

September 27, 2019

Saregama India Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper ¹	40.00	40.00	[ICRA]A1+; Reaffirmed
Total	40.00	40.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating considers Saregama India Limited's (SIL) status as a RP-SG Group company, of which CESC Limited (rated at [ICRA]A1+) is the flagship company, leading to a considerable financial flexibility. The rating also considered the company's comfortable financial profile, as indicated by a healthy operating profitability, a conservative capital structure, and comfortable debt protection metrics. ICRA notes that while the profitability in Q1 FY2020 was impacted owing to upfronting of advertisement expenses for the upcoming festival season, the full year profitability is likely to remain firm, driven by an expected healthy growth in licensing income and higher volumes from the portable digital music player, Carvaan. The company has extensive experience in the music industry with a strong competitive position as one of India's major music recording and publishing companies with more than 1.2 lakh songs in its library. ICRA notes that the music industry has undergone significant changes over the past decade, with digital content contributing to an increasing share of revenues for music publishers, including SIL. The company has benefited from the same through diversification of its distribution platforms, which supported the profitability and cash accruals of the company. Moreover, improvement in performance of Carvaan during FY2019 and Q1 FY2020 resulted in an increase in the company's scale of operation. Nonetheless, high marketing expenses limit the net margins from Carvaan, which is likely to remain at a low single digit. ICRA notes that although the company has an established presence in the television serial segment, especially in South India coupled with production of movies for the digital platform, which led to further diversification of revenues, the share of the same in the total revenue continues to remain low. Thus, the credit profile of the company is primarily determined by its music segment at present.

The rating, however, remains constrained by the continued financial support extended by SIL to the loss-making operations of its wholly owned subsidiary, which publishes the magazine, Open. This adversely impacts SIL's overall business returns and cash accruals. ICRA expects such support to continue over the near to medium term. The music industry is also susceptible to the threat of piracy, rapid technological changes and intense competition, which resulted in content cost escalation, affecting the profitability. Going forward, SIL's healthy cash accruals from the music business, primarily backed by an improvement in publishing and over-the-top (OTT) revenue, and an expected higher volume of Carvaan sale would be the key credit rating sensitivities.

¹ ¹ While assigning the rating, ICRA notes that the proceeds from the rated CP programme are intended to be utilised for funding the working capital requirements, as per the objects of the issue. A deviation from the above that has the effect of exerting pressure on the asset-liability position of the company would be a rating sensitivity.

Key rating drivers and their description

Credit strengths

SIL's status as a company belonging to the RP-SG Group – The RP-SG Group currently holds a 59.11% stake in SIL. Given the established position of the Group, having diversified business interest in power and natural resources, IT and education, infrastructure, retail and media and entertainment, SIL enjoys considerable financial flexibility and maintains a healthy relationship with domestic banks.

Extensive experience in music industry with a 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. SIL has a music library of approximately 1.20 lakh songs, including those by renowned musicians like Lata Mangeshkar, Asha Bhonsle, Mohammad Rafi, Pandit Hariprasad Chaurasia, R.D. Burman and many other musical stalwarts. Its content includes music recorded in 18 different languages and classical music. It also has the largest music catalogue in India. Most of the company's music are from the 1970s and 80s, enabling it to leverage its collection, given the limited availability of these rare songs. The company has also started acquiring new music rights in the last two financial years, which will support the licensing income going forward.

Improvement in performance of Carvaan with continuous increase in volume in FY2019 and Q1 FY2020 – SIL launched the portable digital music player called Carvaan with in-built stereo speakers that comes with preloaded music in Hindi, Tamil, Marathi and Bengali languages in FY2018. The sales volume of Carvaan has significantly picked up in the last 5-6 quarters on the back of healthy demand of the product. The total sales volume increased from 3.89 lakh unit in FY2018 to around 9.04 lakh unit in FY2019. However, high advertising and marketing expenses limit the net profitability from the segment, which is likely to remain at low single digit at present.

Increase in revenue contribution from digital content following changing trends of music industry – Over the years, SIL has expanded its business from distribution of music, both in digital and physical mode to producing movies and television content, in line with the changing trends of the music and the entertainment industry. However, music remains the mainstay of the company's business, with around 90% of its total revenues coming from the same in FY2019 while television serials/digital films accounted for the balance revenues during the year. The revenue from the music segment in the recent years has been supported by the overwhelming performance of Carvaan. In addition, a significant improvement in licensing income, driven by high online streaming of music, supported the revenue and cash accruals of the company.

