"Saregama India Limited
Q1 FY '24 Earnings Conference Call"
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MODERATOR: **MR. ABHISEK BANERJEE – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to Saregama India Limited conference call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Abhisek Banerjee. Thank you and over to you, sir.

Abhisek Banerjee: Hello, everyone. A warm welcome to you to the Q1 FY '24 results conference call of Saregama India Limited. On behalf of ICICI Securities, I would like to thank the management for giving us this opportunity.

Today, representing the management, we have Mr. Vikram Mehra, Managing Director; Mr. Pankaj Chaturvedi, CFO; Mr. Saket Sah, Head of Investor Relations; and Mr. Pankaj Kedia, Vice President of Investor Relations.

I will now hand over the call to Mr. Vikram Mehra for his opening comments. Over to you, sir..

Vikram Mehra: Thank you, and good afternoon to everyone. The biggest event of the last quarter was the approval from NCLT for the demerger of Digidrive Distributors Limited. This new company now has the digital distribution mandate on a nonexclusive basis for the Carvaan range of products , Open Media's publication business and Saregama's other noncore assets. We are in the process of getting this new company listed on the Stock Exchanges.

The shareholders of Saregama will get one share of Digidrive for every five shares of Saregama held by them and the record date for the same was 27 July 2023. We expect the listing to be done somewhere in the last week of August '23.

The quarter saw operating revenue of INR163 crores and a PBT of INR59 crores. In our presentation, we have again shared the performance of the company over the last 13 quarters, just to show you the cyclical trend that we have seen in Saregama all throughout, where Q1 is the lowest quarter and Q3 is the highest quarter. The same trend is continuing year after year after year. And we hope that we will further build up on the quarter 1 number in quarter 2 and quarter 3.

If we look at the quarter numbers on a year-on-year basis, the revenue appears on the flattish side, but it hides more than it tells. It's the events business, which is extremely cyclical and event dependent, where last year we had a large number of Diljit Dosanjh concerts that were scheduled in U.S. and Canada in the first quarter of the year, which was not the case this year. This year, in fact, we have Australia concerts being scheduled in the later part of the year. So the Q1 number of events, which were there in the last financial year were not there this year. Otherwise, if you look at the music business, there was a pretty healthy growth of 17% in Q1 too.

The other part that I want to share upfront is that the company is in dialogue to settle a very old contingent liability, which is presently under litigation. Discussions with the party are in pretty advanced stage. And based on the conservative policy that we follow, we have provided for an estimated settlement amount in our books during Q1. This is the only reason why there has been an increase in the other expenses in the P&L. And this has absolutely nothing to do with the ongoing business operations of the company. This is a very old legal case that's going on.

The big story in the music business for us in this quarter is achieving the leadership position in the Hindi music segment . While last year, we were able to get into a leadership position on Telugu, Malayalam, Bhojpuri and Gujarati, Hindi was still some time far away because most of our releases have got postponed to financial year '23, '24. Two of them finally got released in Q1, with few songs beings released now.

So in Q1, the biggest hits of the country at an all-India level have been the 2 songs of Zara Hatke Zara Bachke, a Vicky Kaushal, Sara Ali Khan film for which the music was given by Sachin-Jigar. The song "Tere Vaaste" was there at the number 1 position on every possible chart in India, whether it's Spotify or it's Airtel Wynk. In fact, on YouTube, it was a global number 1 music video for a very, very long time. The songs are also rating at number 1 on various radio stations, whether it's in terms of number of times songs are played or the local countdowns, which is presented by a company like Mirchi. Even on Shazam, it was emerging as the top song.

So the music has done very well for us. It was immediately followed by Rocky Aur Rani Ki Prem Kahani. One song got released at the end of the last quarter and did very, very well -- it is an Arijit Singh song.

In Telugu, we had another postponed movie called Kushi finally releasing its first song. Again, the music is super hit and the good part is that not just the Telugu version, but the Tamil and the Hindi versions have also done very well for us.

For a company which wants to establish a leadership position at an all-India level, it is a very important and a crucial step for us that in Hindi also, on an overall basis, we will be able prove that we are number 1 in terms of listenership share. I am glad to share that if you look at an all-India level for the full quarter April to June, new content released during the quarter and the listenership/viewership of that content, we have got a clear market leadership at this juncture at an all-India level.

Even in Malayalam, we got a massive hit in the form of , a movie called Romancham. Songs were very well received, which allowed us to continue with the leadership position in Malayalam. If I look at the next quarter, which is Q2, the going looks pretty good. Rocky Aur Rani Ki Prem Kahani's, next lineup of songs have come out, all doing very, very well. Case in point is a song called "What Jhumka", again dominating most of the charts in the country and abroad. With the movie getting released today, we believe that the traction of the songs is going to become even bigger as we go ahead.

