Saregama India Limited Q2 FY '25 Earnings Conference Call

November 06, 2024

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MODERATOR: **MR. PULKIT CHAWLA – EMKAY GLOBAL FINANCIAL SERVICES**

Moderator: Ladies and gentlemen, welcome to the Q2 FY '25 Results Conference Call of Saregama India Limited, hosted by Emkay Global Financial Services.

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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Pulkit Chawla from Emkay Global Financial Services. Thank you and over to you, sir.

Pulkit Chawla: Thank you, Riddhi. Good afternoon, everyone. And welcome to the Q2 FY '25 Earnings Call for Saregama India Limited.

From the Management, we have with us today Mr. Vikram Mehra – Managing Director; Mr. Pankaj Chaturvedi – CFO; Mr. Saket Sah – Group Head, Investor Relations and ESG Reporting; and Mr. Pankaj Kedia – Vice President, Investor Relations.

Without any further delay, I shall now hand over the call to the Management for their "Opening Remarks." Over to you, Vikram.

Vikram Mehra: Thank you, and a very good afternoon to everyone. Welcome to the Earnings Call of Quarter 2 FY '25 for Saregama.

This quarter saw operating revenues of Rs. 242 crores, and a PBT of around Rs. 59 crores. Our revenue is 40% higher on a Y-o-Y basis. Our H1 revenue of Rs. 447 crores is in sync with our guidance of 30% revenue increase in FY '25. Our adjusted EBITDA increased by 17%, and is at 35% of revenue, which again is in sync with our guidance of 32% to 33% adjusted EBITDA.

May I once again request all of you to evaluate us on a rolling 12-months basis, and not on a quarterly basis. You can take last 12 months, or you can evaluate us for the full financial year. On a full year basis, we are confident of meeting all the guidance that we have given in the past.

Let me start by telling you the reason behind this massive increase in revenue. This has come, , despite the retail business (Carvaan) coming down by 40%. Despite that, the overall revenues have gone up by 40%. This growth has come on the back of a very successful quarter for the video segment. The revenues grew from Rs. 15 crores to Rs. 72 crores in this quarter. Remember, video is a strategically important, high IRR, low margin business.

The great news about this increase in video segment revenue is that this has come along with the total amount of assets on the video segment coming down. So, you have less capital of ours getting blocked in video, while the revenues have gone up even better. We are very, very confident of, our capital allocation policy, more importantly , our financial management policy, which is allowing us to drive better IRR from our video business than most other competitors.

The second source of growth in revenue is because of the music business. This business, which primarily consists of music licensing and artist management , stood at Rs. 148 crores in this quarter, which is a 22% increase over the last year, again, in sync with our annual guidance.

Let me also address the other issue, of PBT coming down on a year-on-year basis. This is purely on account of one factor, which is investment in newer content. The total charge-off on account of new content, which includes both marketing and the charge-off content, is higher by Rs. 18 crores in this quarter compared to the last quarter. If you add that Rs. 18 crores back, the numbers all started looking great again.

This cost is reflected primarily in the advertisement & sales promotion head , and depreciation & amortization expenditure head. As you know, the entire cost of marketing gets charged off in the same quarter, that is not amortized over the full four quarters. So, that's why you keep on seeing these bumps and lows coming in.

Our belief in new content investment and futureproofing the company remains steady. I have been sharing this over multiple quarters. What we are seeing is now just a rollout of that strategy. The positive impact of that is going to be felt not just for a couple of quarters, but for the next 60 to 80 years. As committed in Q4 FY ‘24 call and Q1 FY ‘25 call, that on a 12-months basis, FY '25 will be showing a modest growth in PBT.

Let me get into individual segments , to start with Music Licensing:

This quarter saw us becoming number one in Hindi music for the first time, with two of our albums being the top two albums of the country. First came Bad Newz, whose song Tauba Tauba topped every possible chart in the country, including Spotify, Instagram, Billboard, Wynk, Radio. Even on YouTube, it became the number one song globally for over 25 days. The total number of YouTube views of this song has crossed 300 million. The other songs of Bad Newz, like Jaanam and Mere Mehboob were also part of the Spotify Top 50 chart for weeks.

Following this, in this quarter, was the biggest album of the recent times launched by any label called Stree 2. It's a rarity in today's world for all songs of an album hitting Spotify Top 15, of the country. If you see the top three songs in India on YouTube, we have been controlling them now. While I am talking more about October, November, but we have been controlling those positions now for weeks. Aaj ki Raat was Spotify's global no.1 for, , approximately two and a half weeks. Today, as we speak, on YouTube, Aaj ki Raat has already crossed 500 million views, while Aayi Nai, the second song, has crossed 300 million views. Overall, at an album level, on YouTube alone, on our own channel, we would have crossed 1 billion views. Yes, a large portion of them came in quarter three. But it just tells you that our ability to pick good quality music and market it is now being proved to be unparalleled in the market. Our hit rates are far higher than any of our direct competitors.

The other big albums this quarter were Ram Charan's Game Changer, whose songs got released in Telugu, and Suriya's magnum opus Kanguva in Tamil, whose song also got released. The company continued to maintain its leadership position in Gujarati and Bhojpuri languages.

Let me reiterate that the success that you are seeing is all coming out of our management belief that a data-driven approach to music acquisition and use of predictive models is a far superior way to select music than relying on an individual's ability to predict which song is going to work or not .

Overall, the company released 400-plus originals and premium recreations across Hindi, Bhojpuri, Gujarati, Punjabi, Tamil, Telugu, Malayalam, Marathi, and Bengali languages. Our lineup for the next 12 months is all in place. I have shared these names with you in the past, too. These are some of the biggest films of the year that will continue coming to us. This includes the recently released) Singham Again, which is Rohit Shetty's film. Music of two more films of Maddock, (Thama and Skyforce are sitting with us. Mammootty's Malayalam film Bazooka, Sivakarthikeyan's super hit Tamil film Amaran whose songs are doing very well, and Kannada superstar Sudeep Kichcha's next film is also with us.

