Saregama India Limited

July 04, 2024

Facilities	Amount (₹ crore)	Ratings[1]	Rating Action
Long-term bank facilities	101.50 (Enhanced from 71.50)	CARE AA-; Stable	Reaffirmed
Short-term bank facilities	3.50	CARE A1+	Reaffirmed

Details of facilities in Annexure-1.

Rationale and key rating drivers

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

Ratings factor in the ramp-up in acquiring music content or stakes in companies engaged in creation or promotion of music; funded out of significant amount of capital raised in FY22 (refers to April 01 to March 31) and further plans to invest approximately ₹1,000 crore in FY25-FY27 of the unutilized issue proceeds and internal accruals. The scale of operations is accordingly expected to witness growth going forward. Also, with a healthy contribution of high margin licensing income in sales and increasing digital penetration on the back of tie-ups with over-the-top (OTT) applications, the profitability margin is expected to remain healthy. Improvement in scale of operations and return indicators with effective deployment of funds raised in FY22 shall remain key rating monitorable.

However, ratings remain constrained by the obsolescence risk associated with the distribution formats, the 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 qualified institutional placement (QIP) issue in FY22.
- Improving return indicators with return on capital employed (ROCE) above 30% on a sustained basis.

Negative factors

- Deteriorating capital structure with overall gearing (>0.25x) and total debt/PBILDT (>1x) on a sustained basis.
- Decreasing scale of operations (total operating income [TOI] <₹500 crore) and/or deteriorating PBILDT margin (<20%) on a sustained basis.
- Significantly deteriorating 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, 2024, 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, continuous acquisition of new contents, 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 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.'

SIL has a leadership position in a rich retro music library, and with its increasing investment in new content, company has started

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

gaining leadership position in new music as well with 52% of SIL's licensing revenue of FY24 coming from music released post Year 2000 as against 48% in FY23.
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.
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 – 30 movies and web series licensed since its launch in November 2017). In FY24, the company further diversified into artist management. During FY24, SIL's consolidated revenue profile constituted 65% through license fees generated from its music copyrights (61% in FY23), 16% from the sale of 'Carvaan' (17% in FY23), and 14% from TV serials and digital films (15% in FY23), Artist management being a new vertical contributed around 3% with the balance contributed from income from event.

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 FY24 (21% 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
SIL's consolidated TOI witnessed a growth of about 9% y-o-y in FY24, driven by growth in licensing income, the television and series vertical, and an increase in the sales of 'Carvaan'. The increase in licensing income continues with higher investments in new content, apart from the healthy usage of existing content. 'Carvaan' sales witnessed a 23% growth (in the number of units) in FY24 with newer variants of the product being launched. Moreover, in FY24, the revenue from films, web series, and TV serials vertical increased to around ₹116 crore against ₹108 crore in FY23. While the TV serials and film division segment reported losses, the same was owing to lower-than-expected performance for some the movies released in FY24. PBILDT margin continued to remain healthy at 31.04% in FY24 (30.25% in FY23). Given its strong music library and growing demand, the company is expected to sustain its operating profitability margin going forward.

Robust capital structure and debt coverage indicators
On a consolidated basis, the company's capital structure 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 for the company. Although the ROCE and return on net worth (RONW) have witnessed a decline since FY22 due to a large part of the QIP funds remaining unutilised (about ₹543 crore as on March 31, 2024), the same however continued to remain at comfortable levels. The debt coverage indicators also continued to remain strong in FY24, with a total debt to gross cash accrual (TD/GCA) of 0.02x as on March 31, 2024 (negligible as on March 31, 2023). The company had negligible interest expenses and a very comfortable interest coverage ratio of 345x in FY24 (as against 504x in FY23).
Going ahead, with significant capital available to the company, apart from internal generations to fund growth, the debt levels are expected to remain low.

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 a part of the 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
SIL's liquidity is marked by strong cash accruals against nil debt repayment obligations and cash and bank balance and significant liquid investments to the tune of about ₹658 crore as on March 31, 2024, including unutilised proceeds of ₹543 crore from the QIP issue. With nil gearing as on March 31, 2024, the company has sufficient headroom to raise additional debt, if required. The fund requirement for acquiring new content is proposed to be funded of the QIP proceeds. The average fund-based bank limit utilisation remained minimal at 4% in the last 12 months ended March 2024.

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 long-form and short form video content.

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 take steps to recover the revenue loss considering 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. The company has spent ₹4.69 crore on Corporate Social Responsibility (CSR) activities towards RP-Sanjiv Goenka Group CSR Trust.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Service Sector Companies
Short Term Instruments
Consolidation

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)	FY23 (Abridged)	FY24 (Abridged)
Total operating income	739.27	803.00
PBILDT	223.62	249.24
PAT	185.05	197.56
Overall gearing (times)	0.00	0.00
Interest coverage (times)	504.81	345.40

Note: 'these are latest available financial results'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated facility: Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of facilities

Name of the Facilities	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		-	-	-	101.50	CARE AA-; Stable
Non-fund-based - ST-BG/LC		-	-	-	3.50	CARE A1+

Annexure-2: Rating history for last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	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
1	Non-fund-based - ST-BG/LC	ST	3.50	CARE A1+	-	1)CARE A1+ (06-Jul-23)	1)CARE A1+ (05-Jul-22)	1)CARE A1+ (06-Jul-21)
2	Fund-based - LT-Cash credit	LT	101.50	CARE AA-; Stable	-	1)CARE AA-; Stable (06-Jul-23)	1)CARE AA-; Stable (05-Jul-22)	1)CARE A+; Positive (06-Jul-21)

LT: Long term; ST: Short term

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

Annexure-4: Complexity level of 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 all entities consolidated as on March 31, 2024

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Saregama Ltd (SL) (formerly Saregama PLC)	Full	Subsidiary
2	RPG Global Music Limited (RPGG)	Full	Subsidiary
3	Kolkata Metro Networks ltd	Full	Subsidiary
4	Saregama FZE (SFZE)	Full	Subsidiary
5	Saregama Inc (Wholly owned subsidiary of SL)	Full	Subsidiary
6	Pocket Aces Pictures Private Limited (PAPPL)	Full	Subsidiary

Note on complexity levels of 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	Ranjan Sharma Senior Director **CARE Ratings Limited** Phone: 022- 6754 3453 E-mail: Ranjan.Sharma@careedge.in
Relationship Contact Saikat Roy Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	Hardik Manharbhai Shah Director **CARE Ratings Limited** Phone: +91-22-6754 3591 E-mail: hardik.shah@careedge.in Richa Bagaria Associate Director **CARE Ratings Limited** Phone: +91-33-4018 1653 E-mail: richa.jain@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in