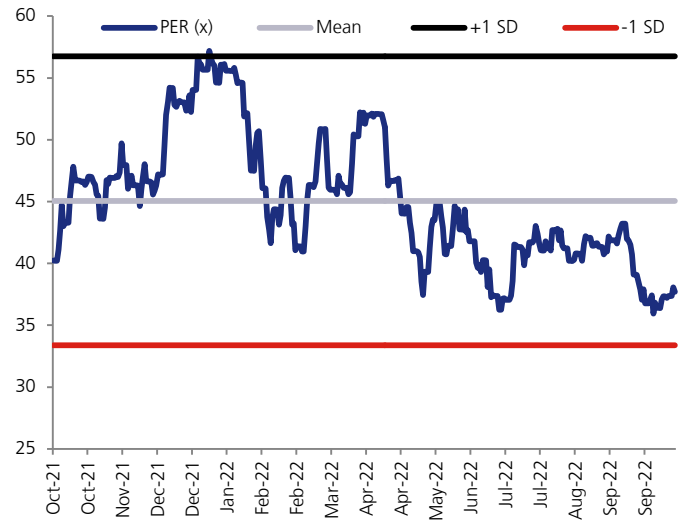
Source: JM Financial

Exhibit 54. Sensitivity analysis

	Sensitivity of Equity Value to WACC and Terminal growth rate					
		Terminal Growth Rate				
		4.0%	**4.5%**	**5.0%**	**5.5%**	**6.0%**
WACC	**10.5%**	532	554	581	613	652
	11.0%	491	509	531	556	586
	11.5%	456	471	488	508	532
	12.0%	426	438	**452**	468	487
	12.5%	399	410	421	434	449
	13.0%	376	384	394	405	417
	13.5%	355	362	370	379	390

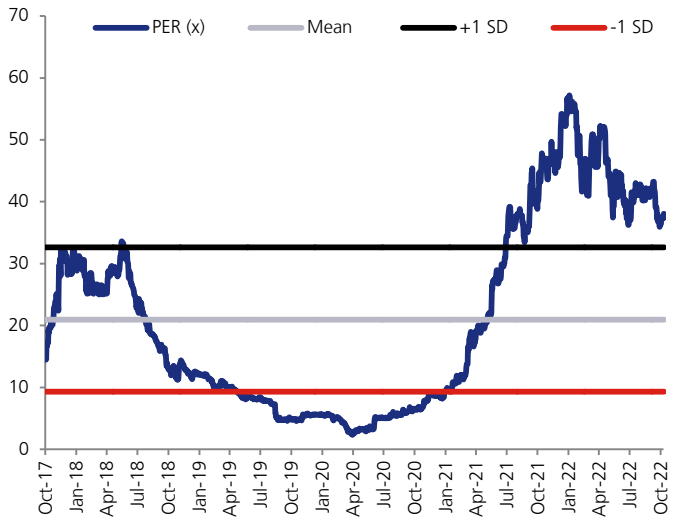
Source: JM Financial

Exhibit 55. PER Chart – 1 year



Source: JM Financial

Exhibit 56. PER Chart – 5 Year



Source: JM Financial

Key Risks

Irrational rise in competitive intensity inflates new content cost

It is essential for music labels like Saregama to acquire or create new content regularly. It not only helps the company expand its catalogue but also makes it more relevant to the younger generation – whose consumption of music is also much higher. Therefore, it is no surprise that new content accounts for a disproportionately high revenue share of more than 70% for the music industry. However, supply of good quality content will always remain limited while the competition remains well-funded. Therefore, there is a possibility that competitive intensity could lead to irrational pricing of new content.

Need for incremental investments to support Carvaan/TV & Films businesses

While investors remain circumspect about a sustainable future for Carvaan and TV & Films business verticals, the management in the past has claimed that both businesses are self-sustainable. It has also mentioned that all funds raised during the QIP would be exclusively used to support acquisition of new music content investments. Therefore, any deviation in the company stance towards need for incremental investments to support Carvaan and TV & films businesses or use of QIP funds could have an adverse impact on trust in the management.