As we have been saying from the time, we did our QIP and raised funds - the endeavor of our company is to future-proof this company. We want to continue investing in high-quality content so that the company retains a leadership position not just today, but in the decades to come. And we keep on making money from this content , not just today, but for many, many years to come.

This quarter, the charge-off on account of new content has almost doubled because of all the new content that we have purchased. We are today in a transitional state where our new content expenses are going up in a steep manner, because this is a step jump. For a company which did not invest in new content for close to two decades has now started investing, and now aims to catch-up and reach the no.1 position. This means very high investments of content are going on there. When you increase the expenses in a step function jump, when 20% to 25% of the expenses are going towards marketing, there is a kind of imbalance that starts happening.

I said at the last call that it will take six quarters. For the next six quarters, of which the first quarter is over now, you will see revenue going up in a substantial fashion, EBITDA growing slower than that, and PBT will grow the slowest, among the three . After the end of six quarters, you will have profitability which is being driven out of music, outpacing the rate of revenue growth. because our step jump in content investment is only for these three years. After that, we are comfortable at the level at which investments are going to happen. So, content expenses are not going to go up, but the profitability, which is going to come out of the investments that we are making today, will all start showing up. With all this new investment, we maintain a guidance of a five-year payback period, with an additional 55 to 75 years of profits that we can make from this music.

The second music vertical is Artist Management, where artists are made popular through our IP releases. Further, we monetize these artists by booking them for live events, weddings, and brand endorsements, from which Saregama gets a share. During this first half of the year , 60-plus artists/influencers have been added, taking the total count of artists that we are managing to 180-plus. This is a 50% growth over the last year. Between these artists , we have got close to 120 million followers and subscribers on Instagram and YouTube.

As our investment in new content keeps increasing, – we are putting these artists as part of the investment in most cases - many of these artists are actually singing the songs of the newer movies that we are making, or we are releasing non-film songs which are centered around them . As the artists become bigger, and digital advertising keeps growing at 15%, we believe that we will end up making substantial monies from artist management .

Overall, with our stated goal of acquiring 25% to 30% of all music released in India, the music vertical (licensing & artiste management) should double its revenue over the next 3/3.5 years. All the new content is going to be funded through internal accruals and the QIP money.

Now let me shift to the Video vertical, where we make films under the brand Yoodlee, digital series under the brand Dice of (Pocket Aces), short videos under Filter Copy, Nutshell, and TV serials for Sun TV. The explosion in smartphone ownership and cheap data are the biggest drivers of this vertical. We are still at the early stages of building this vertical in which we have a strong belief.

Firstly, on its own, in the days to come we expect video segment will also become the primary source of entertainment on which the discretionary money is going to get spent on, both, through subscription and advertising.. So, people who own video IP will be in a very strong position in the days to come.

Secondly, Video business is also strategically important for us to maintain a stronghold on the Music business. As shared with you earlier, majority of the music consumed in India is film music, and we want to control the source of this music. This is to ensure that we are never in a position that source is being controlled by a competitor.

Moving on, Q2 saw the release of a Malayalam series, Manorathangal on Zee5. With a stellar cast of Kamal Haasan, Mohanlal, Mammootty, the series became very popular on the digital platform. We also released Jeethu Joseph's Malayalam film, Nunakkuzhi in theatres, during the quarter. This quarter also saw the release of Unravel Australia, a branded web series with Australia Tourism, on our channel Gobble on Instagram. Further, Half Love, Half Arranged Season 2 and Karate Girls, a Dice creation that got delivered to Amazon MiniTV.

Because of the impending mergers of certain leading platforms , there is some pressure on the Digital Series Licensing business. We believe this pressure to continue for another couple of quarters. By that time these mergers will go through, and we believe there will be fresh requirement for content coming in. Pocket Aces, with its unique position as the No.1 content creator for youth in the country, will be in a very good position to cater to this massive demand that will be coming in for content targeted at the younger segment.

On the revenue front, Video vertical revenue grew to Rs. 72 crores in this quarter compared to Rs 15 crores in the corresponding period last year. The increase in the operational cost is primarily on account of the cost which is connected to the increase in the video revenue. As you can see, the video revenue has gone up by Rs. 57 crores , and the rise in the operational cost is directly linked to that.

On Live Events side, we launched a new IP called Yeh Shaam Mastani with Zeenat Aman with the event being hosted in Delhi and Bombay. The next quarter will also see Diljit Dosanjh's Dil Luminati tour in India, , which has got completely sold out. As stated earlier, event business is a very high revenue, low margin but a high IRR business. Our capital allocation or locking happens for a very brief span of time, and you can see this from our segmental assets and liability figures. Most of the work that we do is based on the advances we receive from our partners. The third quarter will see the same skew flowing up. The tour has been a big success and the revenue numbers will be substantial.

We are very happy with the margins we will end up showing , but on a margin percentage basis it will be low number. Yet, it's a very high IRR business. Most importantly, it's further strengthening our relationship with the artist. As a matter of fact, Diljit Dosanjh was kind enough to give us a song for one of our movies, Jigra, which came out in Quarter 2.

Let me go to the fourth part – which is the music retail business.. So far, I have covered Music (Licensing and Artist Management), video, and live events. We have rolled out a new retail strategy under which we will be selling Carvaan and Carvaan-related products only from e-commerce and modern trade stores. Over the remaining six months we will completely get out of individual mom-and-pop stores. While the volumes and the top-line coming from Carvaan will keep shrinking, the profitability margins are going to improve as we go forward, because we are controlling all the costs which are connected to retail distribution. From the last quarter onwards, we have started sharing the Carvaan revenue numbers separately, as part of our presentation. This quarter saw retail revenues of Rs. 21 crores, which was a drop from last year., This has been very much planned and what is happening is on expected lines because we are out of the retail business.

Over the next three years, we will be investing over Rs. 1,000 crores in new music content. Apart from contributing to immediate growth, this will also put the company on a long-term growth path.