We also have Kushi's other songs coming out. We have 2 big original songs in Hindi coming out sung by Arijit and Badshah. So we have a pretty decent lineup in front of us for Q2. And if I look at Q3, Q4, the second half of the year, which is always bigger from the entertainment industry perspective, we have big movies coming up. In Tamil we have Captain Miller and Kanguva, – starring Dhanush and Surya respectively, both of them top stars of Tamil. Their movies' music is going to get released.

Kiccha Sudeep, who is the number 1 star of Kannada, his movie's music is getting released in the later part of the year. In Hindi, we again have, , the Vicky Kaushal movie Mere Mehboob Mere Sanam, we have A. R. Rahman music in Imtiaz Ali and Diljit Dosanjh's Chamkila, and then we have Ajay Devgn's Maidaan. In Malayalam, we have the Mammootty movie Bazooka, in Punjabi, we have a very big Gippy film coming up - Warning 2, the music of all these films is sitting out there with us.

So we go forward with leadership position. Now that we have got on to this number 1 position. we see ourselves fully holding on to this position. Also strategically, I need to state this, it's easy for us to take a conservative position on newer content and just take a few movies here and there from the new content perspective. As a company, we don't believe in that policy. Saregama as the erstwhile HMV had always bought the biggest music, and this is what has kept company relevant for so many years.

Now also we are very clear, we will pick up all the major popular titles that are going to come out, which is not only going to make money for the company for the next 2, 3, 4 years, but will ensure that the company keeps on making a large amount of money even 20, 30, 40 years down the line. So that you or I may not be there, but you as a shareholder and whichever management team is sitting here in 2060 also can take a lot of pride in the content that we people secured in 2020. We take pride in the content that was picked up in '50s and '60s and '70s, and we still make money off it.

On the monetization side, I have been saying this for some time that the big change that is happening is about more and more streaming platforms now realizing that they need to move towards a subscription model. You already have 3 streaming platforms, all announcing over the last 90 to 100 days that the model is now fully moving behind the paid wall. There are only 3 platforms - which are number 1, number 2, number 3 in the market - left who are still pursuing a free model, . All 3 of them have sent a clear message that they want to move towards a subscription model.

Am I saying India will never have a free market? It will be silly on my part to go and state that. India will be a mix, like in television business, of subscription and advertising. But just like in the television business when at one time subscription was just a nominal number and all the revenues of TV channels used to come from advertising which has now completely changed, and a larger chunk now starts coming from subscription, something very similar is going to be happening in India on the music side too.

On the music side, an increasing chunk of revenue is going to move towards the subscription side. And when it moves to a subscription, our yield per song heard is going to go up. I've shared the math multiple times in various calls. So I won't bore you by repeating how that will work. But as we move towards subscription, there will be short-term pain. As platforms move from a free model to going behind completely a paid model, their revenues are also going to fall for a quarter or 2 quarters, and so there will be an impact coming on our revenues too.

The good part is when you are a very well-diversified company like Saregama, which has a very limited dependence on revenues coming from streaming, we will be able to manage these ups and downs that will keep on happening on the subscription revenue in the short term very easily. We are, though we are sharing with you that there will be pressures coming in on the subscription side, still holding on to our guidance that overall music licensing revenue should be growing at the rate of anything around 22% - 23% this year. We don't see that changing.

The YouTube revenues have gone up substantially. And for us, it's disproportionately higher numbers that are coming in. Remember, traditionally, the music that we people own, we had only the audio rights. We are the only label who had only audio rights and not the video rights. Now with the aggression that we people are showing and picking up newer content, all this content is coming along with the video rights here.

If you check out all-India trending on YouTube at any particular time, out of the 20, 30 songs that they show on the all-India trending list, we typically, as a label, have anything between 7 to 10 songs sitting in that particular list and it also has a direct implication on the revenues that we are making right now from the video side.

We have also further beefed up our publishing side of the business. We are getting more aggressive in terms of giving licenses for our music to various films as well as brands and creating songs specific to particular brands. Until now, brands use to have their advertising and they used to have a song in their advertising. Now we are proactively going to the brands and saying, why not we develop a song which is completely suited to their brand, which helps them in their marketing while we can also go out there and monetize that song. And in fact, we also get a license fee from the brand. More and more brands are realizing that to talk to the youth music is the strongest art form. And with our leadership position and perception in the market, brands are very comfortable coming out and working with us.

Our work on growing revenue from our catalog continues. This means more and more low-fi versions or trap mix versions, acoustic versions are released. This is the kind of music that resonates with the newer generation . While we maintain the lyrical quality or the composition of the original song, it's a completely new instrumentation, which is created at times literally at a zero cost or a very nominal cost, making the song relevant to the younger generation and, more importantly, giving a fresh lease of life from the copyright perspective to the new rendition of the song that we release.

We also continued with the campaign to keep on inviting more and more entries from budding talent, whether it's a bathroom singer or it's a talented guy who has won a contest in a smaller town like Bareli, all of them to keep on sending their cover songs across to us, in return for which we share 10% lifetime royalties with these people. This is allowing us once again us to grow revenues without spending money and also to improve the popularity of our catalog music.

