

No. CARE/KRO/GEN/2022-23/1004

Shri Pankaj Chaturvedi
Chief Financial Officer
Saregama India Limited
33 Jessore Road
Dumdum
Kolkata
West Bengal 700028

July 02, 2022

Confidential

Dear Sir,

Credit rating for Bank Facilities of Saregama India Limited

Please refer to our Letter No. **CARE/KRO/RL/2022-23/1100** dated June 29, 2022 on the above subject.

The press release for the ratings is attached at **Annexure – 1**. 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 July 04, 2022, 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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Encl.: As above

Disclaimer

The ratings issued by CARE Ratings Limited 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. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a 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 Ratings Limited 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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Annexure-1
Press Release
Saregama India Limited

Ratings

Facilities/Instruments	Amount (₹ crore)	Ratings ¹	Rating Action
Long-term bank facilities	65.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Revised from CARE A+; Positive (Single A Plus; Outlook: Positive)
Short-term bank facilities	10.00	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	75.00 (₹ Seventy-five crore only)		

Details of facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the long-term rating assigned to the bank facilities of Saregama India Limited (SIL) factors the significant improvement in its profitability during FY22 (refers to the period from April 1 to March 31), along with its robust capital structure and debt coverage indicators which have been sustained since FY21. The revision in rating also takes note of the significant amount of funds (about ₹750 crore) raised by the company by way of a qualified institutional placement (QIP) in FY22 to fund its future organic and inorganic growth.

The improvement in its profitability has been driven by the increase in share of high-margin licensing income from the music division and profits generated in the films and TV serials division. The company continues to have a strong brand positioning in the Indian music industry, with a rich library of retro music, contributing to around 60% of its licensing revenue. Digital penetration is increasing on the back of tie-ups with over-the-top (OTT) applications, whose popularity has been accelerated with increased usage of smartphones and the availability of cheaper internet.

Furthermore, with a significant amount of capital raised by the company, which is planned to be utilised for the acquisition of music content over the next two to three years, the scale of operations of SIL is expected to increase, going forward. With an increasing contribution of licensing income, the profitability margins are also expected to remain healthy. The improved cash accruals with negligible debt repayment obligations have led to a build-up of healthy surplus funds, which, together with internal generations going forward can be utilised by the company for new content creation in the films and TV serials division.

The ratings continue to derive strength from SIL's established track record of operations with an established brand, its diversified revenue profile through licensing revenue, TV/films content and sale of Carvaan and financial flexibility derived from being part of the strong promoter group, RP-Sanjiv Goenka (RPSG).

The ratings are, however, constrained by the obsolescence risk associated with the distribution formats, the threat from piracy/copyright infringement, and the high cost of quality content acquisition.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Sustained and significant growth in the scale of operations aided by a strong business profile, through effective deployment of funds raised through the QIP issue.
- Improvement in return indicators, with return on capital employed (ROCE) above 30% on a sustained basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in the capital structure, with overall gearing >0.25x and total debt (TD)/profit before interest, lease rentals, depreciation and taxation (PBILDT) >1x on a sustained basis.
- Decrease in scale of operations <₹500 crore and/or deterioration in the PBILDT margin <20% on a sustained basis.
- Significant deterioration in its operating cycle.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications
CARE Ratings Limited

Detailed description of the key rating drivers

Key rating strengths

Long track record and part of a strong promoter group: Incorporated in 1946, SIL has a long track record in the creation, acquisition, and distribution of music. The company has also ventured into the distribution of music in the digital mode and the production of TV serials and films.

In 1985, SIL was acquired by the RPG group and is now part of the RPSG group of Kolkata. The RPSG group is one of the leading industrial houses in the country, with interests across diverse business sectors such as power, infrastructure, carbon black, retail, education, BPO, and media and entertainment. Being part of a large established group provides significant financial flexibility to SIL. The company's operations are also supported by a qualified and professional management team having vast experience in the related fields.

Strong brand positioning with a large music archive and a diversified revenue profile: For a long time, SIL was using the brand 'His Master's Voice (HMV),' a trademark of EMI Records Ltd (erstwhile The Gramophone Co. Ltd), for selling its products. However, to build up its own brand value, the company started using the brand 'Saregama, The Soul of India.'

