Saregama India Ltd

July 06, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Long term Bank Facilities	65.00	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities	10.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total	**75.00 (Rupees Seventy Five 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 derive strength from SIL's established brand and positioning in the domestic music industry, strong promoter group with experienced management, consistent growth in licensing business through increased opportunities in the digital space enabling SIL to efficiently monetize its extensive music library, diversification of revenue stream through TV/films and the Carvaan radios, satisfactory financial performance albeit moderation in profit margins in FY20 due to lower contribution from Carvaan segment particularly in Q4FY20 (refers to period January 1 to March 31). Further, due to lockdown, sales of Carvaan were impacted, however, SIL's licensing business was relatively insulated owing to its digital presence. Comfort is also derived from SIL's comfortable capital structure and from the articulation by the management that the company does not have plans of raising long term debt and the capital structure is expected to remain comfortable in the medium term.

The ratings also factor in the group company exposure, high obsolescence risk associated with the distribution formats, threat from piracy and high cost of content acquisition.

Key Rating Sensitivities

Positive Factors

- Substantial increase in stable revenue streams (>Rs.1000 crore) and improvement in PBILDT margin (>17%) on a sustained basis.
- Substantial improvement in stable liquid funds (>Rs.200 crore) while maintaining the capital structure.

Negative Factors

- Deterioration in capital structure with overall gearing (>0.50x) and Total Debt/Gross Cash Accruals (>2x) on a sustained basis.
- Decrease in scale of operations (<Rs.400 crore) and/or deterioration in PBILDT margin (>14%) on a sustained basis.
- Any further deterioration in operating cycle.

Detailed description of the key rating drivers

Key Rating Strengths

Strong promoter group, long track record of the company and experienced management

Incorporated in 1946, SIL 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 and production of TV serials and films.

In 1985, SIL was acquired by the RPG Group and is now a part of the RP-Sanjiv Goenka Group of Kolkata. 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, carbon black, retail and media & entertainment.

SIL has a qualified and professional management team having vast experience in the related fields.

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. 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. Earlier, the revenue streams of the company were through license fees, sale of physical contents (CDs/DVDs) and television serials. In May 2017 and November 2017, the company diversified the revenue profile by launch of 'Carvaan' Radios having preloaded songs and through production of digital films, respectively. SIL, post success of the flagship model of Carvaan, has also launched 'Carvaan' in various other variants.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*
** Issuer did not cooperate; based on best available information*

During FY20, SIL's consolidated revenue profile constituted license fees generated through its music copyrights (45%, 35% in FY19), sale of 'Carvaan' (37%, 53% in FY19), TV serials/digital films (14%, 9% in FY19) and the balance (4%) through sale of other physical contents and publishing income.

Consistent growth in licensing business through increased opportunities in the digital space
SIL's licensing fee has been increasing at CAGR of 26% in the last three years with y-o-y increase of 21% in FY20. The increase has been a result of the company 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. Revenue from OTT platforms and YouTube which contributed to a significant share in the licensing revenue have showed an increasing trend marked by q-o-q as well y-o-y increase in quarterly views, indicating better prospects for the licensing business.

Satisfactory financial performance albeit moderation in profit margins in FY20
The consolidated total operating income of SIL decreased y-o-y by ~6% in FY20 on account of de-growth in the Music Segment (y-o-y -9%) mainly composed of licensing revenue and physical sale of products (dominated by Carvaan sales). The decline in revenue of Carvaan radios (y-o-y -34%; due to decrease in sales volumes and realizations) was however, partially offset by the growth in the license income (y-o-y 21%). The revenue from films/TV segment also grew by 45%, however, its share in total revenue is relatively small.
The consolidated PBILDT margin of SIL deteriorated from 16% in FY19 to 12% in FY20 due to lower contribution from the Carvaan radios when advertisement spending in FY20 was lower by only 9% y-o-y. However, the management had cut down its advertisement spending in Q4FY20 and same is also expected to be kept at reduced levels going forward. Even if operating profits decreased, the company's GCA increased in FY20, on account of receipt of insurance claim of ~Rs.32 crore (pertaining to loss of Carvaan stock due to fire in FY19). Income from the same was however, booked in FY19.