Overall, at the consolidated company level, we expect revenue, excluding Carvaan, to grow at a CAGR of 30%, and PBT to double over the next three to four years. Both Music and Video verticals -are going to contribute to this.

We maintain an annual adjusted EBITDA guidance of 32% to 33%. There may be quarters where numbers may go here and there, if suddenly a big live event revenue is coming in. But on an overall basis, we expect margins to remain at 32% to 33%, and Music margins to hold steady. On an annual basis, our PBT will show modest growth compared to last year. This is the case only for the next five quarters, after which PBT should start growing, at a rate faster than the revenue growth.

Saregama's growth narrative will continue to be steady in the medium to long term courtesy the increase in digital consumption. This is both in terms of new customers joining the market, and existing customers consuming more audio and video content, . With a 294 million internet footprint, our cash reserves, the managerial depth that we have in the company, access to some of the biggest soundtracks, and an ability to create content through the most financially tight process at the lowest per minute pricing in the market, we believe that the earnings are going to be guaranteed not just for the next two to three years, but for many, many decades to come.

Thank you, and happy to take your questions now.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Abneesh Roy from Nuvama. Please go ahead.

Abneesh Roy: Congrats on good revenue growth. My first question is on the overall competition and the ecosystem. So, Warner Music has said that India along with China will be their two most important focus markets, and they want to become much bigger. So, I wanted to understand how worried you are, because you clearly are ramping up significantly for the next three years. Is Warner's higher focus on India one of the reasons? So, that's one part of the competition question.

Second, Dharma Productions' 50% got sold to Adar Poonawalla. How does this impact? Because your company's name also comes as one of the bidders. Eventually, that did not happen. So, what was the thought process? Why did we not go till the final acquisition? If you could share your thought process on that, and how these impacts buying from Karan Johar's Dharma Productions in terms of music rights.

Vikram Mehra: The Warner statement is something even we have been giving. . We are very happy to see the statement coming from the Warner Chairman. India is going to be the next biggest growth market. Anybody who is tracking the music industry globally understands that subscription service is eventually going to take off in India in a very big fashion. I have been saying this for multiple quarters, and I continue maintaining the position that give it another 12 to 15 months. Hopefully, once the merger of two of the biggest video platforms concludes, we believe the next focus is going to be on the music streaming side. There are only two platforms today which are still offering free services, Spotify and JioSaavn,. We hope that India also is going to be moving with the help of these two platforms going fully behind the paid side, also. Once that happens, you are looking at a massive growth coming from the Indian market, primarily led by subscription.

I think what has helped us a lot over the years is the fact that we understand Indian music better than anybody else. This is a company which has been in this space for over 123 years now. Our relationships with local production houses in every particular language are very, very deep ,chances are very high that if we are going to someone and picking up music from them, and most of them are second or third generation film producers, 99.99% of the times their father's/grandfather's/grandmother's production houses' films or music is also sitting there with us. So, we are leveraging on that fact a lot.

Second, the fact that we are investing on data, unlike any of the competitors , is going to hold us in a very, very good position.

Second, let me not comment about an individual production house. As I stated in my opening statement, and I have been saying in the past too, we believe Video is a strategically important business for an IP company like Saregama. Video on its own, has got a very strong future, will be able to go forward.

Remember, when disposable incomes go up, all of us have got more discretionary money at our disposal. The middle and upper middle class in this country have very limited sources in which they can go out and entertain their families. Movies, going out to shopping malls, movies, and hopefully live events are all going to get a massive benefit from that.

Also, our relationships are very, very strong. Since you spoke about Dharma, what I can share with you is that we have picked up music of multiple films from them. Even in the future we will have multiple films from them whose music is coming across to us. We share a great relationship with Dharma, and with multiple other leading production houses in the country. Thank you.

Abneesh Roy: No, sir, two follow-ups there. One, are you seeing initial signs of Warner Music bidding aggressively? And second, you do not see any change to your ability to bid for Dharma's future music rights, right?

Vikram Mehra: Sir, let me not get into anything individually. The great part is that we share a very deep and old relationship with each of these production Houses, we do not see any impact of that happening.

Since you were talking about Dharma, music from a movie of theirs - Jigra has just been released by us. Our 2nd biggest musical release of this year, is Bad Newz, which is from Dharma. Last year's, Rocky aur Rani Ki Prem Kahaani was also from Dharma. Just on the cards right now, the next movie coming out there with these people. It's great that the video industry is getting more organized money. The quality of movies will go up, and the quality of music in those movies will also go up.

See, competition is always there. Warner is looking at India now. Sony and Universal have also been there in the market. It's good. With a greater number of international players coming in, more focus starts to come on the Indian music industry. Yet, we strongly bet on our understanding of the Indian music market, and the fact that our relationships are far, far deeper. That's why we are not focusing on any one or two languages. We are focusing on every major language of the country.

Abneesh Roy: Understood. The last question is essentially on your strategy of upfront three years' very aggressive spending on content. So, one is, could you look at option B also, where you remain aggressive, but because the PBT growth rate will be much lower than the revenue growth, is there option B available in terms of strategy, where you do it a bit more gradually?

Second is on data point. So, in the last six months, where you have increased aggression, if you could tell us incremental market share in music. T-Series, Sony, Warner, and You. How is it now, in terms of the last six months, some data points in terms of market share?

Vikram Mehra: You can start tracking the YouTube channels of everyone in the market which will give you a decent enough idea. If you look at the presentations, that we have shared, there's a slide which talks about how the numbers in terms of views have changed on YouTube and how the growth rate has been of ours versus all the major competitors in the market. That will give you an idea that we are growing at a rate which is faster than anybody else.

And it's not that difficult right now. If you start tracking all the recent hits of any of the labels. it will become obvious to you. I have already stated that for the year, we have taken the leadership position in Hindi for the first time . We have been leaders in Bhojpuri, Gujarati for a very long time. Further, for the entire last year we were leaders in Malayalam and Telugu and I am confident we will end this year on similar lines.. The languages in which we need more work at this juncture is Tamil and Punjabi.