On the last call, we have shared that the royalty expenses that went up in Q4 was a one-off event because we had adjusted the entire royalty payout that we had to make to singers for the entire year in a single quarter. We have lived up to our commitment. If you see the royalty expenses this year as a percentage of revenue, they have come down. And this is a steady state in which we are going to be operating, because now we are paying them on every quarter basis and will not come across on a cumulative annual basis . So royalties are back to where they are supposed to be.

On an overall basis, I still maintain, we have just touched the tip of the iceberg. We are not going to get swayed by doing some short-term things to improve profitability for a quarter or 2. We will continue taking steps to build the foundation for this company to be the most relevant entertainment company in India for the next 50 years. All the necessary steps, whether in terms of spends that we people are doing on data analytics, predictive AI, generative AI building tools for us on the marketing side, we will continue taking those steps because we believe that's going to make this company far more resilient and powerful in the decades to come on not just the music front, but on the overall entertainment front.

The other edge overall that we end up getting is a diversified business model. We are not dependent on any one player, any one business stream and, within that also, any one partner too much. There was a time that some of our global partners were having a problem in terms of their advertising revenues. We were not that affected because our dependence on any one partner is not that high. Now that all of them are seeing an upswing, hopefully it's great news for us. But the good part is, there isn't too much dependence on any one partner. We are not tied to the fortunes of any global MNC.

On Carvaan, we have been stating this, that it's running on its own momentum, and the journey continued during this quarter also. If I look at a quarter-on-quarter basis, it's been a crazy growth that we have seen. It's a 50% growth. We have touched close to 1.49 lakh units being sold. This compared to around 90,000 that we sold in the Q1 last year.

The big sales drivers continue to be Carvaan Mini and Carvaan Mobile, which is also explaining that the revenue growth is lower than the unit growth. But remember, Carvaan is profitable, and not making losses. And more importantly, Carvaan helps us a lot on the catalog marketing side. It really keeps that music relevant as we people go forward.

Films and series vertical did not have any release happening during the quarter. We just had the TV serials on Sun TV. Q1 is traditionally our weaker quarter from an advertising perspective because most advertising goes into IPL. So in Q1 every year, we go through the same pressure. This quarter was no different. We have one movie of ours, which is getting released in Q2. For Q3, Q4, the lineup is very strong. There are lots of big titles that are coming, both on the Malayalam and Punjabi side.

I want to reiterate that we are holding our guidance on the films and movie side of a 25% growth in revenue and a 15% margin. Looking at the Q1 numbers, some of you may have doubts, how you're going to go and achieve it. We are very confident with the lineup, which is sitting in Q3 and Q4 that on an annual basis, we will achieve the 25% revenue growth number with the 15% margin.

Let me now talk about the live events business based on the feedback received from multiple investors. We have presented live events business as a separate vertical, carved out of the films and television segment, so that you can see the revenue and profits.

Please remember, it's an absolutely new vertical for us. It will require large amount of investments to build it up. We saw in this quarter, Disco Dancer being released for the first time in India. Some of you may have heard about it as it was widely covered in every major newspaper and online publication. It got very positive reviews both from the critics side as well as the customer side.

I have to be honest with you, we had to market it a lot because it is the first time a concept like a musical show where our story is being told with the combination of dialogues and music being presented in India. Its a relatively newer concept for the Indian audience. We are either used to seeing a story in the form of a film in a theatre or we go to the musical theatre only to listen to people singing songs. This is a combination we have, which is a very common thing in U.S. or U.K. It's a newer concept in India, and we spent a good amount of money to go and promote it.

Hence, there are losses which we have written during the quarter, the entire cost of marketing has been charged off. We are confident in a period of 12 to 18 months , this segment will also turn profitable. And if it's not, we are very open to completely having a relook at this new business that we have got ourselves into.

Overall, if I take both these segments together, films and series segment and the live event segment, as we have communicated to you, at any particular time the total capital that is deployed, in these 2 segments will never exceed 18% of total capital deployed. That's an internal guideline that we people to work with. And at this juncture, the number is closer to 12%. So we still have a large elbow room left in front of us. But we are clear, we are not going deploy more funds just because we have an 18% internal guideline.

So overall, we are happy with the way the quarter has shaped up. Music segment is solid. Overall, if the growth looks flat, it's only because live events had a big quarter last year in Q1. By the time we end the current financial year right, we are confident that each of these segments are going to grow at a rate that we have shared with you in the past.

Thank you, and we're open to questions now.

Moderator: The first question comes from the line of Swapnil Potdukhe from JM Financials.

Swapnil Potdukhe: So I just have a couple of questions. One is with respect to your growth rate in the music licensing business. Your music business has grown 17%. Your volumes in the Carvaan business have grown more than 50%. Does that imply that our music licensing business has grown significantly lower than 17% Y-o-Y? And if that is so, and the fact that some of our accounts are doing quite well, topping some of the charts, why is that not getting reflected in terms of our top line growth in this licensing business?

