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Q2FY25 Result Update
06th October 2024

Saregama India Ltd

Diversifying for long-term growth amidst carvaan challenges

CMP: INR 499

Rating: Buy

Target Price: INR 626

Stock Info	
BSE	532163
NSE	SAREGAMA
Bloomberg	SARE:IN
Reuters	SARE.NS
Sector	Media & Entertainment
Face Value (INR)	1
Mkt Cap (INR Mn)	96,838
52 week H/L (INR)	689/326
Avg. Yearly Volume (in ,000)	49

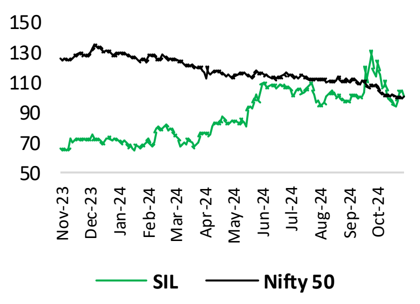
Shareholding Pattern %

(As on Sept ,2024)

Promoters	59.22
Public & Others	40.78

Stock Performance (%)	1m	3m	12m
Saregama	-17.9	-1.2	44.6
Nifty 50	-2.5	1.5	25.5

Saregama Vs Nifty 50



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Saregama India Q2FY25 reported top line above estimate; Margin and bottom line below estimate led by higher operational costs. Saregama India's Q2FY25 revenue stood at INR 2,418 Mn, up by 17.8% YoY & 40.3% QoQ) above our estimate of INR 2,264 Mn. EBITDA for Q2FY25 was INR 608 Mn, representing an 18.2% YoY increase & down by 0.05% QoQ, below our estimate of INR 863 Mn. The EBITDA margin increased by 9 bps YoY and decreased by 1,016 bps QoQ to 25.2% in Q2FY25, below of our estimate of 38.1%. Lower margin is attributed to increase in operational costs which includes media content cost, contract manufacturing charges and cost of production of films, television serials and events. PAT for Q2FY25 was INR 450 Mn, representing a 21.2% YoY increase and a 6.3% QoQ decrease, below our estimate of INR 630 Mn. The PAT margin increased by 52 bps YoY and decreased by 926 bps QoQ to 18.6% in Q2FY25, which is below our estimate of 27.8%.During the Quarter, Company released 400 plus Originals and Premium Recreations across Hindi, Bhojpuri, Gujarati, Punjabi, Tamil, Telugu, Malayalam, Marathi and Bengali languages. Company also released 1200 plus derivatives (LoFi, Trap Mix, Cover, Acoustic etc.) which is driving the popularity and growth of its catalogue. Saregama's digital footprint on its owned and controlled channels reached 294 Mn followers and subscribers across YouTube, Instagram, and Facebook.

Investment Rationale

INR 10,000 Mn Investment in New Music Content for Growth: Over the next three years, INR 10,000 Mn will be invested in new music content to drive growth and achieve a #1 position. This strategy will lead to a significant rise in content expenses, slowing EBITDA growth in the short term. Revenue is expected to grow substantially over the next six quarters, with profitability improving after the content investment ramp-up. The funding will come from internal accruals and the QIP proceeds.

Strong traction in Artist Management: The artist management vertical has grown by 50% this year, with 60+ new artists added, bringing the total to over 180. Monetization is achieved through IP releases, live events, weddings, and brand endorsements. Many of these artists are also featured in the company's new movie songs or non-film tracks, enhancing their visibility. With digital advertising growing at 15%, the revenue from artist management is expected to become substantial. The goal of acquiring 25% to 30% of all music released in India should help the music vertical, including licensing and artist management, double its revenue over the next 3 to 3.5 years.