Abneesh Roy: And who will be the leaders there, Tamil and Punjabi?

Vikram Mehra: Sir, again different people. We are either sitting in a second position or the third position. We are not number one, and we will not be happy unless we reach the number one position.

Abneesh Roy: Understood. And on the strategy part if you could comment, gradual versus very aggressive.

Vikram Mehra: We have a stated position that we want to invest Rs. 1,000 crores.. Remember, you are talking to a company which for close to two decades did not have any new music coming in . We have toiled and come to this stage after experimenting with newer content for five years or so. We have refined our selection process and our ability to market it more effectively than anybody else. Hence the monetization is going to be there better than anybody else. So, we are betting on that ability of ours.

Moderator: Thank you very much. The next question is from the line of Priyankar Sarkar from Square 64 Capital Advisors. Please go ahead.

Priyankar Sarkar: Sir, one quick question. Why have the other current liabilities moved up to close to Rs. 250 crores versus Rs. 65 crores in March '24, and what does this exactly pertain to?

Pankaj Chaturvedi: Priyankar, it's part of our various contract negotiations. We receive cash for the upcoming deals. So, under various contracts we receive cash for which the income is going to accrue in future. This is accounted for as other current liabilities, or income received in advance. You can see a corresponding increase in the unallocated assets which is basically the increase in the cash balances. So, the two will correspond to each other. As we move forward, income gets recognized, and this will get reduced.

Priyankar Sarkar: But it was a sharp move, right, from Rs. 65 crores to Rs. 250 crores. So, why did that happen, I guess, in your industry?

Pankaj Chaturvedi: It was under negotiation and hence this is the result of that.

Vikram Mehra: Please give Pankaj a pat on the back that he has been able to negotiate and get large advances out of people which makes our position that much better because there is additional money right now. We are not investing our own money in newer content.

Moderator: Thank you very much. The next question is from the line of Pulkit Chawla from Emkay Global Financial Services. Please go ahead.

Pulkit Chawla: So, my first question is on the music licensing side. If you look at the last couple of quarters, I think revenue growth has been slightly subpar. This quarter again, let's say high-single-digits only. So, if you could dwell slightly deeper into this trajectory, just trying to understand where the weakness is coming from in terms of platforms. So, whether it's YouTube or any of the OTTs, which is sort of pulling down this growth?

And second, also the margin side, for the overall music segment, that seems to have declined Y-o-Y, even when there's a sharp decline in Carvaan, where margins are obviously negligible. So, is this decline in margins solely attributable to the higher content investment, or is there something more here?

Vikram Mehra: So, let me answer the first one. Please understand, that you need to look at music always as Licensing plus Artist Management. Just because we are splitting the segment, you cannot look at it in two different ways. This is because at times, the investment of the artist is sitting in

Music, while the revenue, which is coming from the same artist, is sitting in Artist Management. That's the wrong way to do it.

On the Music front , which is Licensing and Artist Management, we are on a 22% growth. And by the time we end the year , we will be closer to achieving 23% to 24% growth . So, I am not that overtly concerned at this juncture on the Music revenue part. Yes, in the past, as stated, till Q1, not in Q2, we had the problem of three of the platforms going from free to pay. So, their free revenues are sitting in the denominator, but not in the numerator. But that impact is behind us. We are happy at the rate at which numbers are going up for us on all the major platforms. Yes, obviously, the day subscription takes off, which is a matter of few quarters, the revenue growth is going to be far more significant. You are talking about doubling of the revenue that you are making here.

Second big factor is the day the short format apps in India open themselves up to advertising they will end up sharing close to 50% of that revenue with the IP owners. So, whomsoever is controlling the more popular IP will also end up getting a significant bump in their revenue flowing directly to the bottom line. These are two big things which are on the cards.

Pulkit Chawla: And on the margin part?

Vikram Mehra: Margin point, the impact is only on the new additional cost which is a Rs. 18 crores increase in the content charge, which is out of advertising and revenue part.

Pulkit Chawla: So, secondly, on the Event segment, clearly there is obviously a great response to Diljit's concerts that we had in Q3. If you could just explain what are the different sources of revenue that you have here and how much revenue, let's say, that you typically would make on a per event basis. You'd also alluded to some, let's say, change in strategy last quarter.

Vikram Mehra: So, what I can tell you, there are two sources of revenue primarily that comes in live events - ticketing revenue and sponsorship revenue, . In the quarter, you will be seeing 12 concerts happening in India, and , and 1 concert happening in Middle East. That's what the plan is. These are obviously very high revenue numbers because the entire ticketing revenue comes across to you. Event business, by its very nature, is a very high top-line, relatively lower-single-digit margin bottom line, but a very high IRR business. That's what you should expect to see in quarter three.

Moderator: Thank you very much. The next question is from the line of Harssh K. Shah from Dalal & Broacha Stock Broking Private Limited. Please go ahead.

Harssh K. Shah: A few questions from my side. So, firstly, on the content, the music content that gets released in the industry on a yearly basis. Sir is it the case that the number of songs is kind of going down, but the cost for each song is going up? And especially in the South Indian languages?

Vikram Mehra: There's no such indication at this juncture. So, the cost of the songs is typically linked to what kind of revenue labels are making. So, if there's a producer who has a track record of giving film albums which are massive hits, the value of the songs for future movies always goes up. If there are languages which have got massive popularity, you will find the music of those languages being a little more expensive. Equally, if a production house gets into a track record of giving albums which just do not work, the price of the future album starts falling, and so is the case with languages. It's a dynamic market.

Harssh K. Shah: So, why I asked this question is because certain labels in the southern part of this country have kind of said that the cost of acquisition of the song, kind of since, say, 2020 to right now where we are, the cost is going up. So, meaning, will that impact on the payback period for at least that language? Or you do not see that?

Vikram Mehra: Thankfully, my answer to this is in your question only. If you go back and check out my transcripts from 2018 onwards, when we started acquiring newer content, we have been maintaining the five-year payback period guidance, and we hold on to that.