Vikram Mehra: Let me answer your second question first so that you understand how the commercial works in the music licensing business. These are not the days of CDs and cassettes that an album becomes a hit right now I can sell more cassettes and CDs. Most of our deals are covered under minimum guarantees and the overflows are booked only when the deal gets over.

So unless a deal was getting over on the 29th or 30th of June and the overflows have hit us, there's no way that the impact of success of a song in quarter 1 can be seen in quarter 1 alone. You will see it only when the overflows at the end of the deal are going to kick in. Or if it’s a fixed fee deal, then basis higher performance we will be able to negotiate a much higher fixed fee at the time of renewal. So there is no immediate same-day correlation or a causal effect relationship, wherein the success of the song today results in the revenue going up also today, principally.

Coming to the first part, music licensing revenue has shown a pretty decent growth. We show these segments separately only at the end of the year. However tempted I may be right now to share the numbers with you to tell you the growth is pretty decent, I will resist it. We are holding on to our projection of 23% growth overall on the music licensing side. We have said this over the last 4 to 5 years, we have a track record that we have maintained these numbers, and I'm pretty confident we'll maintain the numbers this year also.

Swapnil Potdukhe: Right. And the second question that I wanted to ask is the losses or the cash burn that we expect in the Events business. Have we internally taken -- do you have any number in mind that you would burn a certain amount of? You did mention that it will take around 12 to 18 months to be profitable, but any quantification in terms of actual burn that we're expecting in that period.

Vikram Mehra: Have we got an internal number that we people are saying that at any particular time should not go beyond that, yes, we have a plan which is being adhered to. But for you the comfort I can say that, this cost is factored when we share the adjusted EBITDA margin. The adjusted EBITDA margin at the company level is not going to be falling below 32% to 33% that we have always maintained.

See the live events business, strategically is also critical for us. We want to control the artist, and for the artist live event is a very important part. As a company, are clear that we are not relying only on, firstly, the laurels of our past by doing only recreations of older music. We want to create music for tomorrow. Tomorrow’s music is going to come both from film and non-film side and the newer generation is getting more and more comfortable with non-film original music, the way it happens in America or anywhere else.

We need to be prepared for the situation that if suddenly original non-film music starts becoming big, in that case, artist relationship is going to be the biggest differentiator between labels. And artist relationship is not just about who's going to go back and pick my phone because I've been there.

Artists will pick up everybody's phone. But which label can offer what in the path of artist's growth will matter., And all these are great areas that we can offer to the artists, saying that if you work with us, it's not just songs that we can release for you, we can do artist management for you and can also manage your entire live business.

But that does not mean live is going to become a loss leader. We believe once we have been able to establish ourselves in the initial days that what does Saregama Live stand for, this will turn profitable. At an operating level, actually, there's typically no problem, but we have to spend on marketing. in the initial days to establish what this concept is.

Swapnil Potdukhe: Right. Got it. And just one final question, if I can squeeze in, can you give a sense of how much -- what percentage of the QIP funds are still on the balance sheet given that we have now started deploying some of those funds towards the newer content that you mentioned?

Vikram Mehra: As of now, we are not using, the internal accruals of ours are enough right now to fund all our content acquisitions. So we have INR710 crores, which is still sitting out there on our balance sheet from QIP.

Moderator: The next question comes from the line of Udhayaprakash from Value Research India Private Limited.

Udhayaprakash: I have 3 questions. My first question is that you have said that you are going to pick up bigger content going forward, most all big budgets. And one of the reasons why you, along with many other production companies got was that is because they probably guarantee a set number of streams automatically due to the star power that it automatically attracts. Do you think that because more and more music production companies will come towards these kind of movies, the content, the cost that you -- at which you acquired this contract would be inflated?

Vikram Mehra: So let me answer your question, number one first. I don't want to take the names of my competitors. But if you please go language by language, the big film music areas are Hindi, Telugu, Tamil, Malayalam and Kannada. In each of the languages, there are 2 or max 3 music labels that are playing it out.

The entry barrier in music label business is very, very high. That's why globally, there are only 3 music labels. Some of the global labels are not there in India. India is an only exception. And in India also, in any market, there are only 2 to 3 labels. So I'm not saying there's no competition, but it's not that because there are 10 people fighting it out. .

The production house also understands the deals very clearly that if we are going and acquiring a large budget movie, it's not just money because of which Rocky Aur Rani Ki Prem Kahaani or Zara Hatke Zara Bachke came to us, and you can check this out with the respective production houses also in a one-on-one dialogue.

It's the marketing ability of a company, which goes a very long way to convince a film producer whether they want to work with the company or not. A very good example is the recent movie, Zara Hatke Zara Bachke, which is a Vicky Kaushal, Sara Ali Khan movie. The movie got a massive opening and the production house has accepted publicly that this is because of the very huge success of the songs. And we have played a very important role in promoting the songs a lot.