Outlook and Valuation

Saregama India experienced a revenue decline in its Carvaan product line this quarter, offsetting growth in other areas. The transition of some streaming platforms from free to paid models led to a temporary revenue dip, described as a "base effect" confined to this quarter. Increased investment in new content resulted in higher content charge-offs, impacting profitability despite overall revenue growth. Strategically, Saregama is positioning itself as a diversified IP company focused on long-term growth in music, video, and live entertainment. Management projects a 30% CAGR in revenue (excluding Carvaan) over the next three years and expects profits to double in 3-4 years, highlighting significant growth potential across its business segments. **We expect Saregama's revenue, EBITDA, and PAT to grow at a CAGR of 29.56%, 39%, and 32.3%, respectively, over FY25-27E and arrive at a TP of INR 626 per share. Accordingly, we maintain a "BUY" rating on the stock.**

Exhibit 1: Financial Performance

(INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin (%)	EV/EBITDA	P/E (x)
FY24	8,030	2,466	1,976	10.2	30.7%	36.8	48.7
FY25E	10,451	2,918	2,180	11.3	27.9%	30.2	44.1
FY26E	13,391	4,242	2,905	15.1	31.7%	20.8	33.1
FY27E	17,544	5,656	3,822	19.8	32.2%	15.8	25.2

Source: Arihant Research, Company Filings

Exhibit 2: Q2FY25 - Quarterly Performance (Consolidated)

Consolidated (INR Mn)	Q2FY25	Q1FY25	Q2FY24	QoQ%	YoY%
Net sales	2418.3	2052.8	1723.5	18%	40%
COGS	871.2	679.5	406.0	28%	115%
GP	1547.1	1373.3	1317.5	13%	17%
GP Margin (%)	63.97%	66.90%	76.44%	-29242%	-124686%
Employees benefits expense	304.0	263.0	216.3	16%	41%
Advertisement and sales promotion	253.3	242.5	132.1	4%	92%
Royalty expense	167.6	151.4	151.8	11%	10%
Other expenses	213.8	201.8	208.6	6%	2%
EBITDA	608.4	514.6	608.7	18%	0%
EBITDA Margin (%)	25.16%	25.07%	35.32%	900%	-101595%
Depreciation and amortisation expense	136.4	127.3	82.5	7%	65%
EBIT	472.0	387.3	526.2	22%	-10%
EBIT margin (%)	19.5%	18.9%	30.5%	6509%	-110131%
Other Income	125.3	121.8	132.0	3%	-5%
Finance Cost	4.3	2.1	2.2	105%	95%
PBT	593.0	507.0	656.0	17%	-10%
Tax	143.5	136.1	176.1	5%	-19%
Reported PAT	449.5	370.9	479.9	21%	-6%
PAT Margin (%)	18.6%	18.1%	27.8%	5194%	-92571%
EPS	2.3	1.9	2.5	21%	-7%

	Q2FY25	Q1FY25	Q2FY24	QoQ%	YoY%
RMC/Sales	23.06%	33.10%	23.56%	-1004.44	-50.00
Employee exp/Sales	12.45%	12.81%	12.55%	-36.17	-10.00
Advertisement and sales/Sales	7.56%	11.81%	7.66%	-424.85	-10.00
Royalty expenses/Sales	8.71%	7.38%	8.81%	133.24	-10.00
Other exp/Sales	10.10%	9.83%	12.10%	27.28	-200.00

Music	Q2FY25	Q1FY25	Q2FY24	QoQ%	YoY%
Music - Licensing + Artist Mgmt	1480	1331	1,217	11.2%	21.6%
Music - Retail	212	247	352	-14.2%	-39.8%
Total Music	1692	1578	1,569	7.2%	7.8%

Source: Arihant Research, Company Filings

Saregama India- Q2FY25 Concall KTAs

Revenue, excluding Caravan, is expected to grow at a CAGR of at least 30%, with PBT doubling over the next 34 yrs, driven by both music and video verticals, while maintaining an annual adjusted EBITDA guidance of 32% to 33%, with occasional fluctuations due to large live event revenues, but overall margins are expected to stay within 32% to 33%, with music margins holding steady.

PBT: On an annual basis, PBT is expected to show modest growth compared to last year, with this trend continuing for the next five quarters, after which PBT is anticipated to grow at a rate hopefully faster than revenue growth.

Company's Growth Strategy: Focus on investing in high quality content to maintain leadership, with a goal to retain market dominance for years.

Growth remain steady: Saregama's growth will remain steady in the medium to long term, fueled by rising digital consumption, a 294 mn internet footprint, strong cash reserves, managerial expertise, access to major soundtracks, and cost efficient content creation, ensuring secure earnings for decades.

