

**CARE/KRO/RR/2021-22/1057**

**Mr Vineet Garg**  
Chief Financial Officer  
**Saregama India Limited**  
33 Jessore Road  
Dumdum  
Kolkata  
West Bengal 700028

July 7, 2021

**Confidential**

Dear Sir,

**Credit rating for Bank Facilities of Rs.75.00 crore**

Please refer to our letter dated June 30, 2021 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 July 8, 2021 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,



**(Anil More)**  
Assistant Director  
anil.more@careratings.com

**Encl.: As above**

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**Annexure I**  
**Rating Rationale**  
**Saregama India Ltd**

**Ratings**

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

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of Saregama India Limited (SIL) factors in the improvement in the operational performance of the company marked by consistent increase in its license income with increased digital penetration on the back of tie-ups with Over-The-Top (OTT) applications whose popularity was accelerated with increased smart phone usage and availability of cheaper data. This enabled the company to monetize its vast music catalogue of more than 1.30 lakh songs. It is to be noted that the company's strategy calibrated with the impact of the COVID-19 pandemic on the retail network, to reduce ad spends also led to substantial improvement in SIL's performance and liquidity position in FY21. CARE notes that such liquidity will provide a buffer for future investment needs in new content to maintain growth momentum in licensing revenue.

The ratings continue to derive strength from SIL's established brand and positioning in the domestic music industry with a rich library of retro music contributing to around 70% of its licensing revenue, strong promoter group providing financial flexibility and an experienced management and diversified revenue profile through licensing revenue, TV/films content and sale of Carvaan radios. Comfort is also derived from SIL's healthy capital structure and from the articulation by the management that the company does not have any plans of raising long term debt and the capital structure is expected to remain comfortable in the medium term. The ratings are also tempered by group company exposure at a standalone level, high obsolescence risk associated with the distribution formats, threat from piracy and high cost of content acquisition.

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

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## **Outlook: Positive**

The revision in the outlook from stable to positive is a reflection of CARE's belief that SIL would continue to monetize its existing/future Intellectual Property rights to generate sustainable cash flows in the future while maintaining capital structure as the new content acquisition is expected to be funded by existing liquidity and internal accruals.

The outlook maybe revised to stable if there is a notable deviation in envisaged revenue and profitability or significant increase in debt while engaging in content acquisition sufficient to remain competitive in the recorded music licensing space.

## **Key Rating Sensitivities**

### **Positive Factors**

- Sustained increase in business cash flows and improvement in return indicators while maintaining comfortable capital structure and debt protection metrics.

### **Negative Factors**

- Deterioration in capital structure with overall gearing (>0.50x) and Total Debt/Gross Cash Accruals (>2x) on a sustained basis.
- Decrease in scale of operations (<Rs.400 crore) and/or deterioration in PBILDT margin (>14%) on a sustained basis.
- Deterioration in operating cycle.

## **Detailed description of the key rating drivers**

### **Key Rating Strengths**

#### ***Part of strong promoter group***

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 apart from media & entertainment. Being part of a large established group provides significant financial flexibility to SIL. The major companies of the group are CESC Limited (rated: CARE AA; Stable/ CARE A1+), Philips Carbon Black Limited (CARE AA; Stable/CARE A1+), Spencers Retail Limited (CARE BBB; Stable/ CARE A3) and Firstsource Solutions Limited (CARE A+; Stable/ CARE A1+).

SIL's operations are also supported by a qualified and professional management team having vast experience in the related fields.

#### ***Long track record, strong brand positioning with large music archive and diversified revenue profile***

Incorporated in 1946, SIL has a long track record in creation, acquisition and distribution of music. 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'. SIL has a leadership position in rich retro music library representing 71% of its total library and also 70% of its licensing revenue. The collection represents of recordings by legendary artists

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including Lata Mangeshkar, Mohd. Rafi, Laxmikant-Pyarelal, RD Burman and Kishore Kumar. On an overall basis, SIL owns intellectual property (IP) rights of more than 1.30 lakh songs, content IP rights of 61 films and 6000+ hours of television serials. It has also diversified its revenue profile by physical sales of Carvaan radios (various variants selling in the market from May 2017) and content creation for budget films (Yoodle films- 16 movies licensed since its launch in November 2017). These films are licensed to video OTT platforms.

During FY21, SIL's consolidated revenue profile constituted license fees generated through its music copyrights (66%, 45% in FY20), sale of 'Carvaan' (20%, 37% in FY21), TV serials/digital films (12%, 13% in FY21) and the balance (2%) through sale of other physical contents and publishing income.