SIL has a leadership position in a rich retro music library, representing 60% of its licensing revenue. The collection represents recordings by legendary artists including Lata Mangeshkar, Mohammed Rafi, Laxmikant-Pyarelal, RD Burman, and Kishore Kumar. On an overall basis, SIL owns intellectual property (IP) rights of more than 1.42 lakh songs, content IP rights of 64 films, 1 web series and 6,000+ hours of television serials.

It has also diversified its revenue profile through the physical sales of 'Carvaan' (various variants selling in the market from May 2017) and content creation for budget films (Yoodlee films – 18 movies and one web series licensed from its launch in November 2017). During FY22, SIL's consolidated revenue profile constituted 63% through license fees generated from its music copyrights (65% in FY21), 17% from the sale of 'Carvaan' (20% in FY21), and 18% from TV serials and digital films (12% in FY21), with the balance (2%) through other operating revenue and publishing income.

Consistent growth in license fees through increased opportunities in the digital space: SIL's licensing fee increased at a compounded annual growth rate (CAGR) of 24% during FY20-FY22 and a y-o-y increase of 28% in FY22. The increase has been a result of the company transforming its business model. With a gradual phasing out of physical music content, the company's changing business model has been capturing newer and profitable ways to monetise its existing music content, particularly, retro on digital platforms through OTT platforms (including YouTube) and publishing (through movies, TV shows and brand usage). With cheaper availability of data and increased usage of smartphones, the digital use of content has been increasing significantly.

Sustained healthy profitability during FY22, aided by an increase in the proportion of higher-margin licensing revenue: The consolidated total operating income (TOI) of SIL witnessed a growth of 31% y-o-y in FY22, driven by growth in licensing income, the television and series vertical, along with an increase in the sales of 'Carvaan'. The increase in licensing income (y-o-y growth of 28% in FY22) was on account of higher investments in new content, apart from the healthy usage of existing content. 'Carvaan' sales witnessed a 17% growth (in the number of units) in FY22, after witnessing a significant decline in FY21 due to the Covid-19 pandemic. Furthermore, in FY22, the films, web series and TV serials vertical also crossed revenue of ₹100 crore. The company delivered its first digital web series to a leading digital platform. The TV serials and film division reported a segmental profit of ₹15 crore in FY22, as against a loss of ₹4 crore in FY21.

An increase in higher margin licensing revenue, coupled with lower advertising and sales promotion expenses, led to an improvement in the PBILDT margin from 29.44% in FY21 to 32.23% in FY22.

The profit-after-tax (PAT) margin also witnessed an improvement, from 25.67% in FY21 to 26.29% in FY22; however, the increase was lower than that witnessed in the PBILDT margin due to an increase in depreciation. The company had negligible interest expenses and a very comfortable interest coverage ratio of 309x in FY22.

Robust capital structure and debt coverage indicators along with strengthening of capital base through QIP: On a consolidated basis, the capital structure of the company continues to remain strong with a nil long-term debt-equity ratio over the last five years and a near nil overall gearing ratio over the last two years. The low debt levels allow better financial flexibility to the company. Although the ROCE and return on net worth (RONW) witnessed a decline in FY22 as compared with FY21 due to an increase in the net worth base of the company with an infusion of equity through QIP issue of ₹750 crore, however, the same continued to remain at comfortable levels. The debt coverage indicators also continued to remain strong in FY22, with a total debt/gross cash

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accrual (TD/GCA) of 0.01x as on March 31, 2022 (0.01x as on March 31, 2021).

SIL had been using its working capital limits to import 'Carvaan' units from China. However, the company mostly relied on internal generations during the year for its working capital requirements, leading to negligible debt. Going ahead, with significant capital available with the company, apart from internal generations to fund growth, the debt levels are expected to remain low which has also been strongly articulated by the management.

Liquidity: Strong

Liquidity of SIL is marked by strong cash accruals against nil debt repayment obligations and free cash and bank balance along with significant liquid investments to the tune of ₹852 crore as on March 31, 2022. With nil gearing as on March 31, 2022, the company has sufficient headroom to raise additional debt, if required. The company raised ₹733 crore (net of expenses of ₹17 crore) through QIP in FY22 for the purpose of future content acquisition (the unspent amount of ₹710 crore is parked in mutual funds and fixed deposits). The current ratio of the company stood at a very healthy 4.98x as on March 31, 2022 vis-à-vis 1.79x as on March 31, 2021. The average fund-based bank limit utilisation remained nil during the last 12 months ended March 2022.