Retail: This quarter saw retail revenue of INR 210 Mn, a decline compared to last year, but this was planned and expected as the company exits the retail business. Over the next three years, INR 10000 Mn will be invested in new music content, which will drive immediate growth and establish a long-term growth trajectory for the company.

Saregama India- Q2FY25 Concall KTAs

Video vertical: Video segment performed well and this is a high IRR, low margin business. A well defined capital allocation and financial policy will help improve video IRR.The company make films under the brand U3, digital series under the brand Dice or Pocket Aces, short videos under Filter Copy, Nutshell, and some TV serials for Sun TV The explosion in smartphone ownership and cheap data are the biggest drivers of this vertical. Video IP will be in a very strong position in the days to come.

Dharma Productions: A longstanding, deep relationship exists with production houses like Dharma, with major releases such as Bad Newz and Rocky Rani, and as the video industry gets more organized, the quality of both movies and music continues to improve.

Music licensing and artistic business are aligned with annual revenue goals.

PBT has been impacted by investments in new content, including marketing, advertising expenses, and depreciation.

Investment in new content : FY25 will show modest growth in PBT on a 12month basis.

Leadership in Hindi Music Achieved #1 rank in Hindi music for the first time, with two albums topping charts, Bad Newz and Stree2.Bad Newz song topped major charts (Spotify, Billboard, Instagram, Radio) and was #1 globally on YouTube for 25+ days, surpassing 300 mn views.Other tracks like "Jaanam" and "Mere Mehboob" also stayed on Spotify's top 50 for weeks.

Stree2's Impact: All songs from Stree2 hit the top 15 on Spotify, with Aashirath reaching #1 globally for 2.5 weeks.

YouTube Dominance: Aashirath crossed 500 mn views; Aai Nahi surpassed 300 mn.Total views for Stree2 on YouTube exceeded 1 bn across the channel.

Music Strategy: The company's success is attributed to a datadriven approach, predictive models, and a strong ability to market music.

Upcoming Releases: High profile releases include Singham Again, Maddock Films' Thama and Sky Force, Bazooka, Amaran, and Sudeep Kichar's film.

Content Expansion: Released over 400 originals and recreations in multiple languages (Hindi, Bhojpuri, Gujarati, Punjabi, etc.).

Increased Investment in Content: Significant rise in new content expenses as part of a catchup strategy to reach #1 position. High content investments expected to slow EBITDA growth in the short term. Revenue will grow substantially in the next six quarters, while profitability will improve after the content investment ramp-up.

The new content is going to be funded all through internal accruals and the QIP money.

Regional language: The company has been leaders in Bhojpuri, Gujarati for a very long time. Also leaders in Malayalam and Telugu. Tamil and Punjabi is on the 3rd or 2nd number.

Hindi longer payback and Bhojpuri much shorter payback and overall level maintaining of 5 years payback .Revenue growth on the weighted average IRR.

YouTube shorts: YouTube Shorts, contracts protect them from the new guidelines that have been shared. On YouTube Shorts specifically, on the non-music side, they have started opening themselves to advertising. And the video part of Saregama business has started growing up.

Artist Management: The artist management vertical has grown by 50% this year, with 60+ new artists added, bringing the total to over 180, through monetizing artists via IP releases, live events, weddings, and brand endorsements.

DCF Valuation

Valuation Assumptions	
g (World Economic Growth)	3%
Rf	7%
Rm	13%
Beta	0.8
CMP (INR)	499

WACC	
We	99.9%
Wd	0.1%
Ke	11.74%
Kd	7.67%
WACC	11.74%

Valuation Data	
Total Debt (long term borrowings) (2024)	54
Cash & Cash Equivalents (2024)	5,421
Number of Diluted Shares (2024)	193
Tax Rate (2024)	27%
Interest Expense Rate (FY24)	11%
MV of Equity	96,202
Total Debt	54
Total Capital	**96,256**