Harssh K. Shah: Secondly, on the Video segment, so how should one kind of look at the Video vertical in terms of the contribution to my overall revenue? Sir, I understand that this segment is kind of lumpy in nature where in one quarter it could be high, another quarter it could be low, but on an annual basis, how should one look at this segment in terms of contribution?

Vikram Mehra: Sir, Video segment is still a very, very new segment out there for us. We are still trying to finetune our strategy .

There are two factors I can throw at you at this juncture.. First, we are expecting broadly 30% growth of the Video vertical . Second, the total capital which is going to be allocated to Video and Live Events vertical at any time will not exceed more than 18% of the total capital allocation done by the company.

So, there are checks and balances that we have put right now on the Video business. Unlike the Music business which we have been doing for over 120 years, Video business is a relatively newer business. That's why we have put enough checks here. Give us another few quarters, and we should be able to share with you a much more precise three-year plan for the video segment going forward..

Harssh K. Shah: And lastly, on the short format video platform. So, here I am talking specifically about YouTube Shorts. So, basically they are kind of generating massive volumes in terms of views, but the monetization is kind of not to that extent. And considering how YouTube has changed the guidelines in terms of the definition of what a short video is, what sort of indicative timeline do you all have in terms of when the monetization can start? And if you could give us some color on that.

Vikram Mehra: On YouTube Shorts, our contracts protect us from the new guidelines that have been shared. That's all I have the liberty to say . So, we are protected. So, you are not going to be finding my music on this long form content which is going on YouTube Shorts. Yes, just like you, we are also very keenly following both the leading short format apps of the country, YouTube Shorts and Instagram. We are working closely with them and trying to make this transition from being just a content viewing platform to one which is getting enough advertising to justify the number of eyeballs that are going in.

Like in every other part of the world, once these platforms have formed their position as a clear cut market leader and are not threatened by the imminent entry of a third platform who's currently not there in India, I think they will start opening themselves up to advertising that much more. And that will be a huge jump that we will end up getting.

On YouTube Shorts specifically, on the non-music side, they have started opening themselves to advertising. And the Video part of my business has started growing . Remember, the company called Pocket Aces, we are also creating content which is a short format content. So, along with Instagram, we are also putting on YouTube Shorts. And we are seeing the green shoots of revenue building up.

Harssh K. Shah: So, then, can we expect that in the next three years, maybe within three years, we could see the monetization happen?

Vikram Mehra: I can tell you things which are in my control. It's wrong on my part to comment and give assurance on behalf of the outsider. I think my guess is as good as yours, that in this time frame, you will see short-format apps realizing here that getting eyeballs for the sake of eyeballs means nothing. Eyeballs must be converted into advertising revenues, and all of us are going to benefit. My bets are higher on subscription on streaming apps picking up even faster than advertising on short format apps. But both are bound to happen. They are natural things happening in every other part of the world.

Moderator: Thank you very much. The next question is from the line of Jyoti Singh from Arihant Capital Markets Limited. Please go ahead.

Jyoti Singh: Sir, I just wanted to focus on the language side. Sir, what is your view on the Bhojpuri song side, which you mentioned we are getting high traction, which is still 2% for us as per last annual report?

Vikram Mehra: Yes, for the longest time we as a company have been saying, both on the Music and the Video side, are equally bullish on the major regional languages of the country, whether it's Tamil, Telugu, Kannada, Malayalam, or Bhojpuri, Gujarati, Marathi or Bengali. We've just entered the Odia market., . We do not want to be only a Hindi music or a Punjabi music company.

If we look at our 120-year odd history, we have the biggest catalogues in each of these languages, and we want to continue building on that . Various languages have different monetization contributions. Some of the languages are heavier on YouTube while some get a lot of views from outside India. Some are bigger on streaming platforms. We always keep these things in mind while we do capital allocation across languages. So, the languages you spoke about, i.e. Bhojpuri, Tamil, Telugu, Kannada, Malayalam, or Gujarati, will continue seeing investments coming from our side.

Jyoti Singh: And we are on, like, number one something on the Bhojpuri side?

Vikram Mehra: Ma'am, let the year get over, but as of last year we were number one in Telugu, Malayalam, Bhojpuri and Gujarati.

Jyoti Singh: Is there any focus on working with the brand for background music, and like our competitor working on that side, if you can shed some light on that?

Vikram Mehra: What do you mean by that? I am not clear about it.

Jyoti Singh: Like a lot of label companies, they are working with the brand too, sometimes it used from the existing library like Bajaj and Marico, they use the music.

Vikram Mehra: See our presentations over the last, 12, 16, 20 quarters, we always share the list of multiple brands that we are working with. Please connect with us and I will send you these ads. From the brand side, we are the number one in the country today. If I look at this quarter, Mahindra Thar had our song Inteha Ho Gayi Intezar Ki. Mahindra Thar has got the biggest opening of the recent times they've ever done in terms of booking, and there's usually one ad, and that ad has got our song in it.

Dabur Babool ended up using our song in Q2.. Lux, Ponds, Reliance Trends and Enamor used our song. And these are just some of the brands we work with.. So, we have a very strong vertical, wherein we license our music to brands for their advertising needs in not just Hindi but also Tamil, Telugu are and Malayalam.

Jyoti Singh: And sir, if you could guide us on the margin side, how much we make on the brand front?

Vikram Mehra: Ma'am, those are getting to very specifics. The most premium catalogue of the older songs on the audio side are controlled by us. We have got good realization, that's all I can state here. In the days to come, you will see our brand work not just on music, we are getting more active on getting brands as part of Live Events, and the Video content that we are creating for short format apps.

Jyoti Singh: And just a last question, like anything we are doing with Netflix on the movie side?

Vikram Mehra: If I remember my numbers correctly, we have close to two dozen movies of ours which have been licensed to Netflix. In fact, Netflix is our biggest partner. We have some of our content which has gone on Amazon, Zee5, and Hotstar too. But Netflix is our biggest partner in terms of the destination where our movies end up getting licensed to.

Moderator: Thank you very much. The next question is from the line of Jayesh Jain from DSP MF, please go ahead.

