Saregama India Ltd

July 06, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	65.00	CARE A+; Positive (Single A Plus; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	10.00	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**75.00 (Rs. Seventy-Five Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Saregama India Limited (SIL) factors in the improvement in the operational performance of the company marked by consistent increase in its license income with increased digital penetration on the back of tie-ups with Over-The-Top (OTT) applications whose popularity was accelerated with increased smart phone usage and availability of cheaper data. This enabled the company to monetize its vast music catalogue of more than 1.30 lakh songs. It is to be noted that the company's strategy calibrated with the impact of the COVID-19 pandemic on the retail network, to reduce ad spends also led to substantial improvement in SIL's performance and liquidity position in FY21. CARE notes that such liquidity will provide a buffer for future investment needs in new content to maintain growth momentum in licensing revenue.

The ratings continue to derive strength from SIL's established brand and positioning in the domestic music industry with a rich library of retro music contributing to around 70% of its licensing revenue, strong promoter group providing financial flexibility and an experienced management and diversified revenue profile through licensing revenue, TV/films content and sale of Carvaan radios. Comfort is also derived from SIL's healthy capital structure and from the articulation by the management that the company does not have any plans of raising long term debt and the capital structure is expected to remain comfortable in the medium term. The ratings are also tempered by group company exposure at a standalone level, high obsolescence risk associated with the distribution formats, threat from piracy and high cost of content acquisition.

Outlook: Positive

The revision in the outlook from stable to positive is a reflection of CARE's belief that SIL would continue to monetize its existing/future Intellectual Property rights to generate sustainable cash flows in the future while maintaining capital structure as the new content acquisition is expected to be funded by existing liquidity and internal accruals.

The outlook maybe revised to stable if there is a notable deviation in envisaged revenue and profitability or significant increase in debt while engaging in content acquisition sufficient to remain competitive in the recorded music licensing space.

Key Rating Sensitivities

Positive Factors

- Sustained increase in business cash flows and improvement in return indicators while maintaining comfortable capital structure and debt protection metrics.

Negative Factors

- Deterioration in capital structure with overall gearing (>0.50x) and Total Debt/Gross Cash Accruals (>2x) on a sustained basis.
- Decrease in scale of operations (<Rs.400 crore) and/or deterioration in PBILDT margin (>14%) on a sustained basis.
- Deterioration in operating cycle.

Detailed description of the key rating drivers

Key Rating Strengths

Part of strong promoter group

In 1985, SIL was acquired by the RPG Group and is now a part of the RP-Sanjiv Goenka Group of Kolkata. The RP-Sanjiv Goenka Group is one of the leading industrial houses of the country, with interests across diverse business sectors such as power & natural resources, carbon black, retail apart from media & entertainment. Being part of a large established group provides significant financial flexibility to SIL.

SIL's operations are also supported by a qualified and professional management team having vast experience in the related fields

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Long track record, strong brand positioning with large music archive and diversified revenue profile
Incorporated in 1946, SIL has a long track record in creation, acquisition and distribution of music. SIL was perennially using the brand, 'His Master's Voice (HMV)', for selling its products. However, in order to build up its own brand value, the company started using its own brand 'Saregama, The Soul of India'. SIL has a leadership position in rich retro music library representing 71% of its total library and also 70% of its licensing revenue. The collection represents of recordings by legendary artists including Lata Mangeshkar, Mohd. Rafi, Laxmikant-Pyarelal, RD Burman and Kishore Kumar. On an overall basis, SIL owns intellectual property (IP) rights of more than 1.30 lakh songs, content IP rights of 61 films and 6000+ hours of television serials. It has also diversified its revenue profile by physical sales of Carvaan radios (various variants selling in the market from May 2017) and content creation for budget films (Yoodle films- 16 movies licensed from its launch in November 2017).
During FY21, SIL's consolidated revenue profile constituted license fees generated through its music copyrights (66%, 45% in FY20), sale of 'Carvaan' (20%, 37% in FY21), TV serials/digital films (12%, 13% in FY21) and the balance (2%) through sale of other physical contents and publishing income.

Consistent growth in licensing business through increased opportunities in the digital space
SIL's licensing fee has been increasing at CAGR of 21% in the last three years also with y-o-y increase of 21% in FY21. The increase has been a result of the company transforming its business model. With gradual phasing out of physical music contents, the company's changing business model has been capturing newer and profitable ways to monetize its existing music content through Over the Top (OTT) Players (including YouTube) and publishing (through movies/Tv shows/ brand usage). Revenue from OTT platforms and YouTube which contributed to a significant share in the licensing revenue also grew y-o-y by 20% in FY21.

Significant improvement in performance in FY21 marked by increase in proportion of higher margined licensing revenue and lower ad spends
The consolidated TOI of SIL decreased y-o-y by ~14% in FY21 primarily on account of de-growth in the Music Segment (y-o-y -13%) on the back of lower Carvaan sales primarily due to retail network related disruption. The decrease in sales of Carvaan was however, partially offset by the growth in the higher margined license income (y-o-y 21%). The revenue from films/TV segment de-grew by 26%, due to production loss during lockdown and COVID related restrictions, however, its share in total revenue is relatively small.
Increase in higher margined licensing revenue coupled with lower advertising and sales promotion expense led to improvement in PBILDT margin y-o-y from 12.12% to 30.83% in FY21. The cash accruals of the company on the back of improved operational performance also increased y-o-y in FY21.