FCFF & Target Price

FCFF & Target Price	Explicit Forecast Period						Linear Decline Phase					Terminal Yr
Year	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
EBIT * (1-Tax Rate)	1,787	2,618	3,456	4,437	5,535	6,705	7,879	8,972	9,892	10,548	10,864	11,190
Dep	470	656	923	1,155	1,435	1,758	2,053	2,339	2,583	2,751	2,834	2,920
Purchase of Assets	1,045	1,272	1,579	1,775	1,937	2,011	2,206	2,333	2,176	2,215	2,173	2,238
Changes in Working Capital	-1,364	-1,358	-2,350	-2,902	-3,419	-4,362	-5,048	-5,709	-6,356	-6,749	-6,948	-7,169
FCFF	2,576	3,360	5,149	6,719	8,452	10,813	12,774	14,687	16,655	17,832	18,474	19,041
% Growth in Post Tax EBIT		46.52%	32.01%	28.39%	24.76%	21.13%	17.51%	13.88%	10.25%	6.63%	3.00%	3.00%
As % of Post Tax EBIT												
Dep	26.33%	25.07%	26.70%	26.03%	25.93%	26.22%	26.06%	26.07%	26.12%	26.08%	26.09%	26.10%
Purchase of Assets	58.50%	48.60%	45.69%	40.00%	35.00%	30.00%	28.00%	26.00%	22.00%	21.00%	20.00%	20.00%
Changes in Working Capital	-76.34%	-51.88%	-68.00%	-65.40%	-61.76%	-65.05%	-64.07%	-63.63%	-64.25%	-63.98%	-63.95%	-64.06%
FCFF	2,576	3,360	5,149	6,719	8,452	10,813	12,774	14,687	16,655	17,832	18,474	19,041
Terminal Value												217,979
Total Cash Flow	**2,576**	**3,360**	**5,149**	**6,719**	**8,452**	**10,813**	**12,774**	**14,687**	**16,655**	**17,832**	**18,474**	**237,020**

Enterprise Value (EV)	**115,384**
Less: Debt	**54**
Add: Cash	**5,421**
Equity Value	**120,750**
Equity Value per share (INR)	**626**
% Returns	**25.5%**
Rating	**BUY**

WACC (%)	Terminal Growth (%)							
626.27	2.25%	2.50%	2.75%	3.00%	3.25%	3.50%	3.75%	4.00%
10.99%	650	665	680	697	714	733	753	774
11.24%	629	642	657	672	688	705	724	743
11.49%	608	621	**634**	648	663	679	696	714
11.74%	589	601	613	**626**	640	655	671	687
11.99%	570	581	593	605	**619**	632	647	662
12.24%	553	563	574	586	598	**611**	624	639
12.49%	536	546	557	567	579	591	603	617
12.74%	521	530	540	550	561	572	584	596

Source: Arihant Research, Company Filings

Story in charts (INR in Mn)

Exhibit 3 : Carvaan revenue decline offset growth in other areas

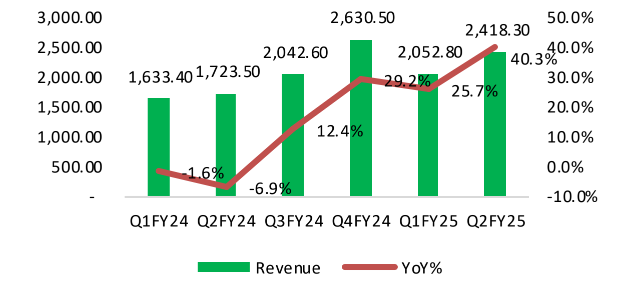


Exhibit 4: Transition of some streaming platforms from free to paid models impacted margins

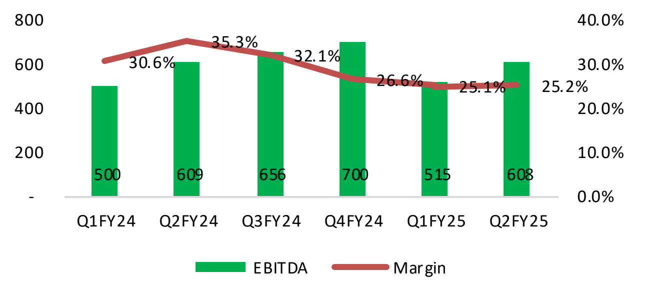


Exhibit 5: Increased investment in new content led to higher content charge-offs impacting profitability