Key rating weaknesses

Obsolescence risk associated with physical distribution formats and high cost of quality content: SIL is operating in a fast-changing industry, where the formats for distribution of music change with technological advancement. The company was severely affected by the same in the 1980s when the long record player was replaced by music cassettes. It shifted to manufacturing music cassettes, which were again replaced by compact discs (CDs). After the phasing out of CDs, the company launched 'Carvaan' radios in 2017. However, the change in product mix towards licensing income monetised through the distribution in digital mode, including tie-ups with streaming apps and OTT platforms, safeguards SIL from the risk of obsolescence. In addition, to keep pace with the industry, SIL had also expanded its footprint in the digital space by venturing into TV production and film production.

The company has been acquiring and creating content to grow its scale of operations and remain competitive in the industry. Given the high cost of the same, profitability remains exposed to the popularity of the content with the users and the generation of the envisaged revenue therefrom.

Continuous threat from piracy: Piracy has been eating into the profitability of the Indian media and entertainment (M&E) industry. Although this has always been in existence, the incidence of piracy have been reducing gradually. The easy availability of substantially cheaper internet access has somewhat had a positive impact on curbing piracy.

The company also has a dedicated team that actively identifies copyright infringements and takes steps to recover the revenue loss on account of the same.

Analytical approach

CARE Ratings Limited (CARE Ratings) has adopted a consolidated analytical approach for analysing SIL, considering the significant operational and financial linkages with its subsidiaries. The list of companies consolidated with SIL as on March 31, 2022 are as under:

Subsidiaries	Business Activity	Holding of SIL
Saregama Ltd (formerly Saregama PLC)	Engaged in distribution of music overseas	76.41%
RPG Global Music Limited (RPGG)		100.00%
Open Media Network Private Limited (OMNPL)	Magazine publication;	100.00%
Kolkata Metro Networks Limited (KMNL)	Acquiring Music Rights	100.00%
Saregama FZE (SFZE)	Marketing the products of the company, mainly 'Carvaan' in the Middle East	100.00%
Digidrive Distributors Limited	E-commerce distribution business	100.00%
Saregama Inc (WOS of Saregama Limited)	Retail sales in USA and engaged in distribution of music license overseas	76.41%

Applicable criteria

[Criteria on assigning outlook and credit watch to credit ratings](#)

[CARE Ratings' policy of Default Recognition](#)

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[Criteria for short-term instruments](#)
[Financial ratios – Non-financial sector](#)
[Rating methodology – Consolidation](#)
[Rating methodology – Manufacturing companies](#)
[Liquidity indicators – Non-financial sector entities](#)

About the company

SIL, belonging to the Kolkata-based RPSG group, was formerly known as the Gramophone Company of India. Earlier, the company was primarily engaged in the creation and distribution of music in physical formats. Over the years, the company has expanded its business and forayed into the distribution of music in the digital mode apart from physical formats (Carvaan) and has also ventured into the production of TV serials, films and web series.

Brief Consolidated Financials (₹ crore)	FY20 (A)	FY21 (A)	FY22 (Abridged)
TOI	521.47	441.96	580.63
PBILDT	60.49	130.11	187.12
PAT	43.49	113.46	152.65
Overall gearing (times)	0.02	0.00	0.00
Interest coverage (times)	17.55	221.43	309.09

A: Audited; Abridged: brief results published on the stock exchange

Note: Financials have been classified as per CARE Rating Standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

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

Annexure-1: Details of facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ 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 AA-; Stable

Annexure-2: Rating history of the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Non-fund-based - ST-BG/LC	ST	10.00	CARE A1+	-	1)CARE A1+ (July 06, 2021)	1)CARE A1+ (July 06, 2020)	1)CARE A1+ (October 04, 2019)
2.	Fund-based - LT-Cash Credit	LT	65.00	CARE AA-; Stable	-	1)CARE A+; Positive	1)CARE A+; Stable	1)CARE A+; Stable

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Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
						(July 06, 2021)	(July 06, 2020)	(October 04, 2019)

Annexure-3: Detailed explanation of covenants of the rated instruments

Not applicable

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

Sr. No.	Name of 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 instruments

CARE Ratings Limited has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Annexure-5: Bank lender details

To view the lender-wise details of the bank facilities, please [click here](#).

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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