Industry consolidation

India's music label industry is quite competitive with the presence of at least four strong domestic players (T-Series, Saregama, Zee Music and TIPS) and three international players (Sony Music, Universal Music, and Warner) who are known to dominate the global markets. Each of these players is well-funded and has the ability to disrupt the new content market. Moreover, Zee TV and Sony TV are presently going through merger proceedings. While presently their subsidiary companies, Zee Music and Sony Music Entertainment (India) are not merging, there are plans to explore a possible merger of these entities as well. If the merger were to materialise, it may force Saregama to adopt a more aggressive content acquisition strategy in order to maintain its No. 2 position, which may adversely impact its payback period as well as ROIs. This is because the two merging entities together have a combined market share equal to or more than that of Saregama.

Revenue losses to piracy

Music industry continues to suffer from revenue losses to piracy. According to 'International Federation of the Phonographic Industry (IFPI) - Indian Music Industry (IMI) Digital Music Study 2021', India had 68% piracy rate in 2021 compared to global average of 30%. In fact, a study by same industry body indicates revenue loss for the industry stood at INR 15bn in CY19. Therefore, to better enforce their rights, music labels are likely to increase their technology investments. We, therefore, believe digitisation and technology investments will continue to drive up the monetisation potential of music assets.

Slower-than-expected digital penetration

Our revenue growth assumptions for Saregama's music licensing business factor in healthy penetration of Music OTT and Video OTT (including YouTube) platforms in India. Slower-than-expected digital penetration can have a direct impact on Saregama's growth trajectory.

Company Overview

Saregama is India's oldest music label. It started in 1902, when the company released India's first ever studio recorded song with Gauhar Jaan. The company was incorporated as 'The Gramophone Company (India) Pvt. Ltd. in 1946, which was acquired by RPG Group in 1986. The company rebranded itself to 'Saregama' in 2000.

Over the years, the company has built a large portfolio of IPs of 142k+ songs. IP ownership here includes both the Master (actual song) and Publishing rights (lyrics, composition) across all media for global territory. Mr. Vikram Mehra (MD) joined Saregama in 2014, post which the company again started focusing on new film music acquisitions across Hindi, Tamil and Telugu. Recently, the company has started investing in non-film music in regional Indian languages. IP monetisation is through licensing and retailing. Licensing to third-party platforms includes music streaming platforms (OTT), broadcasting platforms, video streaming platforms, social media platforms etc.

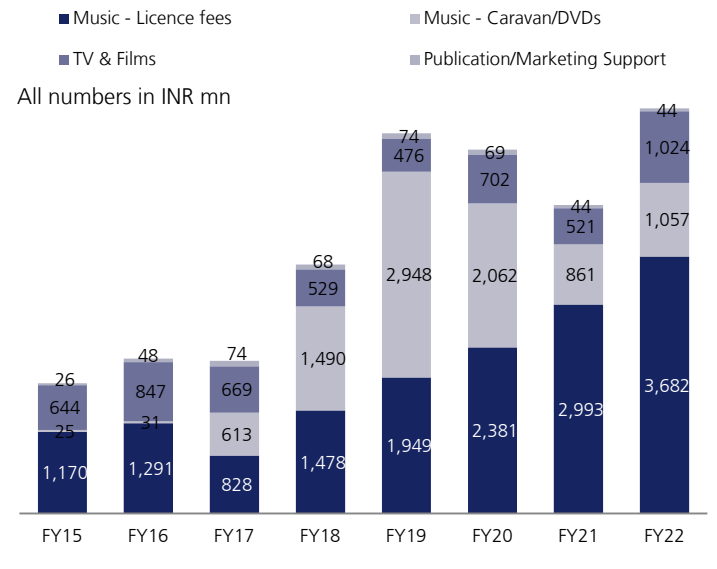
In 2017, Saregama launched its flagship product 'Carvaan' – an audio player with over 5,000 preloaded songs. Though the product was initially targeted at mid-age convenience seeking customers, the company came up with various versions of Carvaan for other age groups as well.

In 2017, it also entered into the film production business through 'Yoodlee Films'. Yoddlee is Saregama's production house that creates content for 3rd party digital platforms. The key differentiator for the company here is that it keeps upfront talent cost low by offering profit sharing to key artistes. It has released 11 Films on Netflix, four on Disney + Hotstar, and three on Zee5.

