

## Saregama India Limited

December 26, 2018

### Rating

Facilities	Amount (Rs. Crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	65.00	<b>CARE A+; Stable</b> (Single A Plus; Outlook: Stable)	<b>Reaffirmed</b>
Short term Bank Facilities	10.00	<b>CARE A1+</b> (A One Plus)	<b>Reaffirmed</b>
<b>Total</b>	<b>75.00</b> (Rs. Seventy Five crore only)		

*Details of 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 branding and positioning in the domestic music industry, strong promoter group with experienced management, consistent revenue generation through licensing fees, increased opportunities in the digital space business enabling SIL to efficiently monetize its extensive music library, diversification of revenue stream through foray into short duration digital films and satisfactory financial risk profile marked with comfortable capital structure. 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.

The ratings also take into account the improvement in the operational performance of the company in FY18 (refers to the period April 1 to March 31) and H1FY19 driven by the substantial increase in sales of the music division with launch of Carvaan Radios in May'2017.

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.

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 large 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 and television serials. The company further diversified the revenue profile by launch of 'Carvaan' Radios having preloaded songs and short-duration digital films in May 2017 and November 2017 respectively. SIL, post success of the flagship model, has also launched 'Carvaan' in various variants. During FY18, SIL's revenue profile constituted license fees generated through its music copyrights (41%), sale of 'Carvaan' (40%), TV serials/digital films (15%) and the balance (4%) through sale of physical contents and publishing income.

##### **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.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

### ***Increase in total operating income and profitability margins during FY18 & H1FY19***

On a consolidated basis, the total operating income of the company witnessed a robust growth of 63% from Rs.218.50 crore in FY17 to Rs.356.59 crore in FY18. The same was primarily driven by the music segment on account of robust sales of 'Carvaan' radios launched in May'17. Further, the license fee also increased by 7% y-o-y in FY18. However, the revenue from TV serials segment was lower by 26% as the company discontinued serials on national TV.

The PBILDT margin of the company also improved from 4.32% in FY17 to 10.17% in FY18 despite operational losses in publication and films/TV serials segment. The same was on account of major contribution in sales from high margin 'Carvaan' radios. With improvement in operating profitability along with relatively stable capital charges and other income, the PAT margin also improved from 3.73% in FY17 to 7.72% in FY18. The company generated GCA of Rs.33.26 crore in FY18 vis-a-vis Rs.12.01 crore in FY17.

On a standalone basis, the company reported PAT of Rs.30.51 crore on total income of Rs.359.83 crore in FY18 vis-à-vis net profit of Rs.10.00 crore on total income of Rs.224.01 crore in FY17. The performance continued to improve in H1FY19 driven by the music division. The company reported PAT of Rs.23.55 crore on total income of Rs.295.08 crore vis-à-vis PAT of Rs.7.76 crore on total income of Rs.151.82 crore in H1FY19. PBILDT and PAT margin also improved and stood at 17.47% and 9.22% in H1FY19.

### ***Comfortable capital structure and debt coverage indicators***

On a consolidated basis, overall gearing was comfortable at 0.04x as on March 31, 2018 with debt only comprising low level of working capital borrowings. The debt coverage indicators also remained comfortable with interest coverage and total debt/GCA of 10.77x and 0.48x respectively as on March 31, 2018 as against 4.02x and 0.25x respectively as on March 31, 2017.

On a standalone basis also the capital structure remained comfortable with overall gearing of 0.03x as on March 31, 2018.

### **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 discontinued producing national TV serials in Q2FY18 and plans to focus on South India TV business going forward. Furthermore, the company made foray into B2C space by launching two mobile based paid applications, i.e., Saregama Shakti and Saregama Classical, offering devotional and classical music respectively during FY16 and Carvaan Radio during FY17.

#### ***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**

The liquidity profile of the company is comfortable with average utilisation of the fund based limits at 59% during the last twelve months ending September'18 and no term debt repayment obligations. Further the company had cash and cash equivalents of Rs.9.22 crore as on March 31, 2018 and ~Rs.3.70 crore (standalone) as on September 30, 2018.

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

<b><i>Subsidiaries</i></b>	<b><i>Holding of SIL</i></b>
Saregama PLC, UK	76.14%
RPG Global Music Limited	100.00%
Open Media Network Private Limited	100.00%
Kolkata Metro Networks Limited	100.00%
Saregama Inc	76.41%

### **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](#)

[Rating Methodology- Factoring linkages in Ratings](#)

### 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 it possesses a music library of more than 1.20 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.

Currently, the company has five 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. Further, during the current year SIL has incorporated a wholly owned subsidiary, i.e., Saregama FZE, as a marketing outfit in the Middle East.

Brief Financials (Rs. Crore)	FY17 (A)	FY18 (A)
Total operating income	218.50	356.59
PBILDT	9.44	36.25
PAT	8.65	28.30
Overall gearing (times)	0.01	0.04
Interest coverage (times)	4.02	10.77

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**Annexure-1: Details of 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - ST-BG/LC	ST	10.00	CARE A1+	-	1)CARE A1+ (19-Feb-18) 2)CARE A1 (21-Apr-17)	1)CARE A1 (12-Apr-16)	-
2.	Fund-based - LT-Cash Credit	LT	65.00	CARE A+; Stable	-	1)CARE A+; Stable (19-Feb-18) 2)CARE A; Stable (21-Apr-17)	1)CARE A (12-Apr-16)	-

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