Unlike the Western world where it is the trailer of the movie which convinces people to watch a film, in India, it's primarily the successes of the song before the release of the film because of which movie gets a big opening. So we believe that strength of ours will always put us in a very good position with each of these production houses.

Second, also remember, with most of these houses, we have a relationship going on for 30, 40, 50, 60 and 70 years. The royalties are still being paid to them. So they also have this comfort level, that with Saregama, the deal is not only for a day. If you do work with them, Saregama is one of the very few upfront and honest companies that will keep on paying your royalties in perpetuity.

Udhayaprakash: Okay, sir. Understood. And my next question is, as a music production company, do you have control over any aspect of the album, be it the number of songs or the length of a song or any kind of -- anything related to the album? Or is it all the decision of the creator only?

Vikram Mehra: No, we do have. Most of the times right now, most production houses work with us very, very closely. Some of the factors that you raised like the number of songs, too are part of the commercial deal itself. So when we go and acquire, all this is very clearly stated that how many songs will be there, what will be the kind of situations of the song. In 99 out of 100 times or 100 out of 100 times music composer is also finalized.

What we don't have a control, and I'll be very honest is that in that song when a picturization is happening, what is the actor wearing and what is the actress wearing. That is completely in the hands then of the film director. Unlike an original song, if I'm releasing non-film, then I'll have control over that too. But on the audio part, the production houses work with us very closely.

Udhayaprakash: Okay. So while you're financing the deal itself, you pretty much know everything that you have to know about the music rights?

Vikram Mehra: Yes, yes, we do. In fact, we know it at every stage, see most production houses also need to sound off and bounce ideas. So they work closely with us. It becomes more of a partnership model as the songs are being developed. .

Udhayaprakash: Okay. Sir, my final question is that the contribution of films and TV segment where our revenue has improved in the last 5 years. In FY '23, it was around 20 -- it was around 20% to 22% of our revenue. But due to this factor, do you think the lack of releases in maybe 1 or 2 quarters, which you may have done deliberately, will affect the revenues going forward since they form a huge part of our revenue? Is this something that we should expect going forward?

Vikram Mehra: Yes, it is. So the only part of films and TV segment, I don't like is a lumpy behaviour. Often the film's release date is -- may not even be in my hand. It also depends a lot right now, which is the right window where we can go and release our film so that there is no competing film that is of a bigger star coming on the same day. So a lot of variables start playing. So you will have some amount of lumpiness. Our hope is as the size of films and TV business becomes bigger, there should not be any quarter where there is no release coming in. We are hoping and trying that it builds up that way. But the very nature of it is lumpy.

Udhayaprakash: Okay. If I could squeeze in one last question. And on last con-call, you had stated that we are remaining conservative about spending QIP money because any time you go on for acquisitions, the valuations are so inflated. Is this still continuing? Are you trying to finalize any deals during this financial year...

Vikram Mehra: No, we are very clear, we will do deals either in terms of content buying or buying positions in companies that help us in the marketing of music because the money is going to be used only for music. It's not going to be used for films business or Carvaan business. We will do it only when we believe it is value accretive to our investors. If it's not value accretive to our investors, then we need -- we sit on the fund or use these funds for new content acquisition rather than going out there on the catalog side. Are we in dialogue? We are in dialogue with people. And we'll share with you whenever the timing is right.

Moderator: The next question comes from the line of Bala Murali Krishna from Oman Investment Advisors.

Bala Krishna: I would like to know about the film segment. I think for this year, we have planned only 3 releases. So what would be the plan for the number of films per year down the line 3, 4 years?

Vikram Mehra: So I'll not go on the number of films. I will go back on the revenue that we are writing on film production. This year, we are seeing right now, we should be growing at around 25% in that segment. And in fact, I'm holding on to that guidance on a short- to medium-term basis. Every year, we see our films and TV business growing at 25%, while the total capital allocation will always be maintained within the upper limit of 18%.

Bala Krishna: Okay. That's great. And regarding this, the library, we have around 68 films or 70 films, so all these films satellite rights are already sold or any film's satellite rights are still pending, we can expect any monetization from that?

Vikram Mehra: So there's a combination. For the newer films, most of the rights are gone. For some of the older films, rights come back to us because we sell only time duration based rights. We are licensing and not selling. So often, if satellite rights go away after 10 years, they come back. So this keeps on happening. The bigger revenue clearly is connected to the newer films, and most of the newer films are still going through the first tranche of licensing.

Bala Krishna: So when we can expect these newer films will come back to also again rights, which we can...

Vikram Mehra: Some of the Yoodlee films – from the first round that we have launched in '17 came back from the first platform already gone on to the second platform. So this keeps on happening. Remember the earlier set of films that Saregama was making under the Yoodlee brand name was relatively smaller films made for the digital platforms. We are now making bigger films in Malayalam and Punjabi primarily, which are going to hit the theatrical world also.

Bala Krishna: So one more thing. And lastly, like we are focusing on these 2 languages only. Is there any specific reason and or we can expand to another language also in future?