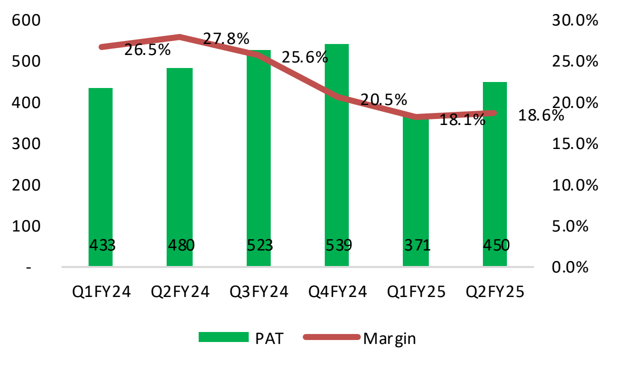


Exhibit 6: EPS expected to improve in the coming quarters

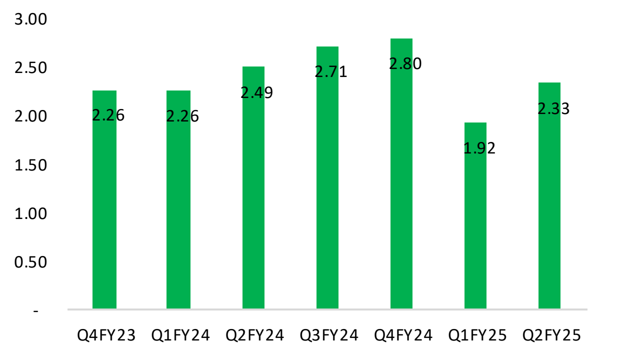


Exhibit 7: Music – Licensing + Artist Management Revenue Per Quarter (INR Mn)

