CARE Ratings
Professional Risk Opinion

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CARE/KRO/RL/2018-19/2183

Shri Vineet Garg
Chief Financial Officer
Saregama India Ltd
33, Jessore Road,
Kolkata – 700 028.

December 21, 2018

Confidential

Dear Sir,

Credit rating for bank facilities

On the basis of recent developments including operational and financial performance of your company for FY18 (audited) and H1FY19 (provisional), our Rating Committee has reviewed the following ratings:

Facilities	Amount (Rs. crore)	Rating[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)		

2. Refer **Annexure 1** for details of rated facilities.
3. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure-2**. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by December 25, 2018, we will proceed on the basis that you have no any comments to offer.
4. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.

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

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Limited)

CORPORATE OFFICE: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (E), Mumbai - 400 022.
Tel.: +91-22-6754 3456 • Fax: +91-22-6754 3457
Email: care@careratings.com • www.careratings.com

3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkatta - 700 071
Tel: +91-33- 4018 1600 / 02 • Fax: +91-33- 4018 1603

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5. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.
6. CARE ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.
7. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.
8. CARE ratings are **not** recommendations to sanction, renew, disburse or recall the concerned bank facilities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,

Akshay Bhalotia

Akshay Bhalotia
Deputy Manager
akshay.bhalotia@careratings.com

Mamta Muklania

Mamta Muklania
Asst. General Manager
mamta.khemka@careratings.com

Encl.: As above

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3rd Floor, Prasad Chambers, (Shagun Mall Bldg.), 10A, Shakespeare Sarani, Kolkatta - 700 071.
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<u>**Annexure 1**</u>

Details of Rated Facilities

1. Long-term facilities

<u>**1. A. Fund Based limits**</u>

(Rs. crore)

Sr. No.	Name of Bank	Fund Based Limits		
		CC*	Others	Total fund-based limits
1.	United Bank of India	18.00	-	18.00
2.	ICICI Bank	15.00	-	15.00
3.	State Bank of India	13.50	-	13.50
4.	Proposed	18.50	-	18.50
	TOTAL	**65.00**	-	**65.00**

*CC=Cash credit

Total long-term facilities: Rs.65.00 crore

2. Short-term facilities

<u>**2. A. Non fund based limits**</u>

Sr. No.	Name of Bank	Nature of Facility	Amount (Rs. Crore)
1.	United Bank of India	LC/BG	2.00
2.	State Bank of India	LC/BG	1.50
3.	Proposed	LC/BG	6.50
	TOTAL		**10.00**

*LC=Letter of credit; BG=Bank guarantee

Total short-term facilities: Rs.10.00 crore

Total facilities: Rs.75.00 crore

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Annexure 2
Press Release
Saregama India Limited

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 (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.

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

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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.

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

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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:

Subsidiaries	*Holding of SIL*
Saregama PLC, UK	76.14%

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Subsidiaries	*Holding of SIL*
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.

Consolidated 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 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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Analyst Contact:
Name: Ms Mamta Muklania
Tel: 033-4018 1651
Mobile : 98304 07120
Email: mamta.khemka@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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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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