Jayesh Jain: I wanted to understand that if you adjust for the Artist revenue, your Music Licensing revenue has grown by roughly double-digits, and given the spend we have done in the last one to two years, it's almost Rs. 300 crores. So, a lot of this revenue growth has come from the addition of new songs. Has the monetization of those songs not increased as far as we would have expected?

And following that question, does your five-year payback calculation account for the anticipated rise in monetization per stream due to the known factors we all know? Could you just throw light on that, and how should we think about this?

Vikram Mehra: **For** the first one I am going to repeat myself. You must look at music revenue as Licensing plus Artist Management. Artist Management is not something which is separate. Some of the big songs that we have invested in are connected to the artist who is sitting in Artist Management. So, I am creating those songs because I want to make the artist big. So, please look at Music revenue as a combination of Licensing and Artist management, which has grown by 22%.

Your second part, our five-year payback period guidance is done. Basis the revenue that we are making today. Any lift that we will end up getting - because of subscription taking off in a big fashion or short format apps getting additional advertising revenue and hence we get a share for I -, has not been factored in.

Jayesh Jain: So, the five-year payback period is on the current revenue per stream broadly?

Vikram Mehra: Yes.

Jayesh Jain: And do you guys have any idea what is the acquisition cost per song should be around, so that our IRR does not fall below 26%?

Vikram Mehra: Sir typically, there is no per song part. I If a song is being picturized on Ranbir Kapoor, sung by Arijit Singh, music is given by Pritam or Sachin-Jigar, and you have a leading heroine like Alia or Kriti working on it, the scene is going to be very different versus a smaller artist and a smaller singer. So, our approach is not very different from the approach you may be making, which is a portfolio management approach.

Jayesh Jain: Exactly, yes.

Vikram Mehra: We end up taking bets in multiple languages, in multiple categories of films, and on the non-film side, we also know that if we are releasing 100 songs, we cannot have 90% hit rates.. The hit rates are going to be lower than that. But our hit rate must be higher than anybody else's in the market, and those songs should be large enough to not only recover the cost of the songs that have not worked well, but also generate the returns that you are talking about.

Jayesh Jain: Understood sir. I do understand there are a lot of factors in the business, but you would have still some colors on let's say high-end Hindi songs versus vis-a-vis normal original songs.

Vikram Mehra: Along with portfolio management, our entire content selection is done using predictive AI. I also said this in my opening statement. We are not betting on the ears of the Managing Director, or the Senior Management of the company, to take calls on which album is going to work or which song is going to work. We rely a lot on our predictive AI and then work with people under the age of 30 in each of the regional language local teams to take a call as to what to go for and what not to go for.

Secondly, everybody who is on the music team, be it content acquisition, marketing, monetization, from the executive to the vertical heads, all their KRAs are completely linked to one factor - which is the five-year payback period. That's one principle with which the entire company lives, breathes and sleeps by.

See, different languages behave in a different fashion. A language like Hindi may have a relatively longer payback period, but the songs have a much longer shelf life compared to, say, Bhojpuri, which has got a much shorter payback period, but the shelf life of the songs are also relatively shorter.

When we are doing capital allocation, at the beginning of the year, and then we relook at it on a quarter basis, it's done keeping in mind that at an overall level, we manage our goals of a five-year payback period while also ensuring that we manage our market share. And there's a revenue growth number coming in.

Jayesh Jain: Understood sir. There is an implication of weighted average of songs, and weighted averages IRR of each region.

Vikram Mehra: You are right, sir. That's why you will find at times we think twice before getting into a particular language or not. . So, as an outsider, you may think that a lot of people are listening to that language. Unless we are convinced that it will fit into the overall weighted average and will not push my payback period over five years, and we are not going to get into it. We are in the business of making money from IP. We are not in the business of just making IP.

Moderator: Thank you very much. The next question is from the line of Govindarajan Chellappa from CSIM. Please go ahead.

Govindarajan Chellappa: Hi. I have just one question. You in the past mentioned and you reiterated today that you will limit the capital employed to films, series, and events to 18% of the total capital employed. I mean, this implies that you were never keen to buy a large production house as was being speculated. And you do not have the intention to do that in the future. Is that a correct interpretation?

Vikram Mehra: At this juncture, if there is any change in this, we will come back to you and share what the plans are. But at the same time, I am going to repeat to you that we believe Video is strategically important to us. We do not want to be in a situation- all my competitors who are in the space of music also have a video arm in their company - we do not want to be in a situation where it becomes difficult for us to source music.

In the same breath, we also understand that Saregama is very, very good at, financial management. We understand how to make the last penny work harder, and not just spend money for the sake of spending money. That's our strength. But making massive, large budgeted films is not in our DNA. So, if we ever have the intent to create that kind of content, we will look at potential partnerships., whichever way we go then , we will chat with you guys first.

Govindarajan Chellappa: So, just to understand you right, I mean this is another point you made in the past that you are not interested in big budget, big star movies.

Vikram Mehra: We creating ourselves, no. We do not have the wherewithal to do it. But that does not stop us from partnering with somebody if all the other guidance and guidelines are met. We will look at those possibilities in the days to come. Are we interested in videos? Yes, we are very keen on Video segment.

Govindarajan Chellappa: I mean, it's semantics here whether partnership means investment.

Vikram Mehra: So, at this juncture, there's nothing happening, so I do not know what I share with you.

Govindarajan Chellappa: So, I just want to leave it with a thought. If you've seen your competitor, Tips Films and Music, you would see how Tips Music has gotten re-rated once they split the company between Tips Films and Music, and there is a message in that. That's all I wanted to let you know. Thank you.

Vikram Mehra: Thank you, sir.

Moderator: Thank you very much. The next question is from the line of Prolin Bharat Nandu from Edelweiss Public Alternatives. Please go ahead.

