

Saregama India Limited

February 19, 2018

Rating

Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	65.00 (enhanced from 38.00)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A; Stable (Single A; Outlook: Stable)
Short term Bank Facilities	10.00 (reduced from 12.00)	CARE A1+ (A One Plus)	Revised from CARE A1 (A One)
Total	75.00 (Rs. Seventy Five crore only)		

Details of instrument/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Saregama India Limited (SIL) takes into account the improvement in the financial performance of the company in 9MFY18 (refers to the period April 1 to December 31) driven by the substantial increase in sales of the music division with launch of Carvaan Radios in May'2017. The ratings continue to derive strength from SIL's established branding and positioning in the domestic music industry, strong promoter group with experienced management, large music archive leading to consistent revenue generation through licensing fees, increased opportunities in the digital space business enabling SIL to efficiently monetize its extensive music library and satisfactory financial risk profile marked with comfortable capital structure. The ratings also factor in the foray of the company into short duration digital films. CARE believes that the capital structure will continue to remain comfortable in the medium term with absence of term debt and low utilisation of working capital limits.

However, the ratings continue to be constrained by high obsolescence risk associated with the distribution formats, threat from piracy and high cost of content acquisition.

The ability of the company to sustain the growth in operations from the new ventures while maintaining profitability and capital structure and improvement in performance of the subsidiaries shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Strong promoter group and long track record of the company

SIL, pioneer in Indian music industry, belongs to RP-Sanjiv Goenka Group of Kolkata since 1985. The company has a long track record in creation, acquisition and distribution of music. The company has also ventured into distribution of music in the digital and physical mode, production of TV serials and films, event management and artiste management.

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, infrastructure, carbon black, retail and media & entertainment.

SIL has a highly qualified and professional management team having large experience in their related field.

Strong brand positioning with large music archive along with diversified revenue profile

SIL was perennially using the brand, 'His Master's Voice (HMV)', for selling its products. The company has the right to use the 'HMV' logo till 2020. However, in order to build up its own brand value, the company started using its own brand 'Saregama, The Soul of India'. Over the years, the company has successfully dominated the Hindi music space as well as the regional music market across all genres through its brand.

Further, the company's revenue profile remained dominated by the license fees generated through its music copyrights which contributed around 65% of its total operating income during FY17 while around 30% was contributed by its TV serial segment and the balance through sale of physical contents and publishing income. The company further diversified

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

the revenue profile by launch of 'Carvaan' Radios having preloaded songs and short-duration digital films in May, 2017 and Q3FY18 respectively.

Stable generation of license fees through increased opportunities in the digital space

The company has been generating consistent license fees over the years by 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, radio and mobile.

Improvement in financial performance in 9MFY18 with satisfactory financial risk profile and comfortable capital structure

The total operating income of SIL (consolidated) declined by about 2% in FY17 mainly due to decline in the revenue of TV serial business. The PBILDT margin also declined from 6.93% in FY16 to 4.75% in FY17 with increase in royalty costs and advertisement expenses coupled with impact of losses incurred by the subsidiary Open Media Network Private Limited (OMNPL). However, capital structure remained comfortable with overall gearing of 0.02x as on March 31, 2017 with negligible debt in the form of inter-corporate deposits. The debt coverage indicators also remained comfortable.

The utilisation of working capital limits remained minimal during the last 12 months ended November 2017.

The standalone performance of SIL improved in 9MFY18 with total operating income increasing by about 60% from Rs.150.46 crore in 9MFY17 to Rs.240.24 crore in 9MFY18 on account of increase in revenue from the music division with launch of Caravan radios. The company reported PAT of Rs.9.06 crore in 9MFY18 vis-à-vis Rs.5.02 crore in 9MFY17. Further, the company has also started release of short duration films produced by it.

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. To keep pace with the industry, SIL had expanded its footprint in the digital space by venturing into TV production on national level in conjunction with leading market share in South India TV business. However, the company has stopped producing national TV serials in Q2FY18 and plans to focus on South India TV business going forward. Furthermore during FY16, the company had made major foray into B2C space by launching two mobile based paid applications, i.e., Saregama Shakti and Saregama Classical offering devotional and classical music respectively.

Continuous threat from piracy

Piracy has been eating into the profitability of the media & 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.

Analytical approach: Consolidated. Earlier CARE had taken a standalone view while factoring in the investments in subsidiaries/associates.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

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 in physical formats and currently it possesses a music library of more than three lakh songs. Over the years the company has expanded its business and forayed into distribution of music in the physical & digital modes, production of TV serials & short duration films, event management and artiste management.

Currently, the company has four subsidiaries. The two subsidiaries (i.e. Saregama PLC, UK and RPG Global Music Limited) are engaged in distribution of music overseas, one (i.e. Open Media Network Private Limited) is in magazine publication and one (i.e. Kolkata Metro Networks Limited) is into acquiring music rights.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	222.49	218.50
PBILDT	15.41	10.39
PAT	6.87	6.20
Overall gearing (times)	0.02	0.02
Interest coverage (times)	32.13	34.22

A: Audited

Status of non-cooperation with previous CRA: ICRA moved the rating of SIL to 'Issuer Not Cooperating' category vide press release dated October 13, 2017.

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

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

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Annexure-1: Details of Instruments/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+; Stable

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Non-fund-based - ST-BG/LC	ST	10.00	CARE A1+	1)CARE A1 (21-Apr-17)	1)CARE A1 (12-Apr-16)	-	1)CARE A1 (21-Nov-14)
2.	Fund-based - LT-Cash Credit	LT	65.00	CARE A+; Stable	1)CARE A; Stable (21-Apr-17)	1)CARE A (12-Apr-16)	-	1)CARE A (21-Nov-14)
3.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (21-Nov-14)

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