Vikram Mehra: So at this juncture, 2 parameters are very crucial for us. Let me step back. One, we want to have a guarantee that 70% to 80% of the cost of the film is revenue connected so that is guaranteed before the theatrical release. That's an important criteria with which we people approach the film business. We rely on theatrical only for 20% to 30% of the cost of the film. When a film is put on theatrical release, we know that if even if everything goes wrong , at least anything between 70% to 80% of the cost is recovered.

Second, we are looking at a 15% margin in this business minimum. We look at these 2 parameters, then the languages like Malayalam, Punjabi, in fact, to some extent, Tamil and Telugu also fit the bill better. There is a higher probability that the films get over on time within budgets, and we are able to get a good value for those films, but are we open to other projects also? Yes, we are, provided the other project also guarantee us that 70% to 80% of the cost of the film will get -- the revenue connected to that is guaranteed even before we start spending the money. That's our basic principle in which we approach our films business. We are not relying too much on theatre.

Moderator: The next question comes from the line of Aditya Nahar from Alpna Enterprises.

Aditya Nahar: Vikram, just wanted to check with you this provision that we have made against a settlement, if you could share what the amount of this is?

Vikram Mehra: See the matter, at this juncture, being sub-judice, and still pending a formal closure, we cannot give you more details at this juncture. And I'm quite hopeful right now that in Q2, everything should get closed, and that's the time we'll share with you.

Moderator: The next question comes from the line of Ravi Kumar Naredi from Naredi Investments Private Limited.

Ravi Naredi: Now the result is subdued comparatively to last quarter, but my question is regarding the song of Zara Hatke Zara Bachke which was blockbuster, first congratulations to you, we have written off the cost of music in this June quarter? Or what is the policy?

Vikram Mehra: I think we have shared the policy multiple times now, the marketing cost is fully written off now, in the June quarter itself. And the cost of the content is going to be written off right now in a 10-year horizon, where the largest chunk is going to be written off in year 1 itself.

And actually, if you look at the overall business for us, personally, we don't think that the quarter performance is subdued. Please exclude the events business vertical, which is fading, that's why we have shared the information of live events separately. Please look at the music part, which you are comparing with. I think we have gone back and delivered a pretty decent performance.

So please understand, we are building the company for 30 years down the line.

Ravi Naredi: Definitely. We agree, that we agree, the company will be high in the next 50 years, I'm so promising on this picture. So because the music has no alternate so far.

Vikram Mehra: If you see the past trends, you will see my Q4 performance of the previous year compared to Q1 of the current year, typically there is a difference of 2%, 3%.

So we have a clear pattern in which our performance keeps on moving. My overflows are at a particular time, when they come in, we try to do more and more minimum guarantee deals. We do variable deals in which revenue is recognized only when it's getting accrued across to us, and there's a large overflow that typically ends up coming in specific quarters.

Ravi Naredi: Yes, sir. Still we need to deploy extra fund there as earlier, so this my...

Vikram Mehra: We are, and that's a very stated position of Saregama as a company that we will go out there and invest in multiple languages, take leadership position in each of the languages because when you get into a number 1 position across multiple languages and the power of catalog that we have, we will be able to drive efficiencies in terms of better yield far better than anybody would be able to do today in the market.

Moderator: The next question comes from the line of CA Garvit Goyal from Nvest Analytics.

CA Garvit Goyal: You mentioned if no value acquisitions will happen, you will use the funds for acquisition of new music. But at the same time, we are saying that we do have internal accruals for acquisition of film music. So I'm not getting what exactly we are thinking. Are we caught in a situation like we can't deploy the funds at high valuations, but the valuations are not getting favourable? So can you kindly just put some colour on this.

Vikram Mehra: So QIP funds are going to be used for both things, for inorganic acquisitions, that are either on music catalog, which help us on the content side or they help us with acquiring companies that can help us on the marketing or music side - 2 big pillars on which the music business is built.

The current requirement of our new content acquisition that we people are doing is met, as I talked to you right now, through our internal accruals. Our stated position is that we want to acquire 30% of all new content that's coming in. Nothing stops us from acquiring 35% or 40% of new content also.

So we, the management is constantly evaluating whether the QIP funds, as we go forward, are better deployed, picking up older catalogues, picking up companies which are specializing in marketing of music or picking up larger share of newer content. But what I'm assuring you that this money is invested right now, keeping in mind principle being secured and will not be used for anything apart from music.

CA Garvit Goyal: So that thing I understand, but if I remember correctly, 1.5 years ago, our strategy was that most of the funds, most of the percentage of this fund will be used for inorganic acquisition side. So that thing, I think, we are something differentiating now....

Vikram Mehra: We believe that if any acquisition is going to be value accretive, we will go ahead. We have done a smaller acquisition right in the beginning. After that, we are still evaluating multiple players, both on the content side and marketing side. The moment we believe that something is ticking mark and its value accretive to the investors, we will take it up.