Comfortable financial profile, supported by healthy profitability, conservative capital structure and comfortable debt protection metrics – On a consolidated basis, the operating income improved significantly to around Rs. 576.91 crore in FY2019 from Rs. 356.59 crore in FY2018, primarily driven by a healthy volume growth in Carvaan as well as an improvement in licensing income. The total revenue generated from Carvaan improved to around Rs. 277 crore in FY2019 from Rs. 141 crore in FY2018. In addition, healthy profitability generated from the licensing income improved the consolidated operating margin to around 12.19% in FY2019 from around 10.17% in FY2018. Though the profitability was slightly impacted in Q1 FY2020 owing to high advertisement expenses for the upcoming festival season, the full year profitability is likely to remain firm, driven by a healthy growth expected in the licensing income coupled with higher volume from Carvaan. The capital structure remained conservative as characterised by a gearing of 0.19 times as on March 31, 2019. The total debt comprises only working capital loans at present. The company's interest coverage remained healthy at 10.72 times in FY2019. Additionally, coverage indicators remained healthy, with an NCA/Total Debt of 95% and Total Debt/OPBDITA of 0.91 times in FY2019.

Established presence in television serial segment in South India and expanding presence in film production for digital platform lead to revenue diversification – SIL has an established presence in the television serial segment in South India and has rights of over 5,800 hours of Tamil series including successful serials such as ‘Chandralekha’, ‘Valli’ and ‘Roja’. As most of these programmes have considerable viewership and record high gross rating points (GRPs), they command favourable advertising rates. The Intellectual Property (IP) of all these serials is owned by Saregama. The digital film segment is also gaining momentum gradually. However, the segment generated nominal losses in FY2019.

Credit challenges

Financial support to the loss-making operations of the wholly-owned subsidiary adversely impacts SIL’s business returns and cash accruals – SIL continues to support the loss-making magazine publishing business of its wholly-owned subsidiary, Open Media Network Private Limited (OMNPL). With SIL making annual provisions for such advances given to OMNPL, the same affected the company’s bottom line, adversely impacting its business returns. ICRA expects such support to continue over the near to medium term.

Limited acquisition of new content leading to low market share in new music and increasing dependence on old catalogue; strategy to selectively acquire new music in recent years is likely to mitigate the risk to an extent – SIL was highly dependent on old catalogue of music content with limited acquisition of new content till FY2017. However, the company has started acquiring new music content in the last two financial years, which is likely to mitigate the risk to an extent, going forward. Also, the plans to spend around Rs. 180 crores for new music acquisition over the next three financial years, are likely to support the licensing income, going forward.

Susceptibility to challenges posed by piracy of music – The nature of operations in the music industry leads to maintenance of intellectual property rights, critical for appropriate levels of revenue generation. Thus, piracy of content through counterfeit media and unauthorised use of proprietary and intellectual property rights resulted in a loss of revenue and significantly reduced pricing power for music companies, including SIL.

Industry characterised by intense competition, which resulted in content cost escalation and kept profitability under pressure– The music industry is also characterised by intense competition from both new as well as existing players in the film and television media segments, which increases demand for the limited content pool, contributing to an increase in costs for content acquisition. In the recent years, several film houses have also established their own music publishing companies to market the music of their produced movies. This is likely to keep the profit margins of music companies, including SIL, under check.

Liquidity position: Strong

ICRA expects the liquidity position of the company to remain strong, led by healthy accruals from core operations. The working capital utilisation also remained moderate at around 60-65%. In addition, SIL enjoys considerable financial flexibility for being a part of RP-SG Group. The company also does not have any long-term debt service obligations, thus supporting its liquidity.

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – Negative pressure on SIL’s rating may arise in case of a slowdown in licensing income growth as well as in Carvaan sales volumes, coupled with deterioration in working capital cycle. Also, higher-than-anticipated support to Open Media Network Private Limited (OMNPL), thus further affecting its business returns, will also 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 ratings are 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 1.20 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 has started production of pre-loaded music player, Carvaan, from FY2018, which is performing well in the market.

On a consolidated basis, SIL reported a net profit of Rs. 54.33 crore on an operating income of Rs. 576.91 crore in FY2019 against a net profit of Rs. 28.30 crore on an operating income of Rs. 356.59 crore in FY2018.

Key financial indicators - Consolidated (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	356.59	576.91
PAT (Rs. crore)	28.30	54.33
OPBDIT/OI (%)	10.17%	12.19%
RoCE (%)	13.63%	23.30%
Total Outside Liabilities/Tangible Net Worth (times)	0.69	0.85
Total Debt/OPBDIT (times)	0.44	0.91
Interest Coverage (times)	10.77	10.72
DSCR	10.88	11.17

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					27-Sep-2019	17-Sep-2018	13-Oct-2017	14-Apr-2016
1	Commercial Paper	Short Term	40.0	0.00	[ICRA]A1+	[ICRA]A1+; assigned	-	-
2	Fund Based Limits	Long Term	17.00	NA	-	[ICRA]A (stable); ISSUER NOT COOPERATING; withdrawn	[ICRA]A (stable); ISSUER NOT COOPERATING	[ICRA]A (Stable)
3	Non-Fund Based Limits	Short Term	1.00	NA	-	[ICRA]A1; ISSUER NOT COOPERATING; withdrawn	[ICRA]A1; ISSUER NOT COOPERATING	[ICRA]A1

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper	Unplaced	Unplaced	Unplaced	40.00	[ICRA]A1+

Source: Saregama India Limited

Annexure-2: List of entities considered for consolidated analysis

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

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