



“Saregama India Limited
Q4 FY2019 Earnings Conference Call”

May 09, 2019



ANANDRATHI



ANALYST: MR. SHOBIT SINGHAL – ANAND RATHI SHARES & STOCK BROKERS

**MANAGEMENT: MR. VIKRAM MEHRA – MANAGING DIRECTOR - SAREGAMA INDIA LIMITED
MR. VINEET GARG - CHIEF FINANCIAL OFFICER – SAREGAMA INDIA LIMITED
MR. B.L. CHANDAK - EXECUTIVE DIRECTOR – SAREGAMA INDIA LIMITED**



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Moderator: Ladies and gentlemen, good day and welcome to the Saregama India Limited Q4 FY2019 earnings conference call, hosted by Anand Rathi Shares and Stock Brokers. 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 now hand the conference over to Mr. Shobit Singhal from Anand Rathi Shares and Stock Brokers Private Limited. Thank you and over to you Sir!

Shobit Singhal: Thank you Nirav. Good afternoon to all of you. Welcome to the Q4 FY2019 earnings conference call of Saregama India Limited. From the management side, we have today Mr. Vikram Mehra, the Managing Director, Mr. Vineet Garg, CFO and Mr. B.L Chandak, the Executive Director. Now I would like to handover the floor first to Mr. Vikram Mehra for his opening remarks post that we can start with the Q&A session. Over to you Sir!

Vikram Mehra: Good evening everyone. Another good quarter more importantly a great year for us. We have been able to grow our revenue from operations from 357 Crores as of last financial year to 545 Crores this year, which is a growth of 53% and this is not just a topline. If you look at the PBT numbers without the SAR provision even that has gone up by 82%, so we are close to what doubling our profitability number, the topline is going up close to 53% and it is a combination of multiple things, which seems to be working for us. Let me go back and start that all of us seem to be very keen on which is Carvaan. Carvaan whichever number, which are less than 400000 as a last year has crossed the 900000 units sale number in this financial year, which is in sync with the estimate that we people had. We had estimated around 900000 number and came to 903000 for the financial year. I think more heartening thing for me for this quarter was that in spite of the typical slowdown that you see after the festival season for all durable companies is always a biggest occasion where the sale happens and especially for a product like Carvaan, which is a gifting product at this juncture. We were expecting numbers to come down, but January to March has been a very, very difficult quarter for practically all durable companies. In that quarter also we have been able to go back and manage both share of mine at the retailer level as well as the customer level and were able to cross the 200000 units mark in the quarter, one juncture would have looked difficult but this is also showing us that Carvaan somewhere is able to go back and ride the typical seasonality issues and the market sentiment issues, it is not that the numbers after Diwali have gone out there and self limiting and we were able to hold off then.



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In the last quarter I mentioned you that we had revamped Carvaan Mini, this time we took it forward started having thematic Carvaan Mini, so there is a mini now, which is dedicated to Gurbani, another Mini which was dedicated to other Hindu devotional music, third one we have just launched dedicated to Rabindra Sangeet. There is one for Telugu, another for Tamil, one for Malayalam and we will be doing many such more minis in the days to come. The positioning of Mini is different from Carvaan. Mini is more for your personal usage. Promotion of minis are done closer to the place of consumption. So Gurbani are promoted extensively outside Gurudwaras while devotional one is getting marketed and promoted outside temples and that is approach we are using as far as the mini is concerned. Carvaan continues to be the gifting product. We had one large campaign in the previous quarter, which was about gifting Carvaans during the marriage season and got decent amount of attraction from North India. We have also been able to go back and continue in retail expansion and in number of retailer stocking and selling Carvaan went up upwards of 22000. This is again as I mentioned in the past a combination of consumer durable stores, mobile handsets, gifting store and car accessories. These are the four prominent distribution networks we are using. Very recently we also launched, in the month of April. Our new product of ours called Carvaan Go. It is important to understand why we are extending this.

When the people have done consumer research with Carvaan, we realized that the average listening time of Carvaan at a home daily is seven-and-a-half hours every day people are listening to it only in homes, which have got people above the age of 60, the retired people wherever they are, have seen a massive consumption of Carvaan. The younger people 40 to 60 they were saying listen we do not get time, we have bought Carvaan, we do not get time to listen to it we listen to it only over the weekends, keeping that in mind we have launched Carvaan Go so that people can listen to their favourite music when they are driving to their office, when they are going for their morning walk, and when they are flying or in their train. All the time where a working person had a lot of me time Carvaan Go comes as a very handy product there. Carvaan Go has also been positioned as a product not only for you but also for gifting to the older people in your family. So Carvaan Go is a gifting product. Carvaan Mini and Carvaan Go are products, which we were positioning for the individual customer.

The revenue that we have gained from Carvaan is literally doubled this year compared to the last year in terms of sale. We have grown by 120% in terms of revenue. We have grown close to 100% number that is coming out from Carvaan. The other part, which is a core of this company, which is going to ensure, this company, is still going to be making money 20 years hence, is the licensing part. Two big things have happened. Licensing income overall



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has grown in the financial year by 33%, our estimates for 18% to 20%, which we have given in the past, I still maintain that the estimates of 25% are closer to what is going to happen 33% is an aberration that has happened out this year. Now the base is going to be bigger. I do not think we will be able to manage 33%, but this year we grew by 33%. On the back of some great work happening on the streaming side because both the number of people who are using apps like Gaana and Saavn are going up, also the number of songs they hear in every session is going up. Our revenue is directly linked to how many songs of us getting heard.

