November 30, 2021

Saregama India Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	40.00	40.00	[ICRA]A1+; Reaffirmed
Total	**40.00**	**40.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation takes into account the improvement in the revenues and accruals of Saregama India Limited (SIL) in FY2021 and H1 FY2022, supported by the healthy growth in licensing and advertising income. Licensing income grew by around 20% on a year-on-year basis (YoY) in FY2021 and further by 26% in H1 FY2022. The increasing penetration of online music streaming and digital content consumption have been key drivers of the company's revenue growth.

The rating factors in SIL's comfortable financial profile with healthy operating margins, which increased to 29.4% in FY2021 (previous year [PY]: 11.6%) supported by the growth in high-margin licensing income, the decline in advertisement expenses and low overall indebtedness, translating into strong debt coverage metrics. The rating also takes into account the extensive experience of the company in the music industry with a strong competitive position as one of the India's major music recording and publishing companies with more than 1.3 lakh songs in its library. The rating also considers SIL's status as an RP-Sanjiv Goenka Group (RP-SG Group) company; the Group has diversified business operations spanning sectors such as power, media, sports, information technology (IT) and retail.

Further, SIL is planning to acquire new music content rights across various languages and it raised around Rs. 750 crore through a qualified institutional placement (QIP) in November 2021 towards the same. These new acquisitions and the growth in online music streaming will support the growth in licensing income. The continued growth in high-margin licensing income and the strong equity base to support the acquisition of content are expected to support the operating margins and leverage metrics going forward.

The rating, however, remains constrained by the susceptibility of the music industry to the threat of piracy, rapid technological changes and intense competition in the film and television media segments, which resulted in content cost escalation. ICRA also notes the higher dependence of SIL on the old catalogue of music content, which generates a significant portion of revenue. However, the company has started acquiring new music content in the last three-four financial years, which is likely to mitigate the risk to an extent, going forward. While SIL plans to scale up content acquisition significantly in the near term, its return metrics may moderate if the ramp-up in income generation is not commensurate with the planned investment. The rating is also constrained by the impact of certain loss-making segments, such as the publication division, on the overall return metrics.

Key rating drivers and their description

Credit strengths

Significant growth in high-margin licensing business through better digital penetration – Over the years, licensing income grew at a compound annual growth rate (CAGR) of around 20% to Rs. 284 crore in FY2021 from Rs. 139 crore in FY2017. Despite the Covid-19 pandemic, the company's licensing revenue grew by 20.2% in FY2021. The growth was primarily driven by the significant increase in online music streaming/content consumption through better digital penetration, thus supporting SIL's revenue and cash accruals.

Comfortable financial profile, supported by healthy profitability, conservative capital structure and comfortable debt protection metrics – SIL's financial performance remains comfortable with healthy operating margins, which increased to 29.4% in FY2021 (PY: 11.6%) supported by the growth in high-margin licensing income, the decline in advertisement expenses and low overall indebtedness, translating into strong debt coverage metrics. Notwithstanding the decline in operating income by 15% in FY2021, the consistent increase in high-margin licensing revenue along with the significant reduction in advertising expense resulted in an increase in the operating margins to 29.4% in FY2021. Margins improved further in H1 FY2022. The profitability is, nonetheless, constrained by losses from certain segments such as the publication division. SIL has nil debt and Rs. 1.10 crore of lease liability as on March 31, 2021. The debt coverage indicators remain strong with an interest coverage of 37.7 times in FY2021.

Extensive experience in music industry, with strong competitive position as one of India's major music recording and publishing companies – One of the country's largest music recording and publishing companies, SIL has achieved several milestones. It has the largest music catalogue in India with more than 1.30 lakh songs across 18 different languages. Most of the company's music is from the 1960s to 2000s. However, the growing interest in retro music enables it to leverage its collection, given the limited availability of these rare songs.

Part of RP-SG Group – The RP-SG Group currently holds a 59.05% stake in SIL. SIL enjoys strong financial flexibility given the established position of the Group, which has diversified business interests in power and natural resources, IT and education, infrastructure, retail and media and entertainment.