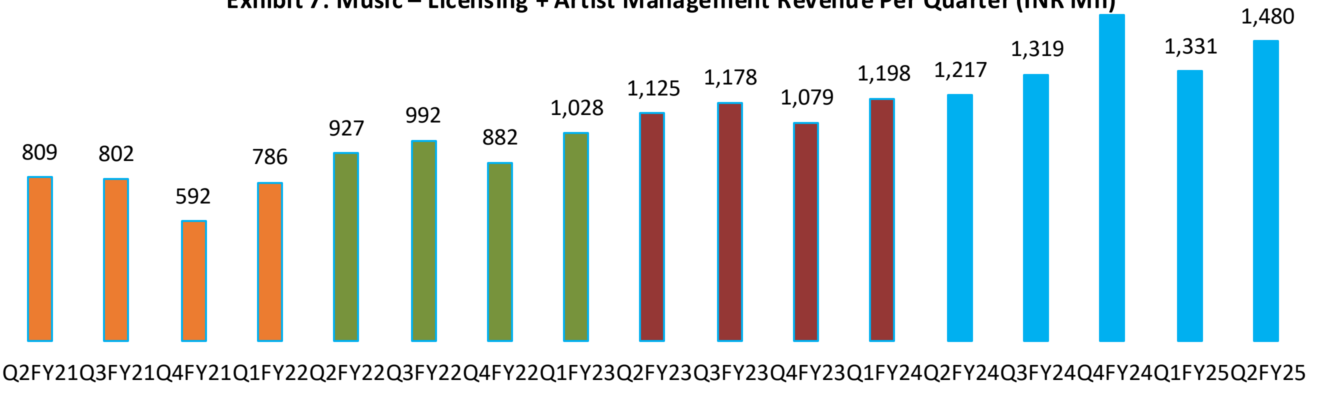


Exhibit 8: Youtube Views (Bn) Per Quarter

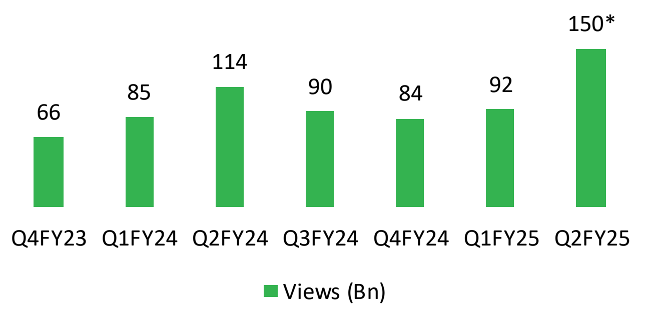
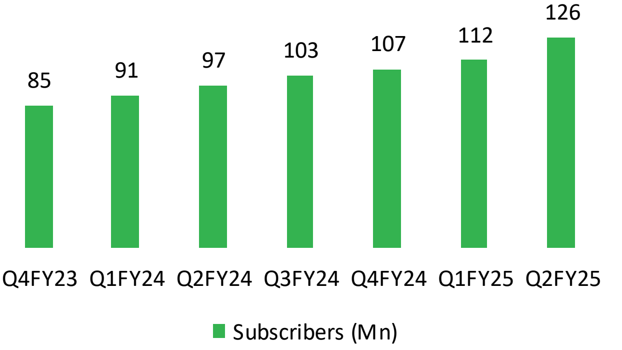


Exhibit 9: Youtube Subscribers (Mn) Per Quarter



** aberration due to significant increase in YT Shorts for our major releases like Bad Newz and Stree2 in Q2 FY25*

Source: Company, Arihant Research

Key Financials

Income statement (INR mn)				
Year End-March	**FY24**	**FY25E**	**FY26E**	**FY27E**
Gross Sales	8,030	10,451	13,391	17,544
Net Sales	**8,030**	**10,451**	**13,391**	**17,544**
YoY (%)	9.01%	30.16%	28.13%	31.01%
Adjusted COGS	**2,320**	**3,526**	**4,050**	**5,256**
YoY (%)	3.11%	51.96%	14.87%	29.76%
Personnel/ Employee benefit expenses	932	1,222	1,548	2,010
Advertisement and sales promotion	760	1,048	1,239	1,605
Royalty expense	613	700	951	1,245
Manufacturing & Other Expenses	940	1,039	1,361	1,771
Total Expenditure	**5,565**	**7,534**	**9,149**	**11,887**
YoY (%)	11.58%	18.34%	45.40%	33.34%
EBITDA	**2,466**	**2,918**	**4,242**	**5,656**
YoY (%)	11.58%	18.34%	45.40%	33.34%
EBITDA Margin (%)	**30.70%**	**27.92%**	**31.68%**	**32.24%**
Depreciation	362	470	656	923
% of Gross Block	7.26%	7.41%	7.96%	8.44%
EBIT	**2,104**	**2,447**	**3,586**	**4,734**
EBIT Margin (%)	**26.20%**	**23.42%**	**26.78%**	**26.98%**
Interest Expenses	32	31	29	28
Non-operating/ Other income	637	524	446	490
PBT	**2,708**	**2,941**	**4,002**	**5,196**
Tax-Total	732	761	1,097	1,375
Profit After Tax	**1,976**	**2,180**	**2,905**	**3,822**
PAT Margin	24.60%	20.86%	21.69%	21.78%
Shares o/s/ paid up equity sh capital	193	193	193	193
Adj EPS	10	11	15	20
Dividend per share	4	5	5	6
Dividend payout (%)	39.04%	39.79%	33.18%	27.75%
Retained earnings	1,204	1,313	1,941	2,761

