

Saregama India

16 August 2018

Reuters: SARE.NS; Bloomberg: SARE IN

Encouraging Caravan Music Sales Outlook; IP Monetisation Continues

We had an interaction recently with Mr. Vikram Mehra (MD) and Mr. Vineet Garg (CFO) of Saregama India (SIL) during the Institutional Equities Conference hosted by us last week. During the presentation, the management of SIL sounded confident of meeting the targeted sales of 750,000 Caravan music sets during the year. The management stressed that the opportunity size is 25mn sets across India. The company continues to monetise intellectual property (IP) rights of major Bollywood songs from the 1980's era. It has now also started to build an IP library of new songs after almost a two-decade gap. SIL has also ventured into movie-making and is strictly sticking to small budget, strong story-line and non-star categories. Movie budget per movie is restricted in the range of Rs30mn to Rs50mn. Such small movies are targeted for release only on internet platforms like Netflix and Amazon Prime. The company continues to see traction in each of its product lines and has presented a brighter outlook.

Movie business under focus: SIL is targeting to produce movie content specially targeted towards the internet audience. It has till date produced five movies out of which three were sold exclusively to Netflix. SIL wants to focus on non-star movies and expects to keep a tight lid on costs. Few cost-related steps include:

- Strict six-month timeline from conceptualisation to movie release.
- 20-22 days of shooting time.
- No involvement of the management in film production. All work taken care by the director and his team.

Rigorous vocal finger-printing: SIL has implemented sophisticated software that scan the websites, TV programmes, radio and other audio-visual mediums continuously. Any breach of IP rights is dealt with a legal notice.

Rising dealer network: SIL is looking to increase its reach. The company currently has its presence in nearly 13,000 retail outlets spread over 300 towns. This includes all major electronic chains. The next step/level of penetration should come from small mobile retailers in Tier 2/ Tier 3 towns.

Stock valuation: The SIL stock trades at 21x forward and 30x TTM P/E.

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NOT RATED

Sector: Entertainment

CMP: Rs637

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Key Data

Current Shares O/S (mn)	17.4
Mkt Cap (Rsbn/US\$m)	11.1/158.6
52 Wk H / L (Rs)	960/371
Daily Vol. (3M NSE Avg.)	116,245

Price Performance (%)

	1 M	6 M	1 Yr
Saregama India	(5.7)	(11.4)	70.0
Nifty Index	3.8	8.4	16.8

Source: Bloomberg

Y/E March (Rsmn): Consolidated	FY14	FY15	FY16	FY17	FY18
Net sales	1,775	1,865	2,217	2,185	3,566
EBITDA	174	108	145	94	363
Net profit	561	66	68	84	285
EPS (Rs)	32.23	3.79	3.93	4.83	16.38
EPS growth (%)	NA	(88.2)	3.7	22.9	239.1
EBITDA margin (%)	9.8	5.8	6.5	4.3	10.2
RoE (%)	33.2	3.9	3.9	2.5	7.4
RoCE (%)	8.2	2.7	5.1	1.5	8.4
Cash conversion cycle	12	33	28	20	48
Total debt/Equity	0.09	0.06	0.03	0.01	0.06

Source: Company, Nirmal Bang Institutional Equities Research

Financial statements

Exhibit 1: Income statement

Y/E March (Rsmn): Consolidated	FY14	FY15	FY16	FY17	FY18
Net sales	1,775	1,865	2,217	2,185	3,566
Total Expenditure	1,601	1,757	2,072	2,091	3,203
EBITDA	174	108	145	94	363
% growth	-	(37.6)	33.5	(34.8)	284.3
EBITDA margin (%)	9.8	5.8	6.5	4.3	10.2
Depreciation	32	63	54	44	42
EBIT	141	46	90	50	321
% growth	-	(67.7)	97.5	(44.5)	541.3
EBIT margin (%)	8.0	2.4	4.1	2.3	9.0
Interest cost	29	6	5	24	34
Interest/other recurring income	108	111	122	133	102
Non-recurring & Exceptional items	-	(91)	(116)	-	-
Profit before tax	220	60	91	159	389
% growth	-	(72.8)	52.4	74.8	144.3
Tax	51	(3)	22	73	106
Effective tax rate (%)	23.1	(4.7)	24.7	45.7	27.3
Minority interest	20	5	0	(2)	2
Net profit	561	66	68	84	285
% growth	-	(88.3)	3.7	23.0	239.1
Diluted EPS (Rs)	32.23	3.79	3.93	4.83	16.38
% growth	-	(88.2)	3.7	22.9	239.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Balance sheet