Saregama also creates Tamil TV serial content for Sun TV. The company's top serial 'Roja' has been the No. 1 Tamil programme for multiple months. The company owns the IP of the serials and monetises it through other platforms (like YouTube) as well.

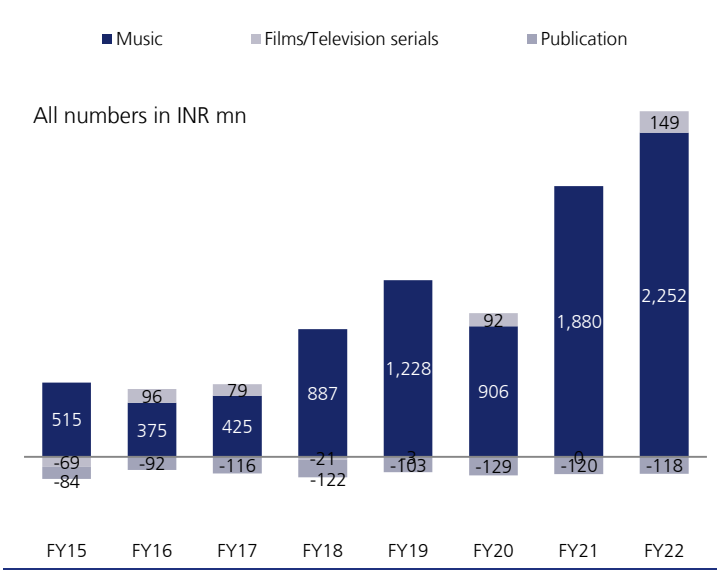
Recently, the company started two new initiatives: Live Music events, and Artist management business. In Live Music events business, the company earns primarily through ticketing; sponsorships and IPs created can also be the source of revenue here. The Artist management vertical is focused on bringing new undiscovered talents to frame; however, the company also represents established talent as well.

Exhibit 57. Segmental revenue



Source: Company, JM Financial

Exhibit 58. Segmental EBIT (excl. unallocated costs)