Balance sheet				
Year-end March	**FY24**	**FY25E**	**FY26E**	**FY27E**
Sources of Funds				
Equity Share Capital	193	193	193	193
Reserves & Surplus/ Other Equity	14,533	16,713	19,618	23,440
Networth	**14,726**	**16,906**	**19,811**	**23,633**
Unsecured Loans/ Borrowings/ Lease Liabilities	38	40	40	41
Other Liabilities	1,797	1,836	1,835	1,847
Total Liabilities	**5,612**	**6,001**	**6,506**	**7,128**
Total Funds Employed	**20,338**	**22,907**	**26,317**	**30,761**
Application of Funds				
Net Fixed Assets	**7,478**	**5,331**	**6,743**	**8,703**
Investments/ Notes/ Fair value measurement	1,817	2,234	2,763	3,437
Current assets	**12,221**	**16,873**	**18,800**	**21,206**
Inventory	2,393	3,066	3,522	4,570
Days	317	317	317	317
Debtors	1,587	1,991	2,556	3,348
Days	70	70	70	70
Other Current Assets	1,642	2,096	2,699	3,568
Cash and Cash equivalent	5,421	8,189	8,034	7,134
Current Liabilities/Provisions	**2,969**	**3,170**	**3,513**	**3,938**
Creditors / Trade Payables	934	1,055	1,297	1,618
Days	62	56	54	54
Liabilities	738	771	805	840
Net Current Assets	**9,252**	**13,703**	**15,287**	**17,268**
Total Asset	**20,338**	**22,907**	**26,317**	**30,761**
Total Capital Employed	**11,086**	**9,204**	**11,030**	**13,493**

Cash Flow Statement				
Year End-March	**FY24**	**FY25E**	**FY26E**	**FY27E**
Profit After tax	**2,708**	**2,941**	**4,002**	**5,196**
Adjustments: Add				
Depreciation and amortisation	362	470	656	923
Interest adjustment	-604	-493	-416	-462
Change in assets and liabilities	2,504	3,025	4,109	5,342
Inventories	-750	-674	-456	-1,048
Trade receivables	-108	-403	-565	-792
Trade payables	231	122	242	320
Other Liabilities and provisions	-184	63	66	70
Other Assets	218	-294	-372	-471
Taxes	116	-161	-274	-429
Net cash from operating activities	**2,044**	**1,661**	**2,751**	**2,992**
Net Sale/(Purchase) of tangible and intangible assets, Capital work in progress	-4,422	1,677	-2,069	-2,883
Net Sale/(Purchase) of investments	1,211	-353	-459	-597
Others	1,100	460	375	413
Net cash (used) in investing activities	**-2,111**	**1,784**	**-2,153**	**-3,067**
Interest expense	88	-20	-24	-26
Dividend paid	-771	-868	-964	-1,060
Other financing activities	-1,001	2	5	8
Net cash (used) in financing activities	**406**	**-677**	**-754**	**-825**
Closing Balance	**5,421**	**8,189**	**8,034**	**7,134**

Key Ratios				
Year-end March	**FY24**	**FY25E**	**FY26E**	**FY27E**
Solvency Ratios				
Debt / Equity	0.00	0.00	0.00	0.00
Net Debt / Equity	-0.36	-0.48	-0.40	-0.30
Debt / EBITDA	0.02	0.01	0.01	0.01
Current Ratio	-2.18	-2.79	-1.88	-1.25
DuPont Analysis				
Sales/Assets	0.39	0.46	0.51	0.57
Assets/Equity	1.38	1.35	1.33	1.30
RoE	13.42%	12.90%	14.66%	16.17%
Per share ratios				
Reported EPS	10.25	11.31	15.07	19.82
Dividend per share	4.00	4.50	5.00	5.50
BV per share	76.37	87.68	102.75	122.57
Cash per Share	11.19	14.78	17.63	21.25
Revenue per Share	41.65	54.21	69.45	90.99
Profitability ratios				
Net Profit Margin (PAT/Net sales)	24.60%	20.86%	21.69%	21.78%
Gross Profit / Net Sales	71.10%	66.26%	69.75%	70.04%
EBITDA / Net Sales	30.70%	27.92%	31.68%	32.24%
EBIT / Net Sales	26.20%	23.42%	26.78%	26.98%
ROCE (%)	12.11%	12.40%	15.73%	17.65%
Activity ratios				
Inventory Days	317.37	317.39	317.39	317.39
Debtor Days	69.71	69.52	69.66	69.66
Creditor Days	62.03	56.15	54.48	54.48
Leverage ratios				
Interest coverage	64.93	79.51	122.64	170.42
Debt / Asset	0.00	0.00	0.00	0.00
Valuation ratios				
EV / EBITDA	36.84	30.18	20.79	15.75
PE (x)	48.70	44.12	33.11	25.17
OCF/EBITDA (%)	82.89	56.92	64.85	52.90

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

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