Prolin Nandu: Hi, Vikram. Thank you for sharing these insights. You have answered my question, but slightly more color on your comment on data-driven AI-driven model to buy the content. So, can you tell me as to from that reliance on the model when we started? How has that model developed over the period? What is the way in which you marry the model with human intelligence? And if a competitor were to decide to follow a similar kind of approach, how easy or difficult would it be if data is the only differentiator, or the key mode that that model has?

Can you just give some more color because everything hinges in a way on that, and you are going to spend Rs. 1,000 crores over the next three years. So, can you help me better understand this part of your business?

Vikram Mehra: See, everything that you do, your competitor can go out there and repeat. At the end of the day, majority of the spaces in which majority of the companies are- unless it's trademarked stuff - things can get replicated. But what you cannot replicate is the mindset or the DNA of the company.

We, as a creative house, believe that we are not in the creativity of entertainment, but we are in the business of entertainment. That's a very big difference. We do not get happy if you are getting a big hit movie or critics like it. We become happy if there is a return which is coming on the investment that we are making on an IP production. That's the . The modelling part has also come out of that thing. As a human being, even if I am the most gifted singer, composer, music expert, which I am not by a mile also, had I been blessed, then also I would have been blessed in one or two languages.

Humanly, it's difficult right now for somebody to be completely on top of the more than a dozen languages in which Saregama is investing in today. So, we said we need to have a more scientific approach, which is more data-driven so that it's not just a gut call-driven part. the model is now at an accuracy level that is pretty confident. What does a model tell? Models do not say that you do not buy something.

Models just go back and tell that if this is the set of artists who are connected to this particular song, based on the track record of the last rolling 36 months, this is the amount of money you can expect to make over the next five years. That gives me an outer line right now, that this is the money that we should be ready to go out there and pay. Every song makes money. The question is, at what cost did you acquire the song so that you do not end up losing money? Model tells us that.

Then the songs are heard by the local language, young, or everybody who hears the songs and gives their views are all under the age of 30, that's the company guideline. Again, this is part of my DNA and mindset of Saregama, where we believe just because we are sitting on very senior level positions, that does not give us the automatic right to become the judges of what the younger people in this country want to hear. We leave it to people who are closer to that age group.

These things are very difficult to replicate. Everything can be replicated in that sense.

If that team goes back and says, no. If they go back and say, yes, we like the song and we know the pricing at which model has gone back and so on, if the final deal can happen within a plus minus 10% of these deals get done. If there is a valuation which is asked for, which is far higher, that's the only time senior management starts getting involved in, say, is there a bigger strategic benefit of doing that deal? If yes, we will explore it. If not, the deal is rejected right there.

Do exceptions happen, sir? Model does go wrong, This is because in this business, there is a possibility that a combination of a top hero, top composer, a top singer and a top choreographer which has given only hits over the last three years may give a flop. Alternatively, somebody who's only given a flop over the three years may give a sudden hit. We believe I am better off leaving that kind of content here rather than taking a high risk. Because at the end of the day, our success is linked to the returns that we make from our IP.

Prolin Nandu: So, we are confused, that's very clear. Thanks a lot. I want to probably draw your attention back, I mean, you shared a part of your model back at the analyst meet, right? I mean, as to how you arrive at a particular pricing based on the artist and so on and so forth. So, in the same presentation, you also had a projection in terms of FY '28, where do you want to reach? And you said that in the call, you said that for five more quarters, the investment in content will continue to be high, probably higher than the quarterly run rate or half yearly run rate that we have seen in the H1 of FY '25. But is it fair to say that the gap between the revenue growth and adjusted EBITDA growth, that with the PBT growth, that will narrow much more than the five quarters? Is that a fair assumption to make?

Vikram Mehra: It will start narrowing, but we will still be growing . So, it's literally the first quarter where big investment has happened, but some impact of the revenue you are going to see in Q3.

So, as we keep on going ahead, the gap of the growth rate between adjusted EBITDA and PBT will start narrowing down. As we go even closer to the end of five quarters, they will start growing at a rate which will be similar to the top-line growth or exceeding that.

Moderator: Thank you very much. The next question is from the line of Lokesh Manik from Vallum Capital. Please go ahead.

.Lokesh Manik: Firstly, wishing Vikram, you and your team a very happy Diwali and a happy new year. Secondly, I had one question on the Film vertical and I know you addressed it by asking for some time for the next two quarters to gain some clarity. But just a little more detail on how I see it is which is in two components, one is, the TV Series vertical, is it shows historically were with Saregama, and then you introduced web series and movies in 2019, '18 onwards.

So, just to get a sense of our deal there was that we would do a cost-split model with three platforms and license it for a period of three years, post which the IP would be exclusively ours. So, is that now maturing? Is that more now maturing and coming back and adding to the profitability that is reported in that vertical this quarter? And can this be the margin side, at least I know the revenue is lumpy, the 10% margin can be sustainable and whatever revenue comes in in the following quarters because this is the first quarter that we reported a good profitability in that Vertical. So, has that model now matured where these movies are now going back to other platforms and there is very little cost?

Vikram Mehra: I do not think our Video business has matured yet. Remember there is a new Video segment that we have taken with us which is the short format content, which is sitting in the marketplaces, and that's also a substantial number. The models will mature with time. That is why we have put this constraint on the total amount of capital that we are allocating to the Video business here. So, there is enough number of checks and balances which are sitting here.

On film sales, the way we function with any newer content today Is that before we go and start spending money on the films, we need to get a soft agreement on at least 70% of the cost of the film. This will get recovered through digital television, and whatever the music team believes is the right valuation for the music, primarily on TV and digital. This ensures , that the risk that we are taking on theatre is limited only to 30% of the cost of the film.

On series, if we are making something, we do it only if we have a pre-licensing commitment coming out from any of the platforms. Otherwise, we do not do it. The same philosophy we have started now putting in Pocket Aces too. And as and when we work with any other partner also outside in whichever fashion on the Video side, we will ensure that the financial discipline that we are bringing to the table does not get wavered.