Comfortable capital structure
On a consolidated basis, SIL's debt structure was comfortable with no long term debt. SIL has been using its working capital requirements to import Carvaan units from China. In addition, post fire at its warehouse in April 2018, the company had taken short term borrowing to replenish the stock that was lost which was repaid upon receipt of insurance claim in April 2019 resulting in significant reduction in overall debt of SIL. Further, with lower year end working capital borrowing, the overall gearing was highly comfortable at 0.02x as on March 31, 2020 (0.15x as on Mar'19). The TD/GCA was also comfortable at 0.12x as on March 31, 2020 (1.85x as on Mar'19).
On a consolidated basis, SIL has an exposure of Rs.74 crore in the form of investments in group companies as on March 31, 2020 as against Rs.147 crore as on March 31, 2019 where the reduction was primarily due to marked to market movement. Such investments are mainly in CESC Ltd (rated CARE AA; Stable/ CARE A1+) the flagship company of the group and its demerged entities- CESC Ventures Ltd and Spencer's Retail Ltd.

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. The company was severely affected by the same in the eighties when the long record player was replaced by music cassettes. It shifted to manufacturing music cassette which was again replaced by CDs. After the phasing out of CDs the company has launched Carvaan radios. The company, however, focuses on distribution of music and content through digital modes including various OTT platforms.

Continuous threat from piracy
Piracy has been eating into the profitability of the media and 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.

Liquidity: Adequate
The company does not have long term debt obligations and capital structure is expected to remain comfortable with the absence of any projected term debt in the medium term. Post the launch of Carvaan the operations have become working capital intensive. Inventory holding period has particularly increased in FY20 due to lower than expected sale of Carvaan units. However, liquidity is supported by unutilized lines of credit of ~62% of fund based limits of Rs.46.50 crore in the last twelve months ended May'20. Apart from unutilized lines, SIL also had free fixed deposits of Rs.30 crore as on May 30, 2020 (Rs.7 crore as on Mar'20). Same had temporarily increased due to collections against no major expenditure such as movie production, advertisements, content acquisition during the lock down. The company has not availed moratorium for its working capital facilities. Further, the company enjoys financial flexibility by virtue of it being part of RP-SG group.

Analytical approach: Consolidated considering significant operational and financial linkages with subsidiaries. List of companies being consolidated is as under:

Subsidiaries	***Holding of SIL***
Saregama PLC, UK	76.41%
RPG Global Music Limited	100.00%
Open Media Network Private Limited	100.00%
Kolkata Metro Networks Limited	100.00%
Saregama FZE	100.00%
Saregama Inc	76.41%

Applicable Criteria
Criteria on assigning Outlook & Credit watch to Credit Ratings
CARE's Policy of Default Recognition
Criteria for Short Term Instruments
Financial ratios - Non Financial Sector
Rating Methodology- Consolidation & Factoring Linkages in Ratings
Rating Methodology-Manufacturing Companies

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. Over the years the company has expanded its business and forayed into distribution of music in the physical & digital modes, production of TV serials & films. It possesses a music library of more than 1.20 lakh songs.

Consolidated Brief Financials (Rs. crore)	**FY19 (A)**	**FY20 (Abridged)**
Total operating income	558.82	524.54
PBILDT	89.84	63.55
PAT	54.32	43.50
Overall gearing (times)	0.15	0.02
Interest coverage (times)	23.39	18.44

A: Audited

Status of non-cooperation with other CRA: Not applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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-fu'nd-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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - ST-BG/LC	ST	10.00	CARE A1+	-	1)CARE A1+ (04-Oct-19)	1)CARE A1+ (26-Dec-18)	1)CARE A1+ (19-Feb-18) 2)CARE A1 (21-Apr-17)
2.	Fund-based - LT-Cash Credit	LT	65.00	CARE A+; Stable	-	1)CARE A+; Stable (04-Oct-19)	1)CARE A+; Stable (26-Dec-18)	1)CARE A+; Stable (19-Feb-18) 2)CARE A; Stable (21-Apr-17)

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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