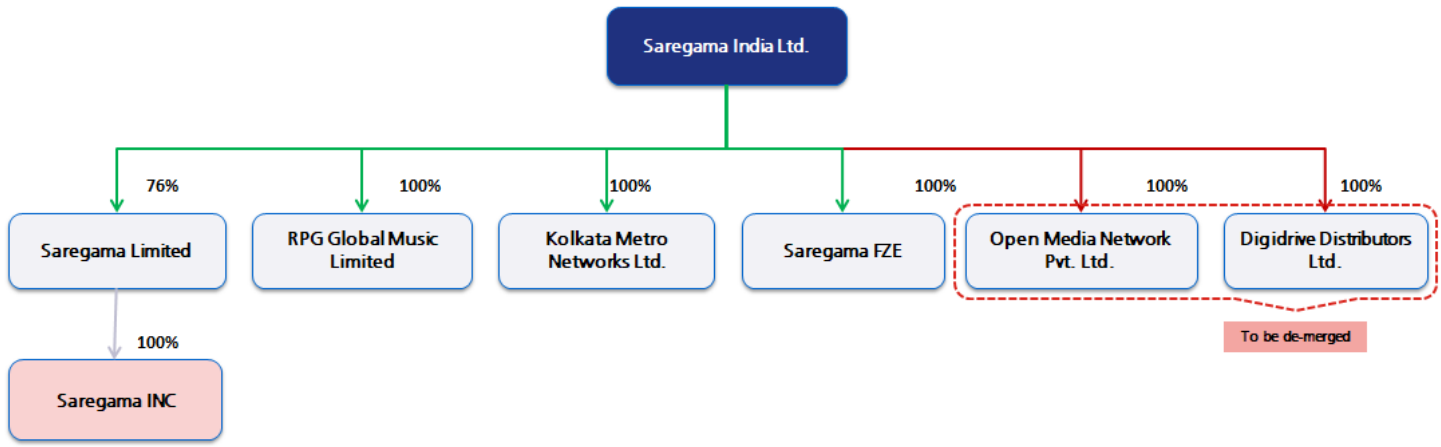
Source: Company, JM Financial

Exhibit 59. Key Events

Date	Event Type	Description
1902	First Recording	Company began operations by recording the first Indian song (by Gauhar Jaan)
1946	Incorporation	Company incorporated as "The Gramophone Company (India) Pvt. Ltd.
1986	Transfer of control	Company got acquired by RPG Group
2000	Brand change	Company started retailing products under brand name 'Saregama'
2001	New business launch	Company started TV serial Production (Serials produced include the likes of Soolam, Velan, My dear bhootham, Raja Rajeswari, Athipookkal, Pondadi thevai)
2014	Management change	Mr. Vikram Mehra joined the company as a Managing Director
2016	Strategy change	Company started investing in new film music again
2017	New business launch	Company launched their flagship product 'Carvaan',a portable music player with a pre-loaded collection of 5000 evergreen songs
2017	New business launch	Company launched a new film production house "Yoodlee" (under which it recently launched movies like Halla ho, bahut hua Samman, comedy couple, Collar bomb, Zombivali)
2018	New product launch	Launched Saregama Carvaan premium with additional features
2019	New product launch	Launched Carvaan 2.0, with wifi connectivity to access 300 audio stations with over 20k songs
2021	Fund Raise	Company raises INR 7,500 mn via QIP
2022	New business launch	Company ventured into live events business

Source: Company, JM Financial

Exhibit 60. Corporate structure



Source: Company, JM Financial

Board of Directors and Key Management Personnel

Exhibit 61. Details on Board of Directors

Name	Position	With Saregama since	Other Directorships	Remuneration Paid in FY22 (INR mn)
Dr. Sanjiv Goenka	Chairman	17 Aug'91	CESC Ltd., RPSG Ventures Ltd., PCBL Ltd., Spencer's Retail Ltd., Firstsource Solutions Ltd.	0.175
Vikram Mehra	Managing Director	27 Oct'14	-	93.8
Santanu Bhattacharya	Non-Executive Independent Director	22 Dec'15	-	0.300
Preeti Goenka	Non-Executive Director	27 May'13	Phillips Carbon Black Ltd.	0.140
Arindam Sarkar	Non-Executive Independent Director	22 Dec'15	Albert David Ltd.	0.165
Avarna Jain	Non-Executive Director	29 May'18	-	0.140
Noshir Naval Framjee	Non-Executive Independent Director	12 Jun'17	-	0.275
Umang Kanoria	Non-Executive Independent Director	28 Sep'15	STEL Holdings Ltd., Kanco Tea & Industries Ltd., Kanco Enterprises Ltd.	0.195
Suhana Murshed	Non-Executive Independent Director	23 Mar'21	Kanoria Chemicals & Industries Ltd., XPRO India Ltd., STEL Holdings Ltd.	0.145

Source: Company, JM Financial

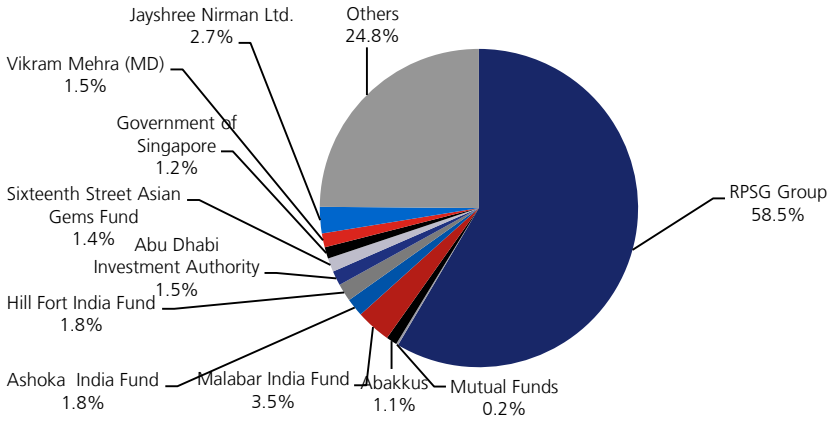
Exhibit 62. Details of key management personnel