Y/E March (Rsmn): Consolidated	FY14	FY15	FY16	FY17	FY18
Equity	174	174	174	174	174
Reserves	1,483	1,504	1,566	3,223	3,643
Minority Interest	33	27	21	26	23
Net worth	1,690	1,704	1,761	3,423	3,840
Accounts payables	261	275	302	384	404
Other ST liabilities	626	676	886	907	1,388
Short-term loans	88	78	36	30	159
Total current liabilities	974	1,029	1,224	1,320	1,951
Long-term loans	33				
Other LT liabilities	-51	-59	-90	466	504
Total Equity & Liabilities	2,647	2,674	2,896	5,209	6,294
Gross block	1,934	1,949	2,028	2,013	2,038
Depreciation	(910)	(1,112)	(1,181)	(48)	(89)
Net block	1,024	838	847	1,964	1,949
Other LT assets + WIP	33	35	66	67	152
Long-term investments	397	397	397	1,341	1,534
Total Long-term Assets	1,454	1,270	1,309	3,372	3,635
Inventories	29	54	13	103	493
Debtors	374	542	461	523	730
Cash & ST Investments	104	58	260	190	108
Other current assets	685	750	853	1,021	1,327
Total current assets	1,192	1,404	1,586	1,837	2,659
Net current assets	218	375	362	517	708
Total assets	2,647	2,674	2,896	5,209	6,294

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Cash flow

Y/E March (Rsmn): Consolidated	FY14	FY15	FY16	FY17	FY18
PBT	220	60	91	159	389
(Inc./dec.) in working capital	167	(46)	338	(71)	(522)
Depreciation	32	63	54	44	42
Other non-cash adjustments	(146)	(50)	(164)	(169)	(94)
Net cash flow from operations	274	27	319	(36)	(186)
Disposal of fixed assets	3	12	0	0	0
Capital expenditure (-)	(76)	(34)	(73)	(21)	(27)
Free Cash Flow after capex (FCF)	201	4	246	(57)	(213)
Other investing activities	30	13	33	26	24
Cash from investing activities	(43)	(9)	(40)	5	(2)
Inc./(dec.) in short-term borrowing	(203)	(1)	(42)	-	129
Inc./(dec.) in long-term borrowing	16	(16)	-	-	-
Inc./(dec.) in preference capital	-	-	-	-	-
Dividends paid	(30)	(30)	(31)	(31)	(31)
Equity issue/(buyback)	-	-	-	-	-
Other financing activities	(29)	(15)	(4)	(3)	(7)
Cash from financial activities	167	(46)	338	(71)	(522)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Key ratios

Y/E March (Rsmn): Consolidated	FY14	FY15	FY16	FY17	FY18
Profitability & return ratios					
EBITDA margin (%)	9.8	5.8	6.5	4.3	10.2
EBIT margin (%)	8.0	2.4	4.1	2.3	9.0
Net profit margin (%)	31.6	3.5	3.1	3.8	8.0
RoE (%)	33.2	3.9	3.9	2.5	7.4
RoCE (%)	8.2	2.7	5.1	1.5	8.4
Cash conversion cycle	12	33	28	20	48
Leverage and FCF ratios					
Net Debt (Cash - Rsmn)	22	20	(223)	(161)	50
Total debt/Equity (%)	0.09	0.06	0.03	0.01	0.06
FCF/Sales (%)	11.3	0.2	11.1	(2.6)	(6.0)
Valuation ratios					
EV/sales (x)	0.64	1.17	2.02	1.77	3.23
EV/EBITDA (x)	4.03	9.91	16.81	17.06	24.77
P/E (x)	1.99	32.75	68.77	47.99	40.16
P/BV (x)	31.6	3.5	3.1	3.8	8.0

Source: Company, Nirmal Bang Institutional Equities Research

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