Saregama India Limited

July 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	71.50	CARE AA-; Stable	Reaffirmed
Short-term bank facilities	3.50	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Saregama India Limited (SIL) continue to draw strength from SIL's strong brand positioning in the Indian music industry, with a rich library of music (including significant retro content), its diversified revenue profile through licensing revenue, TV/films content and sale of Carvaan, healthy profitability, robust capital structure and strong debt coverage indicators. The ratings also factor in the financial flexibility derived from being part of a strong promoter group, RP-Sanjiv Goenka (RPSG).

Furthermore, with a significant amount of capital raised by the company in FY22 (refers to the period April 01 to March 31), which is planned to be utilised for the acquisition of music content or acquiring stake in companies engaged in creation or promotion of music, over the next few years, the scale of operations of SIL is expected to increase, going forward. With a healthy contribution of licensing income in sales, the profitability margins are also expected to remain healthy. Digital penetration is increasing on the back of tie-ups with over-the-top (OTT) applications, whose popularity has been accelerated with increased usage of smartphones and the availability of cheaper internet.

Healthy generation of cash accruals with nil debt repayment obligations have led to a build-up of healthy surplus funds, which, together with internal generations going forward can be utilised by the company for new content creation in the films and TV serials division.

The ratings, however, remain constrained by the obsolescence risk, threat from piracy/copyright infringement, and the high cost of quality content acquisition.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained and significant growth in scale of operations aided by strong business profile, through effective deployment of funds raised through the QIP issue in FY22.
- Improvement in return indicators with return on capital employed (ROCE) above 30% on a sustained basis.

Negative factors

- Deterioration in capital structure with overall gearing (>0.25x) and Total Debt/PBILDT (>1x) on a sustained basis.
- Decrease in scale of operations (total operating income <₹500 crore) and/or deterioration in PBILDT margin (<20%) on a sustained basis.
- Significant deterioration in its operating cycle.

Analytical approach:

CARE Ratings Limited (CARE Ratings) has adopted a consolidated analytical approach for analysing SIL, considering the significant operational and financial linkages with its subsidiaries. The list of companies consolidated with SIL as on March 31, 2023, are placed as **Annexure 6.**

Outlook: Stable

The 'Stable' outlook reflects that SIL is expected to maintain its healthy operating risk profile given its established presence in the music industry and growing trend in the high margin licensing income. The financial risk profile is also expected to remain strong supported by healthy cash flow generation from the business and negligible reliance on debt.

Detailed description of the key rating drivers:

Key strengths

Strong brand positioning with a large music archive and a diversified revenue profile: For a long time, SIL was using the brand 'His Master's Voice (HMV),' a trademark of EMI Records Ltd (erstwhile The Gramophone Co. Ltd), for selling its products. However, to build up its own brand value, the company started using the brand 'Saregama, The Soul of India.'

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

SIL has a leadership position in a rich retro music library, representing 52% of its licensing revenue. With its increasing investments in new content, 33% of the music content belongs to the 21st century and its contribution to the company's music licensing revenue has been gradually increasing (48% in FY23 as compared with 40% in FY22).
The collection represents recordings by legendary artists including Lata Mangeshkar, Mohammed Rafi, Laxmikant-Pyarelal, RD Burman, and Kishore Kumar. On an overall basis, SIL owns intellectual property (IP) rights of more than 1.50 lakh songs, content IP rights of 69 films & web series and 6,000+ hours of television serials.
It has also diversified its revenue profile through the physical sales of 'Carvaan' (various variants selling in the market from May 2017) and content creation for films (Yoodlee films – 25 movies and 2 web series licensed from its launch in November 2017). During FY23, SIL's consolidated revenue profile constituted 56% through license fees generated from its music copyrights (63% in FY22), 17% from the sale of 'Carvaan' (17% in FY22), and 21% from TV serials and digital films (18% in FY21), with the balance through other operating revenue and publishing income.

Consistent growth in license fees through increased opportunities in the digital space: The high margin licensing income has exhibited an increasing trend over the years and grew by about 16% in FY23. With the gradual phasing out of physical music content, the company's changing business model has been capturing newer and profitable ways to monetise its existing music content, particularly, retro on digital platforms through OTT platforms (including YouTube) and publishing (through movies, TV shows and brand usage). With cheaper availability of data and increased usage of smartphones, the digital use of content has been increasing significantly.

Healthy profitability, likely to sustain: The consolidated total operating income (TOI) of SIL witnessed a growth of about 31% y-o-y in FY23, driven by growth in licensing income, the television and series vertical, along with an increase in the sales of 'Carvaan'. The increase in licensing income continues to be on account of higher investments in new content, apart from the healthy usage of existing content. 'Carvaan' sales witnessed a 40% growth (in the number of units) in FY23 with newer variants of the product being launched. Furthermore, in FY23, the revenue from films, web series and TV serials vertical increased to ₹157 crore vis-à-vis ₹102 crore in FY22. The TV serials and film division continued to report profit, though reduced on account of competitive pricing. PBILDT margin continued to remain healthy at 29.48% in FY23 (32.23% in FY22). Given its strong music library and growing demand, the company is expected to sustain its operating profitability margins going forward.

Robust capital structure and debt coverage indicators: On a consolidated basis, the capital structure of the company continues to remain strong with a nil long-term debt-equity ratio over the last six years and a near nil overall gearing ratio over the last three years. The low debt levels allow better financial flexibility to the company. Although the ROCE and return on net worth (RONW) have witnessed a decline in FY22 and FY23 due to a large part of the QIP funds remaining unutilised (about ₹710 crore as on March 31, 2023), the same continued to remain at comfortable levels. The debt coverage indicators also continued to remain strong in FY23, with a total debt/gross cash accrual (TD/GCA) of 0.01x as on March 31, 2023 (0.01x as on March 31, 2022). The company had negligible interest expenses and a very comfortable interest coverage ratio of 283x in FY23.
Going ahead, with significant capital available with the company, apart from internal generations to fund growth, the debt levels are expected to remain low, which has also been strongly articulated by the management.