Name	Position	With Saregama since	Past Experience
Vikram Mehra	Managing Director	27 Oct'14	Tata Sky (Chief Marketing Officer and Chief Commercial Officer), STAR TV (Vice President), Tata Administrative Services- Manager, Tata Consultancy Services
Pankaj Chaturvedi	Chief Financial Officer	11 Apr'22	Go Airlines (CFO), Vodafone, Reliance Jio and Hitachi
Rashna Pochkhanawala	Executive Vice President, Music Licensing	May'15	Times Group, Network 18, Hungama & UTV
Kumar Ajit	Executive Vice President, Music Retail	Sep'16	Tata Sky, LG and Onida
Siddharth Anand Kumar	Senior Vice President, Films and Series - heads Yoodlee	Jul'16	Director and producer in the Indian Film and TV industry for close to two decades
B. R. Vijayalakshmi	Executive Vice President, South TV - heads Saregama's Tamil TV serial business	Since 2001	Multi-decade experience as a Cinematographer

Source: Company, JM Financial

Shareholding Structure

Exhibit 63. Shareholding structure (as of Jun'22)



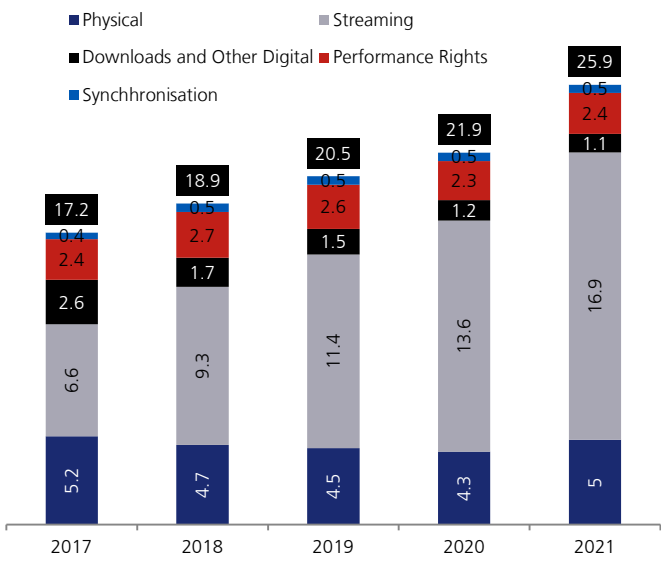
Source: Company, JM Financial

Annexure

Streaming revenue, especially paid subscriptions are driving global recorded music growth

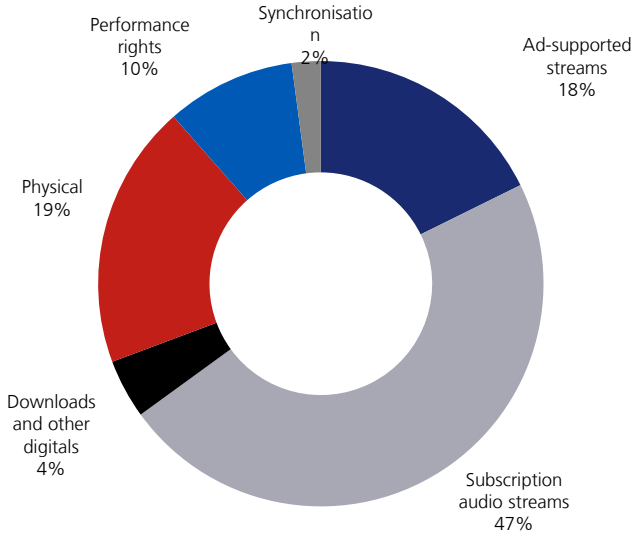
The International Federation of the Phonographic Industry (IFPI) estimates that the global recorded music market revenue reported a CAGR of 10.8% over CY17-21. Revenue growth during this period was primarily driven by music streaming revenue (audio as well as video), which reported 26.5% growth during this period. In fact, streaming revenue's contribution to global music revenue has gone up from 38% in CY17 to 65% CY21. The key growth driver for streaming revenue has been the sharp rise in paid subscription revenue, which now accounts for 70% of total streaming revenue. According to the industry body, globally there were 523 million paid audio subscription accounts.