CA Garvit Goyal: And last one, you were saying this year, we will announce something regarding the share. If we are not getting 100%, we will get some percentage of the company between these terms. So is it likely to happen in this year?

Vikram Mehra: Let me do some research, then I'll share with you.

Moderator: The next question comes from the line of Navneet Bhaiya an individual investor. .

Navneet Bhaiya: I have 3 questions. The first is the INR0.10 that you get per song that is heard on a YouTube channel or whichever channel, does that ever come for renegotiation, with inflation or maybe cost of content also going up? Or that remains fixed forever?

Vikram Mehra: And so it's on an average INR0.10. If your question is, do I see the rate going up in the short run? Doubtful on the free side. The yield will go up because more and more people are going to go behind the paid wall. And if they go behind a paid wall, this yield can become 2.5 to 5x higher on a per song heard basis for the guys who are listening to the song behind the paid wall. But on the free side, I don't see this yield going up. The real kicker is coming because of the deeper penetration of each of these services and more number of songs being heard on a daily basis.

Navneet Bhaiya: Okay. So again, on the free side, any specific reason why couldn’t work, inflation per annum at least that should be there in the fee...

Vikram Mehra: Navneet, I have shared this in the past also, remember, on the free side, the streaming platforms don't have a viable business model today. The only way they can make money is through advertising. There is a limited amount of advertising money that chases audio. So the streaming companies, if they are promoting free, they also need to find a way to make money. And we understand those pressures. That's why world over in every country of the world streaming platforms can move towards the paid side. You have 600 million paid subscribers for audio streaming world over.

In India, we have seen that video streaming has done a decent enough job on the paid side. It is just a matter of time, all these streaming companies in India are also going to have a very effective paid business, they make money and we make money.

Navneet Bhaiya: Understood. My second question is, how big is the international song segment, English some segments in India, if you have any percentage terms? How big is that?

Vikram Mehra: How big is the international?

Navneet Bhaiya: Content heard in India.

Vikram Mehra: That's just a metro phenomenon. Let's be clear that in the Bombays and Delhis of the world, the youngsters also listen to a lot of Western music or Korean music for that matter. But it's still -- even with those people who are here, every time they're with their friends and there's a party happening, finally, it's going to come back to Arijit Singh and Badshah or a Ranbir Kapoor or a Ranvir Singh movie fan. The moment you go to smaller towns, it's all Indian music.

Navneet Bhaiya: Okay. So as of now, for us, as a company, even in the medium term, there would be no plans of acquiring content in the English segment, right?

Vikram Mehra: So we have a very publicly stated position there that we believe with 1.4 billion Indians here and a large amount of 1.4 billion Indians , the entire population of Srilanka, Bangladesh, Pakistan is a large enough captive market and parts of Malaysia on the Tamil side and parts of Singapore, there is a large enough population right now for our music. And we want to focus there and get a clear distinct number 1 position.

Navneet Bhaiya: Understood. And the third question, which is more of an understanding. So there are a lot of user created mash of songs, which is like a 3-minute songs with 10 different songs in it, of which maybe they have 3 from Saregama, the remaining from some other labels. How does the revenue sharing work there?

Vikram Mehra: So tell me there, it all depends platform to platform. Give me an example. Are you talking about YouTube?

Navneet Bhaiya: Yes, YouTube. They are...

Vikram Mehra: In YouTube, if somebody is going and running a video where 5 songs are being used, the revenue which is getting generated that YouTube is going to share with us, will be split across the 5 songs.

Navneet Bhaiya: Okay. Understood. And you would have an analytic to figure out as when a song is used for 50% of the time, yes?

Vikram Mehra: Yes, absolutely, that is there. So we have got advanced analytics, YouTube model is very, very strong. Their fingerprinting is really accurate. And I haven't seen cases where the division that they do of the revenue based on each of the songs goes wrong.

Moderator: The next question comes from the line of Saket Mehrotra from Tusk Investments.

Saket Mehrotra: In the earnings disclosure, there was a mention of an INR12 crores revision on contractual terms for the revenue. So does this have to do with our existing contracts? Or were these any fresh contracts that we've undertaken?

Pankaj Chaturvedi: This is part of all existing contracts. It just happens that we follow a very conservative accounting policy of revenue recognition based on the virtual certainty. So at times, there are contracts which are under negotiation. Formal contracts which may not be in place, but the renewal is in process. So we book the revenue based on the estimates. So when the renegotiation takes place, there may be a difference that would arise, which is recognized in the ongoing quarter.

And like you are asking, at times, people do ask about how the renegotiations take place and the ways of revenue recognition. We thought we'll make an upfront disclosure. So the position is very clear to all our investors.

Saket Mehrotra: Okay. So will it be fair to assume that like this is like an increase in pricing that we've managed to get from whatever negotiations we've done, right? Like that's what we are working with?

Pankaj Chaturvedi: Yes, what you think is right. The renegotiation has resulted in revenue in this quarter. It also means that from quarter-to-quarter, this could differ based on the position and the negotiations.