Credit challenges

Higher dependence on old catalogue; strategy to acquire new music in recent years likely to mitigate the risk to an extent – SIL was highly dependent on the old catalogue of music content and generated a significant portion of its revenue from old content. However, it has started acquiring new music content in the last three-four financial years, which is likely to mitigate the risk to an extent, going forward. Further, SIL is planning to acquire new music across various languages and it raised around Rs. 750 crore through a QIP towards the same. While the company plans to scale up content acquisition significantly in the near term, its return metrics may moderate if the ramp-up in income generation is not commensurate with the planned investment.

Susceptibility to challenges posed by music piracy – The company's revenue generation is dependent on the effective monetisation of the intellectual property rights owned by it. Thus, the piracy of content through counterfeit media and the unauthorised use of proprietary and intellectual property rights result in a loss of revenue and significantly reduce the pricing power of music companies, including SIL.

I**ndustry characterised by intense competition, leading to content cost escalation and keeping profitability in check** – The music industry is also characterised by intense competition in the film and television media segments, which increases demand for the limited content pool, contributing to an increase in the cost for content acquisition. In recent years, several film production houses have established their own music publishing companies to market the music of the movies produced by them.

Liquidity position: Strong

ICRA expects the liquidity position of the company to remain strong, led by healthy cash generation from core operations. The working capital limit utilisation remained nil for the six months ending September 2021, leading to a cushion of Rs. 46.5 crore of the working capital limits. The cash and bank balance also remained healthy at Rs. 152.0 crore as on September 30, 2021. In addition, SIL enjoys considerable financial flexibility as a part of the RP-SG Group. The company does not have any long-term debt.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on SIL's rating may arise in case of a significant decline in the scale and cash accruals on a sustained basis coupled with a deterioration in the working capital cycle. Also, higher-than-anticipated losses in weaker business segments, thus further affecting the return on capital employed (RoCE), or any material increase in the leverage due to future acquisition plans will put pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the consolidated financials, which include subsidiaries as per Annexure-2

About the company

SIL is one of India's largest music recording and publishing companies. It was initially established as a branch of Electrical & Musical Industries Limited, London (EMI) in 1901, before being taken over by the RP-Sanjiv Goenka Group of Kolkata. The company has several milestones to its credit in the history of recording and publishing Indian music. It produced the first song that was recorded in India in 1902 by Gauhar Jan. It currently has a music library of more than 1.30 lakh songs. Folk and light classical music, especially ghazals, and old Hindi film music, acquired from reputed film houses, form the backbone of this collection. SIL also has a presence in the television serial segment, especially in South India. Further, the company started production of a pre-loaded music player, Carvaan, from FY2018. It also has a presence in a film production house, which focuses on creating content for 3rd party digital platforms.

Key financial indicators (audited)

SIL	FY2020	FY2021
Operating Income (Rs. crore)	521.5	442.0
PAT (Rs. crore)	44.0	113.5
OPBDIT/OI (%)	11.6%	29.4%
PAT/OI (%)	8.4%	25.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.7
Total Debt/OPBDIT (times)	0.2	0.0
Interest Coverage (times)	9.0	37.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Nov 30, 2021	Nov 27, 2020	Sep 27, 2019	Sep 17, 2018
1	Commercial Paper	Short Term	40.0	0.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Fund-based Limits	Long Term	-	-	-	-	-	[ICRA]A (Stable) ISSUER NOT COOPERATING; withdrawn
3	Non-fund Based Limits	Short Term	-	-	-	-	-	[ICRA]A1 ISSUER NOT COOPERATING; withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial Paper	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Commercial Paper	Unplaced	Unplaced	Unplaced	40.0	[ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Saregama Limited	76.41%	Full Consolidation
RPG Global Music Limited	100.00%	Full Consolidation
Kolkata Metro Networks Limited	100.00%	Full Consolidation
Open Media Networks Private Limited	100.00%	Full Consolidation
Saregama FZE	100.00%	Full Consolidation
Saregama Inc (step-down subsidiary)*	76.41%	Full Consolidation

**100% subsidiary of Saregama Limited*

Source: Annual report of SIL

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