Exhibit 64. Global recorded music revenue (USD bn)



Source: IFPI, JM Financial

Exhibit 65. Global recorded music revenue by segment

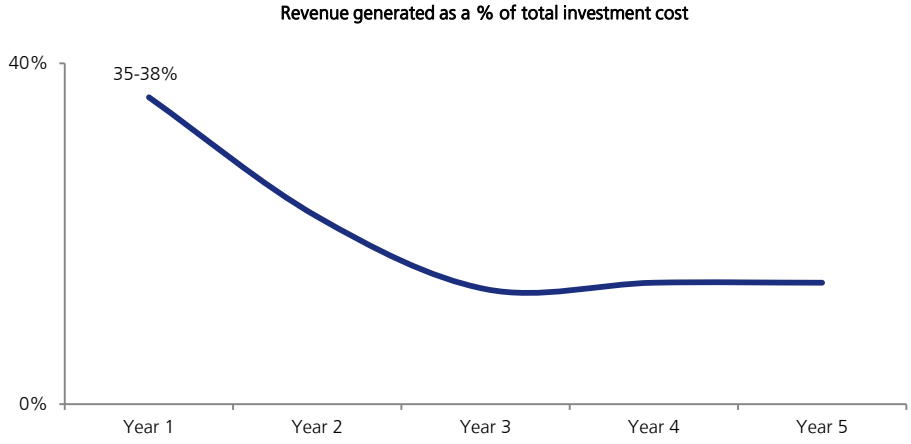


Source: IFPI, JM Financial

New content investments to have a payback in 5 years, costs to be amortised over 10 years

Saregama management estimates 35-38% of the new content investment is, on average, recovered in the form of revenue in the very first year of investment. However, as the content gets older, there is a sharp dip in revenue in the 2nd year and 3rd year. In the 4th and 5th year, the dip stabilises such that by the 5th year the entire invested amount is recovered.

Exhibit 66. New content investments have a payback period of five-years



Source: Company, JM Financial Estimates

Unlike revenue, the content acquisition costs are expensed over a period of 10 years. This includes an average spend of 20% of the content investment value towards marketing of the music in the first year and amortisation of the remaining 80% of the investment value over a period of 10 years as shown in the exhibit below.

Exhibit 67. New content acquisition costs are expensed over a period of 10 years

Expense type	% of Total new content cost	Expensing Schedule									
		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Marketing Expenses	20.0%	20.0%									
Cost of Content	80.0%	16.0%	12.0%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%

Source: JM Financial

Financial Tables (Consolidated)

Income Statement (INR mn)

Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Sales	4,420	5,806	7,308	8,885	10,660
Sales Growth	-15.2%	31.4%	25.9%	21.6%	20.0%
Other Operating Income	0	0	0	0	0
Total Revenue	**4,420**	**5,806**	**7,308**	**8,885**	**10,660**
Cost of Goods Sold/Op. Exp	921	1,431	1,871	2,248	2,649
Personnel Cost	695	735	823	921	1,032
Other Expenses	1,502	1,770	2,545	3,012	3,555
EBITDA	**1,301**	**1,871**	**2,070**	**2,704**	**3,424**
EBITDA Margin	29.4%	32.2%	28.3%	30.4%	32.1%
EBITDA Growth	115.2%	43.8%	10.6%	30.6%	26.6%
Depn. & Amort.	56	131	200	266	349
EBIT	1,245	1,740	1,870	2,438	3,076
Other Income	309	349	345	352	365
Finance Cost	35	45	46	46	46
PBT before Excep. & Forex	1,519	2,044	2,169	2,745	3,395
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	1,519	2,044	2,169	2,745	3,395
Taxes	384	518	547	692	856
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	9	1	1	1	1
Reported Net Profit	1,126	1,526	1,622	2,052	2,538
Adjusted Net Profit	**1,126**	**1,526**	**1,622**	**2,052**	**2,538**
Net Margin	25.5%	26.3%	22.2%	23.1%	23.8%
Diluted Share Cap. (mn)	173.2	181.2	193.1	193.1	193.1
Diluted EPS (INR)	**6.5**	**8.4**	**8.4**	**10.6**	**13.1**
Diluted EPS Growth	157.3%	29.6%	-0.2%	26.5%	23.7%
Total Dividend + Tax	346	544	568	719	890
Dividend Per Share (INR)	2.0	3.0	2.9	3.7	4.6

Source: Company, JM Financial

Balance Sheet (INR mn)

Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Shareholders' Fund	5,058	13,777	14,831	16,165	17,815
Share Capital	174	193	193	193	193
Reserves & Surplus	4,884	13,584	14,639	15,973	17,623
Preference Share Capital	0	0	0	0	0
Minority Interest	31	32	33	34	35
Total Loans	0	0	0	0	0
Def. Tax Liab. / Assets (-)	505	562	562	562	562
Total - Equity & Liab.	**5,594**	**14,371**	**15,426**	**16,761**	**18,412**
Net Fixed Assets	2,256	2,773	3,288	3,904	4,496
Gross Fixed Assets	2,147	2,262	2,605	3,125	3,600
Intangible Assets	299	826	1,351	1,928	2,691
Less: Depn. & Amort.	202	328	680	1,161	1,807
Capital WIP	11	13	13	13	13
Investments	2,727	8,492	8,702	8,702	8,702
Current Assets	2,858	5,613	6,600	7,956	9,716
Inventories	692	1,054	1,179	1,232	1,306
Sundry Debtors	874	1,078	1,402	1,704	2,044
Cash & Bank Balances	111	1,527	1,212	1,422	1,786
Loans & Advances	135	248	248	248	248
Other Current Assets	1,046	1,706	2,560	3,350	4,331
Current Liab. & Prov.	2,246	2,508	3,165	3,802	4,503
Current Liabilities	563	645	820	954	1,088
Provisions & Others	1,683	1,863	2,345	2,848	3,414
Net Current Assets	612	3,106	3,435	4,154	5,213
Total – Assets	**5,594**	**14,371**	**15,426**	**16,761**	**18,412**

Source: Company, JM Financial

Cash Flow Statement (INR mn)

Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before Tax	1,519	2,044	2,169	2,745	3,395
Depn. & Amort.	56	131	200	266	349
Net Interest Exp. / Inc. (-)	-204	-208	-299	-307	-319
Inc (-) / Dec in WCap.	691	-389	-645	-508	-696
Others	-28	-62	0	0	0
Taxes Paid	-138	-572	-547	-692	-856
Operating Cash Flow	**1,897**	**944**	**878**	**1,504**	**1,873**
Capex	-220	-727	-715	-882	-940
Free Cash Flow	1,677	217	163	622	933
Inc (-) / Dec in Investments	-9	0	-210	0	0
Others	-1,132	-5,576	345	352	365
Investing Cash Flow	**-1,361**	**-6,303**	**-580**	**-530**	**-575**
Inc / Dec (-) in Capital	0	7,332	0	0	0
Dividend + Tax thereon	-375	-578	-568	-718	-888
Inc / Dec (-) in Loans	-92	0	0	0	0
Others	-29	21	-46	-46	-46
Financing Cash Flow	**-495**	**6,775**	**-613**	**-764**	**-934**
Inc / Dec (-) in Cash	**41**	**1,416**	**-315**	**210**	**364**
Opening Cash Balance	70	111	1,527	1,212	1,422
Closing Cash Balance	111	1,527	1,212	1,422	1,786

Source: Company, JM Financial

Dupont Analysis

Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Margin	25.5%	26.3%	22.2%	23.1%	23.8%
Asset Turnover (x)	0.9	0.6	0.5	0.6	0.6
Leverage Factor (x)	1.1	1.1	1.0	1.0	1.0
RoE	24.9%	16.2%	11.3%	13.2%	14.9%

Key Ratios

Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
BV/Share (INR)	29.2	76.0	76.8	83.7	92.3
ROIC	34.2%	43.3%	32.2%	33.2%	34.4%
ROE	24.9%	16.2%	11.3%	13.2%	14.9%
Net Debt/Equity (x)	-0.3	-0.6	-0.6	-0.5	-0.5
P/E (x)	57.6	44.4	44.5	35.2	28.4
P/B (x)	12.8	4.9	4.9	4.5	4.1
EV/EBITDA (x)	54.2	34.0	30.9	23.6	18.5
EV/Sales (x)	15.9	11.0	8.8	7.2	5.9
Debtor days	72	68	70	70	70
Inventory days	57	66	59	51	45
Creditor days	66	60	57	56	55

Source: Company, JM Financial

APPENDIX I

JM Financial Institutional Securities Limited

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Rating	Meaning
Buy	Total expected returns of more than 10% for large-cap stocks* and REITs and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for large-cap* stocks and REITs and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

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