***Consistent growth in licensing business through increased opportunities in the digital space***

SIL's licensing fee has been increasing at CAGR of 21% in the last three years also with y-o-y increase of 21% in FY21. The increase has been a result of the company 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 (including YouTube) and publishing (through movies/Tv shows/ brand usage). Revenue from OTT platforms and YouTube which contributed to a significant share in the licensing revenue also grew y-o-y by 20% in FY21.

***Significant improvement in performance in FY21 marked by increase in proportion of higher margined licensing revenue and lower ad spends***

The consolidated TOI of SIL decreased y-o-y by ~14% in FY21 primarily on account of de-growth in the Music Segment (y-o-y -13%) on the back of lower Carvaan sales primarily due to retail network related disruption. The decrease in sales of Carvaan was however, partially offset by the growth in the higher margined license income (y-o-y 21%). The revenue from films/TV segment de-grew by 26%, due to production loss during lockdown and COVID related restrictions, however, its share in total revenue is relatively small.

Increase in higher margined licensing revenue coupled with lower advertising and sales promotion expense led to improvement in PBILDT margin y-o-y from 12.12% to 30.83% in FY21. Due to COVID related disruption on the retail network, SIL's strategy with respect to Carvaan changed from FY21, with SIL focusing on the natural pull of the product instead of spending on advertisement and sales promotion. The cash accruals of the company on the back of improved operational performance also increased y-o-y in FY21.

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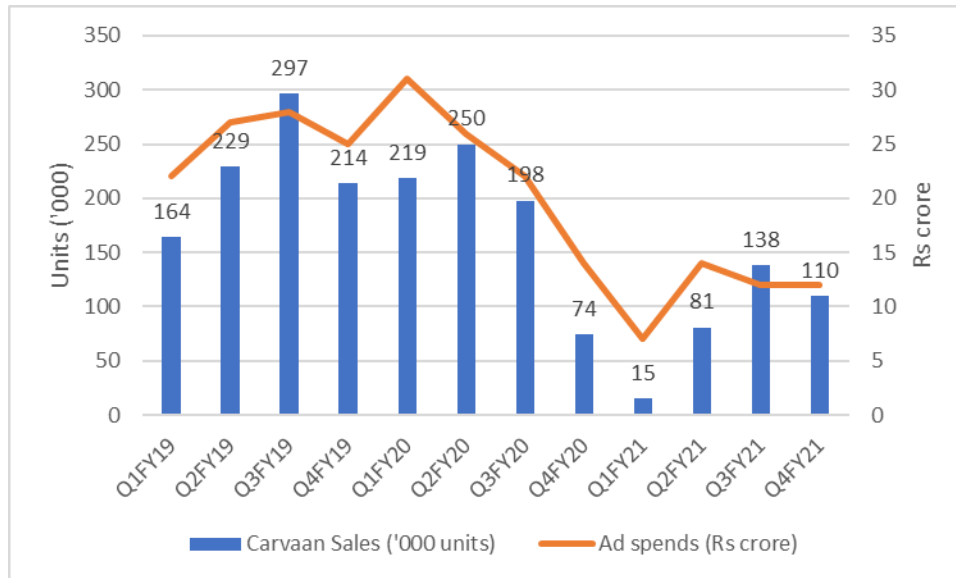


Chart showing quarterly Carvaan sales and advertisement and sales promotion expenditure of SIL over the last three years.

Source: CARE and Company

### **Comfortable capital structure**

On a consolidated basis, SIL's debt structure was comfortable with no long-term debt and no working capital utilization of the limits and the company relying on liquidity for its working capital requirements. The capital structure thus was highly comfortable and unleveraged with NIL gearing as on March 31, 2021 (0.02x as on March 31, 2020).

On a consolidated basis, SIL has an exposure of Rs.112 crore in the form of investments in group companies as on March 31, 2021 as against Rs.74 crore as on March 31, 2020 where the increase was primarily due to marked to market movement. Such investments are mainly in CESC Ltd (rated CARE AA; Stable/ CARE A1+) the flagship company of the group and its demerged entities- RPSG Ventures Ltd and Spencers Retail Ltd (CARE BBB; Stable/ CARE A3).

### **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.

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### ***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: Strong**

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. Liquidity is also supported by unutilized lines of credit of fund-based limits of Rs.46.50 crore in the last twelve months ended Mar'21. Apart from unutilized lines and excluding earmarked money of Rs.35 crore for dividend, SIL had free cash, bank and liquid investments of Rs.133 crore (Rs.99 crore in FDs and Rs.25 crore in mutual funds) as on March 31, 2021. However, the same has temporarily increased due to no major expenditure such as movie production and content acquisition during FY21 in light of COVID related issues. Going forward, available liquidity is expected to be utilized towards new content acquisition and for gradual increase in sales promotion and marketing expenses. Further, the capital structure of the company also provides sufficient headroom for borrowing, if needed, along with the benefits of financial flexibility enjoyed by the company by virtue of it being part of the RP-SG group.

