CARE Ratings
Professional Risk Opinion

CARE/KRO/RR/2019-20/1207

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

October 9, 2019

Confidential

Dear Sir,

Credit rating for bank facilities

Please refer to our letter dated September 30, 2019 on the above subject.

1. The rationale for the ratings is attached as an **Annexure - I**.
2. We request you to peruse the annexed documents 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 October 10, 2019 we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,
Yours faithfully,

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CIN-L67190MH1993PLC071691

Annexure I
Rating Rationale
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 films and through success of the Carvaan radios and satisfactory financial risk profile marked with comfortable capital structure. CARE also derives comfort from the articulation by the management that the company does not have any plans of raising long term debt in the medium term and the capital structure is expected to remain comfortable.

The ratings also take into account the increase in total operating income and profitability margins during FY19 (refers to the period April 1 to March 31) albeit subdued performance in Q1FY20 primarily due to increased advertisement spends. The performance of the company in the coming quarters would be a key monitarable.

The ratings also factor in the 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 are key rating sensitivities.

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 and formerly known as the Gramophone Company of India which started its Indian operations in 1902, SIL has a long track record in creation, acquisition and distribution of

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

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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.

During FY19, SIL's consolidated revenue profile constituted license fees generated through its music copyrights (35%), sale of 'Carvaan' (52%), TV serials/digital films (9%) and the balance (4%) through sale of other 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 FY19 albeit subdued performance in Q1FY20 primarily due to increased ad spends.

The consolidated total operating income of SIL increased y-o-y by 55% in FY19 on account of growth in the Music Segment which mainly comprises license fees and physical sale of products (dominated by Carvaan sales). In FY19, revenue from Carvaan increased by 103% y-o-y to Rs.293 crore and license fees increased y-o-y by 32% to Rs.195 crore. The consolidated PBILDT margin of SIL improved from 11.10% in FY18 to 16.08% in FY19 due to higher contribution (on account of increase in volumes and increase in gross margins) from Carvaan.

In Q1FY20, the consolidated total operating income increased marginally however, the consolidated PBILDT margin deteriorated significantly from 12.54% in Q1FY19 to 1.39% in Q1FY20. This was due to increase in advertisement expenditure and royalty costs. Advertisement spends was increased to increase sales of Carvaan and its newer variants in towns other than the existing top 10 towns and benefit from the upcoming festive quarters. In addition, release of new content acquired during FY19 has resulted in an increase in royalty cost. Although, substantial cost is booked at the time of release, license fee from the same is generated over a longer period as its music library is built. Given the performance of Q1FY20, the performance in the upcoming quarters will be a key monitarable.

Comfortable capital structure and debt coverage indicators

On a consolidated basis, SIL's debt structure was comfortable with no long term debt. The overall gearing remained comfortable but deteriorated from 0.04x as on Mar'18 to 0.15x as on Mar'19 due to increase in short term borrowings to fund inventory post fire at company's warehouse in April 2018. The same amount has been repaid upon receipt of insurance claim in April 2019. Further the management has stated its intent to purchase new content of Rs.200 crore over the medium term. The same is expected to be funded out of internal accruals and thus capital structure is expected to remain comfortable in the medium term. The interest coverage continued to remain comfortable at 23.39x in FY19 but deteriorated as against 52.48x in FY18 due to increase in interest costs in FY19. The loss due to fire in FY19, also impacted the GCA in FY19, but total debt/GCA remained comfortable at 1.85x in FY19 as against 0.48x in FY18.

On a consolidated basis, SIL has an exposure of Rs.147 crore in group companies as on March 31, 2019. However, such exposure is mainly in CESC Ltd (rated CARE AA; Stable/ CARE A1+)- the flagship company of the group and its demerged entities- CESC Ventures Ltd and Spencers' 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. Further, the

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utilization of the fund based limits was also moderate at 54% in the last 12 months ended August 2019.

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 (SPLC)	76.41%
RPG Global Music Limited (RPGG)	100.00%
Open Media Network Private Limited (OMNPL)	100.00%
Kolkata Metro Networks Limited (KMNL)	100.00%
Saregama FZE (SFZE)	100.00%
Saregama Inc (WOS of SPLC)	76.41%

Applicable Criteria

Criteria on assigning Outlook and Credit Watch to Credit Ratings

CARE's Policy on Default Recognition

Criteria for Short Term Instruments

Financial ratios – Non-Financial Sector

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. 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.

Financial Performance- Consolidated (Rs. Cr)

Year ended/As on March 31,	***2017***	***2018***	***2019***
Particulars	***12m, A***	***12m, A***	***12m, A***
Working Results			
Net Sales	218.28	356.54	544.57
Income from Continuing Operations	224.07	360.32	558.82
PBILDT	15.48	39.99	89.84
Interest	0.30	0.76	3.84
Depreciation	4.43	4.15	3.33
PBT before Exceptional items	17.81	38.92	90.07
Exceptional Items*	0.00	0.00	-5.39
PBT	17.81	38.92	84.68
PAT After Discontinuing Operations	8.65	28.30	54.32
Gross Cash Accruals	12.01	33.26	34.51
Financial Position			

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Year ended/As on March 31,	*2017*	*2018*	*2019*
Particulars	***12m, A***	***12m, A***	***12m, A***
Equity Share Capital	17.40	17.41	17.41
Net worth	342.32	383.98	430.70
Total Capital employed	389.65	447.78	552.51
Key Ratios			
Growth (%)			
Growth in Total Operating Income	0.05	60.81	55.09
Growth in APAT	25.96	227.24	91.94
Profitability (%)			
PBILDT margin	6.91	11.10	16.08
PAT (after defd. Tax) margin	3.86	7.85	9.72
ROCE	40.63	13.31	17.41
Solvency			
Debt Equity Ratio (times)	-	-	-
Overall Gearing Ratio (times)	0.01	0.04	0.15
Interest Coverage (times)	50.99	52.48	23.39
Term debt/Gross cash accruals (years)	-	-	-
Total Debt/GCA (years)	0.25	0.48	1.85
Liquidity (times)			
Current ratio	1.53	1.48	1.55
Quick ratio	1.42	1.14	1.11
Turnover (days)			
Avg. Collection Period	81	63	60
Avg. Inventory	13	47	90
Avg. Creditors	62	52	47
Operating cycle	32	58	103

*A: Audited * exceptional item pertains to loss net of insurance claim due to fire in April 2018*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - ST-BG/LC	ST	10.00	CARE A1+	-	1)CARE A1+ (26-Dec-18)	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 (26-Dec-18)	1)CARE A+; Stable (19-Feb-18) 2)CARE A; Stable (21-Apr-17)	1)CARE A (12-Apr-16)

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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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.

The above follows our press release dated October 4, 2019.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

Annexure 3

Details of Rated Facilities

1. Long-term facilities

1. A. Fund Based limits

(Rs. crore)

Sr. No.	Name of Bank	Cash Credit
1.	United Bank of India	18.00
2.	ICICI Bank	15.00
3.	State Bank of India	13.50
4.	Proposed	18.50
	TOTAL	**65.00**

Total long-term facilities: Rs.65.00 crore

2. Short-term facilities

2. A. Non fund based limits

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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