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CARE ASSIGNS 'BBB' & 'PR3+' RATINGS TO THE BANK FACILITIES OF SAREGAMA INDIA LTD

CARE has assigned '**CARE BBB**' (**Triple B**) rating to the long/medium term bank facilities and a '**PR3+**' (**PR Three plus**) rating to the short-term bank facilities aggregating Rs.45.5 crore of Saregama India Ltd. (SIL). 'CARE BBB' rating is applicable for facilities having tenure over one year and 'PR3+' rating is applicable for facilities having tenure up to one year.

Facilities with 'CARE BBB' rating are considered to offer moderate safety for timely servicing of debt obligations. Such facilities carry moderate credit risk. Facilities with 'PR3' rating would have moderate capacity for timely repayment of short term debt obligations at the time of rating and carry higher credit risk as compared to facilities rated higher. CARE assigns '+' or '-' signs to be shown after the assigned rating (wherever necessary) to indicate the relative position within the band covered by the rating symbol. A snapshot of the ratings assigned is as under: -

Instrument	Amount (Rs. cr)	Rating
Long-term Bank Facilities	41.0	'CARE BBB'
Short-term Bank Facilities	4.5	'PR3+'
Total	45.5	

Rating Rationale

The ratings draw strength from the company's dominant presence in the domestic music industry for over six decades, experienced management with strong group support, strong brand positioning, large music archive, comfortable leverage ratios and the positive outlook of the entertainment industry. However, the ratings are constrained by high obsolescence risk associated with the distribution formats, continuous threat from piracy, erratic success of music contents acquired leading to erratic profitability, increase in focus towards film production- a relatively risky area, declining sales of physical format of music content coupled with higher cost of acquisition and large exposure in group companies. The ability of the company to improve profitability in the context of erratic success in the main business segment and successfully diversifying into new areas of business are the key rating sensitivities.

Company Profile

SIL was incorporated in 1946 as 'The Gramophone Company (India) Ltd.'. In September 1985, the RPG group, the current promoter, acquired the company from the reputed EMI group of U.K. In 2000, the name of the company was changed to SIL. Currently, the company is engaged in creation/acquisition and distribution of music in both physical and digital modes, film production, TV serial production, artiste management, event management and home video distribution. SIL is a known name in the entertainment industry with a large catalogue of musical compositions built over the years. It has a market share of about 15% in the physical audio segment and 30% in the digital segment. About 70% of the revenue of the company is derived from sale of music. The company, which was perennially using 'HMV' brand (owned by EMI group) for selling its products till 1999-2000, has strongly positioned its own brand, 'Saregama, The Soul of India' in domestic entertainment market.

SIL earned PBILDT of Rs.12.5 crore and PAT (after defd. tax) of Rs.7.7 crore on net sales of Rs.137.4 crore in FY08. Gross Cash Accruals (GCA) at Rs.11.1 crore in FY08 was comfortable, in the context of low level of long-term debt.

Both the long term debt equity and overall gearing ratios have been very comfortable as on the last three account closing dates. Interest coverage, though deteriorated from last year, was still comfortable at 4.78 in FY08. Current ratio, as on Mar.31, 2008, was very low.

Performance of the company in the nine months ended Dec.31, 2008 was not very encouraging with fall in both topline and bottomline.

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