**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 Ltd (formerly Saregama PLC)	76.41%
RPG Global Music Limited	100.00%
Open Media Network Private Limited	100.00%
Kolkata Metro Networks Limited	100.00%
Saregama FZE	100.00%
Saregama Inc	76.41%

### **Applicable Criteria**

[Criteria on assigning Outlook & Credit watch to Credit Ratings](#)

[CARE's Policy of Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology: Consolidation](#)

[Rating Methodology-Manufacturing Companies](#)

[Liquidity indicators- Non-financial sector entities](#)

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## **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.



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**Financial Performance: Consolidated**

(Rs. crore)

<i>For the period ended / as at March 31,</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>
	<i>(12m, A)</i>	<i>(12m, A)</i>	<i>(12m, Abr.)</i>
<b><u>Working Results</u></b>			
Net Sales	544.57	519.01	428.21
Total Operating Income	558.82	524.54	450.86
PBILDT	89.84	63.55	139.01
Interest	3.84	3.45	0.59
Depreciation	3.33	4.64	5.61
PBT	84.68	59.89	151.91
PAT (after deferred tax)	54.32	43.49	113.46
Gross Cash Accruals	34.51	77.03	119.79
<b><u>Financial Position</u></b>			
Equity Capital	17.41	17.43	17.43
Networth	430.70	401.04	508.92
Total capital employed	552.51	456.53	560.54
<b><u>Key Ratios</u></b>			
<i>Growth</i>			
Growth in Total income (%)	55.09	-6.13	-14.05
Growth in PAT (after deferred tax) (%)	91.94	-19.93	160.87
<i>Profitability</i>			
PBILDT/Total Op. income (%)	16.08	12.12	30.83
PAT (after deferred tax)/ Total income (%)	9.72	8.29	25.17
ROCE (%)	18.48	-0.24	36.04
<i>Solvency</i>			
Debt Equity ratio (times)	0.00	0.00	0.00
Overall gearing ratio(times)	0.15	0.02	0.00
Interest coverage(times)	23.39	18.44	236.57
Term debt/Gross cash accruals (years)	0.00	0.01	0.01
Total debt/Gross cash accruals (years)	1.85	0.13	0.01
<i>Liquidity</i>			
Current ratio (times)	1.55	1.87	1.79
Quick ratio (times)	1.11	1.31	1.47
<i>Turnover</i>			
Average collection period (days)	60	76	82
Average inventory (days)	90	119	142
Average creditors (days)	47	55	83
Operating cycle (days)	103	139	141

*A: Audited , Abr: Abridged***Status of non-cooperation with previous CRA: Not Applicable****Any other information: Not Applicable****CARE Ratings Ltd.**

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

**Details of rated facilities:** Please refer Annexure-3

**Complexity level of various instruments rated for this company:** Annexure 4

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-5

#### Annexure-1: Details of Instruments/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+; Positive

#### 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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Non-fund-based - ST-BG/LC	ST	10.00	CARE A1+	-	1)CARE A1+ (06-Jul-20)	1)CARE A1+ (04-Oct-19)	1)CARE A1+ (26-Dec-18)
2.	Fund-based - LT-Cash Credit	LT	65.00	CARE A+; Positive	-	1)CARE A+; Stable (06-Jul-20)	1)CARE A+; Stable (04-Oct-19)	1)CARE A+; Stable (26-Dec-18)

#### Annexure-3: Details of Rated Facilities

##### 1. Long Term Facilities

##### 1.A. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Remarks
1.	United Bank of India	18.00	Cash Credit
2.	ICICI Bank Ltd.	15.00	

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Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Remarks
3.	State Bank of India	13.50	
4.	Proposed	18.50	
	<b>Total</b>	<b>65.00</b>	

**Total Long Term Facilities : Rs.65.00 crore**

## 2. Short Term Facilities

### 2.A. Non-Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Remarks
1.	United Bank of India	2.00	Letter of Credit/Bank Guarantee
2.	State Bank of India	1.50	
3.	Proposed	6.50	
	<b>Total</b>	<b>10.00</b>	

**Total Short Term Facilities : Rs.10.00 crore**

**Total Facilities (1.A+2.A) : Rs.75.00 crore**

### Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-BG/LC	Simple

*Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

**Annexure-5: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable**

### Contact us

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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.

**This follows our press release published on July 6, 2021****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.

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