Saregama India Limited

April 21, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	38 (enhanced from 17)	**CARE A; Stable (Single A; Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities	12 (enhanced from 1)	**CARE A1 (A One)**	**Reaffirmed**
Total	**50.00 (Rs. Fifty 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) continue to draw strength from SIL's established branding and positioning in the domestic music industry, strong group with experienced management, large music archive leading to consistent revenue generation through licensing fees, stabilization of TV serial segment's revenue, increased opportunities in the digital space business thus 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.

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

Ability to maintain profitability and capital structure and successful venturing into allied areas of business and future group exposure shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Long & satisfactory 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 mode, production of TV serials, 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.

Professional and experienced management team

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 59% of its total operating income during FY16 while around 39% was contributed by its TV serial segment and the balance 1.40% through sale of physical contents. The company plans to further diversify the revenue profile by launch of 'Carvaan' Radios having preloaded songs and short-duration digital films in May, 2017 and H2FY18 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 on digital platforms such as radio, mobile and internet.

Satisfactory financial risk profile with comfortable capital structure

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

The total operating income of the company witnessed a y-o-y increase of about 19% in FY16 (refers to the period April 1 to March 31) primarily on the back of increased revenue contribution from TV serial business segment and license fees. However, increase in employee cost along with increase in advertisement expenses & provision of doubtful debts/advances led to decrease in both operating profit levels and margins. The PBILDT margin declined from 10.14% in FY15 to 7.44% in FY16. Despite increase in non-operating income, PAT margin declined from 8.38% in FY15 to 3.36% in FY16 on account of exceptional expense of Rs.9.61 crore for payment under voluntary retirement scheme.
During 9MFY17, income from operations declined by 7% from 9MFY16 and stood at Rs.150.46 crore on account of decrease in revenue from the TV serial division. PBILDT margin also declined from 7.24% in 9MFY16 to 4.36% in 9MFY17 on account of higher selling and other expenses.
However, the risk profile remains satisfactory with comfortable capital structure and debt overage indicators. The company has working capital limits, the utilisation of which remained minimal during FY16. Further, the debt outstanding as on March 31, 2016 was nil. Consequently, the capital structure remained comfortable with debt-equity and overall gearing of nil as on March 31, 2016.

Key Rating Weaknesses
Significant exposure to group companies
As on March 31, 2016, SIL had a net exposure of Rs.52.51 crore in group companies. Out of this, major exposure was in CESC Ltd (Rs.32.29 crore) and Kolkata Metro Network Ltd. (Rs.15.54 crore). The company provided for doubtful advances to group companies aggregating to Rs.11.82 crore during FY16.

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. Furthermore during FY16, the company 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: Standalone

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 digital mode, production of TV serials, event management and artiste management. Currently, the company has four subsidiaries and one JV, having operations in a similar line of business.
In FY16, SIL reported PAT of Rs.7.54 crore on total operating income of Rs.215.66 crore against PAT of Rs.15.69 crore on operating income of Rs.181.89 crore in FY15. The company achieved total operating income of Rs.150.46 crore and PAT of Rs.4.01 crore in 9MFY17.

Status of non-cooperation with previous CRA: Not Applicable

Any other information:
Mr. Y. H. Malegam, one of CARE's Rating Committee Members, is an Independent Director on the board of Firstsource Solutions Ltd (a RP-Sanjeev Goenka group company). To comply with the regulations, the member has not participated in the rating process and in the rating committee meeting.

Rating History for 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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About CARE Ratings:

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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	-	-	-	12.00	CARE A1
Fund-based - LT-Cash Credit	-	-	-	38.00	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	12.00	CARE A1	-	1)CARE A1 (12-Apr-16)	-	1)CARE A1 (21-Nov-14)
2.	Fund-based - LT-Cash Credit	LT	38.00	CARE A; Stable	-	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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