Please understand Video business is a good business provided you can maintain the financial discipline. We have been able to demonstrate that on the Music side as well. We are now demonstrating on the Live Event side that we are good at enforcing financial discipline irrespective of whether the movie becomes a hit or flop. That's s never in our hands. Those things will keep on happening. There also the same portfolio approach works . If you are making 10 films, three or four at best are going to become hits. Some will be average, and others will be flops. But the discipline should be that strong that you do not take too much of a risk on a single film, and majority of the money is spent on the film, and not on frivolous stuff. Wherever we believe that the nature of the deal is not happening, we just walk off the deal. We do not do deals for the sake of deals.

Lokesh Manik: No, fair enough, because we need to understand a little more about the success of the model. So, are you seeing takers for this series that we have developed pre-licensing in 2019, in '24, are other platforms interested in taking these up?

Vikram Mehra: The kind of movies that we were making at that time under the Film vertical or the Video vertical has metamorphed. The kind of content we were making in 2017 to 2020, pre-COVID were small-budgeted films, , which were planned only for digital. Some of them have completed the first cycle and have already moved to the second platform and have started generating revenues.

The model that we are working today on completely changed. There is a smaller market going in for these very tight budgeted films. That's why for last two and a half years or so, our focus has been more on movies, which will first go to the theatre. But just because they are going to the theatre does not mean that you are going to take a massive amount of risk. So, we need to pre-license our rights, and at least secure 70% of the cost.

Lokesh Manik: And will these pre-licensing periods be the same, three years, locked in?

Vikram Mehra: Sir, it depends right now. There are three-year deals, there are five-year deals, there are 11-year deals also.

Moderator: Thank you very much. The next question is from the line of Ravi Nareddy from Nareddy Investments. Please go ahead.

Ravi Nareddy: Sir, I was waiting in the queue and thinking our time is over. But still you have taken my question. Sir, whatever song Sharmajee Ki Beti or other we have sold, can you tell how much Saregama is earning on a quarterly basis?

Vikram Mehra: Sir, I cannot share here.

Ravi Nareddy: No, no., total. I am not asking individuals.

Vikram Mehra: Sir, the total amount of money that we are making from, which part from? Selling our rights?

Ravi Nareddy: These advertisement clips and whatever you had written the Sharmajee Ki Beti, other, like, --

Vikram Mehra: As I mentioned, I cannot give you a number . If you ask someone in the market, you will hear a very strong part coming in that on these sync deals as we call it, where our music gets embedded in ads or other production houses' content, we are the clear market leaders there.

Ravi Nareddy: No, no, that I know. I have been a shareholder for the last 13 years. So, I knew everything. Sir, from Diljit Dosanjh can you give the margin in percentage terms? 1%, 2%, or less than 1% that is?

Vikram Mehra: See, Events if done well, at best is a single-digit margin percentage. But as I said, the capital gets locked there for a very short span of time. And that also very little capital, so Live Events if done well, will have a massive IRR, though a lower margin business. And we have already seen the excitement with Diljit Dosanjh, and an international British band called Coldplay. But in India, as we go forward, as discretionary income goes up in the hands of people, . they would like to go out and spend it. Some of the money all of us spend on physical products, better cars, better watches, better houses, better, and then people start spending money on giving better experiences to their families, which once a year can be an international trip. But on a regular basis it ends up being taking a family to a movie or taking a family out there to a concert.

So, we believe Live Events may have a very bright future, and the fact that we people are the only Live Events player who is also into Music, and only Music player is also into Live Events, gives us a massive agenda raise to come.

Ravi Nareddy: And in the last 18 months how much music has been going on a paid basis? Can you give me some idea about this?

Vikram Mehra: I am not clear about your question.

Ravi Nareddy: In the last 18 months how much music has been going on live, the paid basis?

Vikram Mehra: Subscription?

Ravi Nareddy: Subscription basis.

Vikram Mehra: Sir, subscription is growing at a pretty fast pace. But that is because the base is very, very small. We are seeing a good amount of push coming on the subscription side, especially from partners like YouTube or Apple. Now even Spotify is pushing for it. I maintain my bullish nature out here. I will maintain my 15 months path now. You will see the only two free guys also moving towards the pay side, which is Spotify and JioSaavn, hopefully.

All the other people have gone behind the paid world today. And subscription will take off. That is also the reason why there are so many of international labels focusing on this country. Everybody understands Indians used to spend more money on cassettes and CDs 25 years ago. Then they pay for subscription. The intention to pay is there. Disposable income is there. It's only that two platforms have to stop giving free content. And I believe we are moving in that direction.

Ravi Nareddy: Right, right. Really, thank you very much for giving me the opportunity to ask the question. Vikram ji, listening to you is always good, and we wish all the best.

Vikram Mehra: Sir, it is our honor.

Ravi Nareddy: No. It is a really very honor to talk to you, sir, really. Thank you very much, sir.

Vikram Mehra: Thank you, sir.

Moderator: Thank you very much. Due to time constraints, that was the last question. I now hand the conference over to the management for closing comments. Thank you, and over to you.

Vikram Mehra: Thank you everyone for the very patient listening. We are on a strong growth path. We believe that we now have the wherewithal to invest in music in a wiser fashion, giving us a higher ROI than any of our competitors. We believe that it is the right thing to do to invest in newer music to future-proof this company. We will continue being on that path.

It is a matter of another five quarters, after which the results of all this investment that we are making will start showing fruits. This in terms of profitability grows at a rate which will be in sync with how revenue growth is going to be happening. That is one.

Second, Video is a strategically important vertical for the company. both Video on its own, and the importance of Video to safeguard our Music business. And we will keep on making all the necessary moves in that space. What I assure you is, whatever we do, it will always be keeping in mind the financial discipline by which we people swear by in our company.

Live Events is starting in a very big fashion. It will be a low-margin, high-IRR business in the days to come. Hopefully, that will also start contributing significantly both to the top-line and the bottom line of the company.

Overall, we maintain that in the next three to three and a half years, you will see the profitability of the company doubling. We need all your support. Very, very happy Diwali to all of you guys and a Happy New Year. Thank you.

Moderator: Thank you. On behalf of Emkay Global Financial Services, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.