Comfortable capital structure
On a consolidated basis, SIL's debt structure was comfortable with no long-term debt and no working capital utilization of the limits and the company relying on liquidity for its working capital requirements. The capital structure thus was highly comfortable and unleveraged with NIL gearing as on March 31, 2021 (0.02x as on March 31, 2020).
On a consolidated basis, SIL has an exposure of Rs.112 crore in the form of investments in group companies as on March 31, 2021 as against Rs.74 crore as on March 31, 2020 where the increase was primarily due to marked to market movement. Such investments are mainly in CESC Ltd (rated CARE AA; Stable/ CARE A1+) the flagship company of the group and its demerged entities- RPSG Ventures Ltd and Spencers Retail Ltd (CARE BBB; Stable/ CARE A3).

Key Rating Weaknesses
High obsolescence risk associated with the distribution formats; albeit increase in focus towards digital mode
SIL is operating in a fast moving industry where the formats for distribution of music change with technological advancement. The company was severely affected by the same in the eighties when the long record player was replaced by music cassettes. It shifted to manufacturing music cassette which was again replaced by CDs. After the phasing out of CDs the company has launched Carvaan radios. The company, however, focuses on distribution of music and content through digital modes including various OTT platforms.

Continuous threat from piracy
Piracy has been eating into the profitability of the media and entertainment industry. Though this has always been in existence, the incidence has increased in the last few years with innovation of new formats for distribution, supported by availability of cheap technology.

Liquidity: Strong
The company does not have long term debt obligations and capital structure is expected to remain comfortable with the absence of any projected term debt in the medium term. Liquidity is also supported by unutilized lines of credit of fund-based limits of Rs.46.50 crore in the last twelve months ended Mar'21. Apart from unutilized lines and excluding earmarked money

of Rs.35 crore for dividend, SIL had free cash, bank and liquid investments of Rs.133 crore (Rs.99 crore in FDs and Rs.25 crore in mutual funds) as on March 31, 2021. However, the same has temporarily increased due to no major expenditure such as movie production and content acquisition during FY21 in light of COVID related issues. Going forward, available liquidity is expected to be utilized towards new content acquisition and for gradual increase in sales promotion and marketing expenses. Further, the capital structure of the company also provides sufficient headroom for borrowing, if needed, along with the benefits of financial flexibility enjoyed by the company by virtue of it being part of the RP-SG group.

Analytical approach: Consolidated considering significant operational and financial linkages with subsidiaries. List of companies being consolidated is as under:

Subsidiaries	***Holding of SIL***
Saregama Ltd (formerly Saregama PLC)	76.41%
RPG Global Music Limited	100.00%
Open Media Network Private Limited	100.00%
Kolkata Metro Networks Limited	100.00%
Saregama FZE	100.00%
Saregama Inc	76.41%

Applicable Criteria
Criteria on assigning Outlook & Credit watch to Credit Ratings
CARE's Policy of Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology: Consolidation
Rating Methodology-Manufacturing Companies
Liquidity indicators- Non-financial sector entities

About the Company
SIL, belonging to the Kolkata-based RP-Sanjiv Goenka Group, was formerly known as the Gramophone Company of India. Earlier, the company was primarily engaged in creation and distribution of music. Over the years the company has expanded its business and forayed into distribution of music in the physical & digital modes, production of TV serials & films.

Brief Financials (Rs. crore)- Consolidated	**FY20 (Audited)**	**FY21 (Abridged)**
Total operating income	524.54	450.86
PBILDT	63.55	139.01
PAT	43.49	113.46
Overall gearing (times)	0.02	0.00
Interest coverage (times)	18.44	236.57

Status of non-cooperation with other CRA: Not applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2
Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*
Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Facilities

Name of the Instrument	**Date of Issuance**	**Coupon Rate**	**Maturity Date**	**Size of the Issue (Rs. crore)**	**Rating assigned along with Rating Outlook**
Non-fund-based - ST-BG/LC	-	-	-	10.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	65.00	CARE A+; Positive

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Non-fund-based - ST-BG/LC	ST	10.00	CARE A1+	-	1)CARE A1+ (06-Jul-20)	1)CARE A1+ (04-Oct-19)	1)CARE A1+ (26-Dec-18)
2.	Fund-based - LT-Cash Credit	LT	65.00	CARE A+; Positive	-	1)CARE A+; Stable (06-Jul-20)	1)CARE A+; Stable (04-Oct-19)	1)CARE A+; Stable (26-Dec-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4- Complexity of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6754 3573
Email ID – mradul.mishra@careratings.com

Analyst Contact
Name: Mr. Anil More
Tel: 033-4018 1623
Cell: +91 8444 867144
Email: anil.more@careratings.com

Relationship Contact
Name: Lalit Sikaria
Contact no. : +919830386869
Email ID : lalit.sikaria@careratings.com

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