Vikram Mehra: This is fully recognized -- accrued and recognized, it's not future revenue. Yes.

Saket Mehrotra: Correct. Okay. And also on this events business, right, like -- I mean, what's the way forward? Because we've just demerged a loss-making business. And how much drag do we see with this going forward? I understand it's a part of your overall strategy. But if you could just give us some guidance on what the expectation is from the year forward.

Vikram Mehra: I have answered this, somebody else also asked this question. See, on the overall basis, we will never allow events to drag down our adjusted EBITDA below 30% to 33%. Events is a business that we people are trying because we believe strategically, it's going to help us a lot as we go forward on our artist relationship business.

And also in India, there have been various studies that have come out that for people, as disposable incomes go up, people will be seeking out for entertainment options outside their home, too. There is a limit to which digital consumption will happen. People will seek out other things too, and live may play a very, very important role there.

Keeping both these things in mind, we have gone ahead with this. We are going to re-evaluate this entire thing over anything between 12 to 18 months and see whether things are moving as per the plan or not. If it's not, we will relook at this business

Moderator: The next question comes from the line of Swapnil Potdukhe from JM Financial.

Swapnil Potdukhe: Just some clarification, Vikram. So I think most, some of the visibility platforms are moving behind the pay wall. Now is it possible that our minimum guarantees will for the contract that we have, they will not get renewed at a, let's say, incremental levels and the business model will slightly change as in like you have the visibility of the revenues that will be lower?

Vikram Mehra: There will be pressure when we move from free to paid. If there were minimum guarantees, then there would have been no pressure. But for us, music labels and streaming platforms to build a sustainable model where the revenues for music labels are guaranteed not just for next 12 months, but for the next decade, it's important that the streaming platforms also have a sustainable model. The only way they can have a sustainable model is if they move to a subscription.

So all of us are helping the streaming platforms to move from free to paid by moving away from this concept of minimum guarantees. All of us are going to get paid right now on the basis of our actions. That yield is going to be far higher on a per song basis. But the first 2, 3 quarters when building up the numbers, there will be pressures coming in. It's not the one label that's doing it. That's a global practice that happens.

So the guy who continues with free would have to still go back and give them minimum guarantees. Guys are going fully behind the paid wall, we are there to support them in these quarters. But because we know this was coming and we have been planning for this and urging the streaming platforms to go behind the paid wall, at Saregama, we have built multiple sources of revenue now, which will ensure that we still hold on to our growth numbers.

Swapnil Potdukhe: Right. And just an extension to that, since you are holding your guidance for the full year, so do you -- are you suggesting that your YouTube revenues will be significantly higher and that would offset the impact of the near-term volatility?

Vikram Mehra: I can't share anything beyond this. Remember on the streaming side also, 3 of the biggest guys or the biggest who control the industry are still free. Actually, they have gone behind the paid wall. So the top 3 are still behind the free tier, remaining guys are all behind the paid wall. So the journey has started. Our journey, which we believe is going to make a much better yield and profitability, both for us and the streaming platform, the journey towards paid.

Moderator: The next question comes from the line of Anirudh Shetty from Solidarity Investment Managers.

Anirudh Shetty: I have 3 questions. So my first question was, we are amortizing our content charges over 10 years. So was it done, to more accurately match our content cost with what over what time period we will get our revenues? And also, if you can give a breakup of how much goes on year 1 and then 2, 3, just to get an indicated sense of how upfront are the – how staggered are the content cost charges in some sense?

Vikram Mehra: Our content amortization is in sync with the global standards considering any company which is into genuinely large enough content creation. Look at the companies which are doing this in India, it's actually only 2 of the companies, which are genuinely into new content creation, the number 1 player and from a revenue perspective and we, the number 2 player today. Both of us only are not spending large amounts of money. So we looked at our global benchmarks, the companies we look up to and all of them follow a similar policy.

On an overall basis, to give you an idea that for a song, which is getting released, the numbers, assuming marketing to be 20% of the cost, 36% of the total money gets written off in year 1 itself.

Anirudh Shetty: Got it. And in the past, we have mentioned that we look to make a payback of 5 years. So how should one interpret that? Is it that the cash that we'll deploy in any particular given song or a particular year that we intend to recover that on a post-tax basis over time? How does one read this payback period?

Vikram Mehra: See this payback is without including the cost of capital. If the amount of money spent to acquire content is hundred dollars, we are charging it off along with marketing at around 48% out in the first 2 years. But we internally work on a benchmark that this hundred dollars will get recovered in the first 60 months.

Anirudh Shetty: Got it. And if, say, over time, in the streaming world, you move for more free to paid subscription, does the payback period reflect that new reality? Or do you think the payback period could become even shorter if that were to happen?

Vikram Mehra: All my growth projections, 23% on the music growth with the 32% to 33% adjusted EBITDA at the company level, all of them are shared with you without considering the upside that will come from paid subscription.

Moderator: Thank you. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.