Long track record and part of a strong promoter group: Incorporated in 1946, SIL has a long track record in the creation, acquisition, and distribution of music. The company has also ventured into the distribution of music in the digital mode and the production of TV serials and films.
In 1985, SIL was acquired by the RPG group and is now part of the RPSG group of Kolkata. The RPSG group is one of the leading industrial houses in the country, with interests across diverse business sectors such as power, infrastructure, carbon black, retail, education, sports, BPO, media and entertainment. Being part of a large established group provides significant financial flexibility to SIL.
The company's operations are also supported by a qualified and professional management team having vast experience in related fields.

Liquidity: Strong

Liquidity of SIL is marked by strong cash accruals against nil debt repayment obligations and cash and bank balance along with significant liquid investments to the tune of about ₹800 crore as on March 31, 2023, including unutilised proceeds of ₹710 crore from the QIP issue. With nil gearing as on March 31, 2023, the company has sufficient headroom to raise additional debt, if required. The fund requirement for acquiring new content is proposed to be funded out of the QIP proceeds. The average fund-based bank limit utilisation remained nil during the last 12 months ended March 2023.

Key weaknesses

Obsolescence risk associated with physical distribution formats and high cost of quality content: SIL is operating in a fast-changing industry, where the formats for distribution of music change with technological advancement. The company was severely affected by the same in the 1980s when the long record player was replaced by music cassettes. It shifted to manufacturing music cassettes, which were again replaced by compact discs (CDs). After the phasing out of CDs, the company launched 'Carvaan' radios in 2017. However, the change in product mix towards licensing income monetised through the distribution in digital mode, including tie-ups with streaming apps and OTT platforms, safeguards SIL from the risk of obsolescence. In addition, to keep pace with the industry, SIL has also expanded its footprint in the digital space by venturing into TV production and film production.
The company has been acquiring and creating content to grow its scale of operations and remain competitive in the industry. Given the high cost of the same, profitability remains exposed to the popularity of the content with the users and the generation of the envisaged revenue therefrom.

Continuous threat from piracy: Piracy has been eating into the profitability of the Indian media and entertainment (M&E) industry. Although this has always been in existence, the incidences of piracy have been reducing gradually. The easy availability of substantially cheaper internet access has somewhat had a positive impact on curbing piracy.
The company also has a dedicated team that actively identifies copyright infringements and takes steps to recover the revenue loss on account of the same.

Environment, social, and governance (ESG) risks

SIL's business activities do not have a material direct impact on the environment and hence it is not exposed to significant risk towards environmental compliance. The company is in compliance with regulatory requirements in terms of board composition and its sub-committees. It set aside a sum of ₹2 crore in FY22 towards spending on Corporate Social Responsibility (CSR) activities.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Media, Entertainment & Publication	Entertainment	Media & Entertainment

SIL, belonging to the Kolkata-based RPSG group, was formerly known as the Gramophone Company of India. Earlier, the company was primarily engaged in the creation and distribution of music in physical formats. Over the years, the company has expanded its business and forayed into the distribution of music in the digital mode apart from physical formats (Carvaan) and has also ventured into the production of TV serials, films, web series and event management.

Brief Consolidated Financials (₹ crore)	FY22 (A)	FY23 (A)
Total operating income	580.63	753.98
PBILDT	187.12	222.31
PAT	152.65	188.99
Overall gearing (times)	0.00	0.00
Interest coverage (times)	309.09	282.51

A: Audited, Note: 'the above results are latest financial results available'

Status of non-cooperation with previous 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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	71.50	CARE AA-; Stable
Non-fund-based - ST-BG/LC		-	-	-	3.50	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Non-fund-based - ST-BG/LC	ST	3.50	CARE A1+	-	1)CARE A1+ (05-Jul-22)	1)CARE A1+ (06-Jul-21)	1)CARE A1+ (06-Jul-20)
2	Fund-based - LT-Cash Credit	LT	71.50	CARE AA-; Stable	-	1)CARE AA-; Stable (05-Jul-22)	1)CARE A+; Positive (06-Jul-21)	1)CARE A+; Stable (06-Jul-20)

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of entities being consolidated with SIL

Subsidiaries	Holding of SIL
Saregama Ltd (SL) (formerly Saregama PLC)	76.41%
RPG Global Music Limited (RPGG)	100%
Kolkata Metro Networks Limited	100%
Open Media Network Private Limited	100%
Saregama FZE (SFZE)	100%
Saregama Inc (Wholly owned subsidiary of SL)	76.41%
Digidrive Distributors Limited (DDL)*	100%

*Scheme of arrangement under process which has been sanctioned by the Hon'ble NCLT in June 2023 for demerger of certain non-core assets of SIL into DDL. DDL would cease to be a subsidiary of SIL post the implementation of the scheme.

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

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Name: Padmanabh Bhagavath Senior Director **CARE Ratings Limited** Phone: +91-022-6754 3407 E-mail: ps.bhagavath@careedge.in
Relationship Contact Lalit Sikaria Director **CARE Ratings Limited** Phone: + 91-033- 40181600 E-mail: lalit.sikaria@careedge.in	Hardik Manharbhai Shah Director **CARE Ratings Limited** Phone: +91 022-6754 3591 E-mail: hardik.shah@careedge.in Mamta Muklania Associate Director **CARE Ratings Limited** Phone: +91 033-40181651 E-mail: mamta.khemka@careedge.in

About us:
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