The success of Carvaan is also making Retro Music makeup big come back in the country, so two things are there. Retro music making come back to Carvaan and if you see the top 20 songs, latest songs, which got released from January to March over 75% of those songs are remixes or reinterpretations of old Retro Music. So overall retro making a comeback, which is helping Saregama because we are sitting primarily the entire Retro catalogue of this country, which is overall helping licensing income for us. Licensing income went up from 148 Crores as of financial year 2018 to 195 Crores this year. It has 33% growth. This year also this quarter specifically also saw us now moving on the content acquisition side. Around two years back we made our first baby steps towards acquiring new film music, is very small films like Kahaani 2 and Babumoshai Bandoobaa then we went up last April-May, started taking movies like 102 Not Out, which was Amitabh Bachchan and Rishi Kapoor's movie to Saheb Biwi Aur Gangster, which was Sanjay Dutt movie.

Now in January-February we people ended up taking two high profile films for the first time, Ek Ladki Ko Dekha Toh Aisa Laga, which is Vidhu Vinod Chopra's film, one of the biggest banners you have in Bollywood and then we took Total Dhamaal, which is a multi-starrer of Fox studio film with Ajay Devgan and Anil Kapoor in it, a big commercial head, both these films music I think we were able to prove to the industry that Saregama is right up there as far as music marketing is concerned, we are back in the music acquisition path with a bang. The songs have done very well, you can go to You Tube or you are going to Saavn and check it yourself the numbers are looking very encouraging, which is giving us the confidence that the process driven approach that we have adapted in Saregama towards acquiring new music and all the relationship we have put in place both on the marketing side and monetization side, we are in a good enough position now to start getting more and more aggressive in the days to come in terms of acquiring new music and monetizing it, which is great news for the company.

The third vertical, which has done even better than what many people would have given credit to film business. Our objective of financial year 2018-2019 and I have stated it in my



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call four quarters back was that we want to go back and establish ourselves as a serious player in content driven cinema. Our objective is not to make films for theatre, our objective is to make films, which can be consumed by 18 to 35-year-old primarily on the digital media. Without launching own platform, we want to ride partner with other platform and put up a content there. Now we have the amazing honor of now having five of our films in 16 months that they have released all on Netflix of which three of the films are already our release as a Netflix original. The latest one was music teacher, the deal was done last financial year, but it got released in the month of April and has got pretty decent reviews there. Based on the success of selling films to Netflix and they are doing very well there. We have also got an order from another digital platform to make films for them on an output basis that means we present the script to them if they like it they green light the film and we have a guaranteed order with an advance that they give across to us and then we make the film and delivered to the film to them in nine months.

The first film under this process will get delivered around October this year. We already have shot the film, the post production is going on, so that is a steadied work, which is going on. We hopefully will also be able to finally close another output deal with another digital provider for whom also we will be making content, but this time in regional languages and not in Hindi. So 2018-2019 went to the great years of consolidate and create our clear cut comfort in the mind of DVD buyer that yes Saregama makes quality films, which are made under very tight budgets and these films in the end perform with the end user that is why we are getting lot of repeat orders. We have been able to prove it to ourselves and all the investors also that we can make movies without ever losing money if we follow basic processes movie making is not gambling, movie making has a few of the management principle you can make money. In 2018-2019 we have been able to go back and make the films, we have not made money we have not lost money, but we have established our film now pretty well to start making money from 2019-2020, 2020-2021 onwards.

Our fourth vertical, which are the replica of the smallest vertical is television, TV serials that vertical has been under pressure for some time and continues being under pressure. Though we have done very well in terms of the ratings of our programs we have not been able to do equally well in terms of monetizing these ratings, but the good part is when we make a TV episode, and give it to Sun TV the way the model works is that we make our program at our cost we put it on Sun TV, Sun TV gives us some seconds of advertising time that we can sell in the market, whatever money we make, out of that is the revenue. The good part of this very long relationship with Sun TV is that if we are not able to sell



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seconds on a particular episode, though seconds get banked and we can sell it at a later juncture. 2018-2019 we were not able to sell lots of our advertising time, we have not made loss on this, this is a very marginal number we are talking about, and we have just about working even out there. I believe we would have like to make some amount of profit, but the good part is that the inventory is sitting out there with us, whichever day we are able to liquidate that advertising inventory that would give the profit that we will get the entire money and treat it as profit because cost has fully been taken in.

My last part is reminding all of you here when you are looking at our numbers, the entire cost when we acquire new film music, typical if we are paying Rs.100 for new film music, 75 is towards content, 25 is towards marketing. Marketing get charged off completely, so Ek Ladki and Total Dhamaal we charged off marketing completely. The content cost 66% of that, yes charged off in the first 12 months itself, similarly for Yoodlee Films, whatever film revenue we people are writing out here we are charging of the entire 100% of the cost in the 12 months when the revenue is getting recognized, so whatever we continued calling these extremely conservative policies as far as new content acquisition is concerned.

The last update in April last year we had a fire at Carvaan godown and all our Carvaan units got burned on April 1, 2019. We were able to go back, so there were two implications of that, one there was a fear we will take the stock out happening, and we will end up losing sales but I am happy at the pace at which we were able to turn things around with our partner who own the factories. We did not face any problems of stock outs, we managed in the current margin structure itself to fly some of the stocks from China to ensure that we do not face a stock out issue and our partner rose up to the occasion. As far as the insurance money is concerned, it did not come in last financial year, it has come in the month of April, so as of April 12, 2019, we have realized the money from insurance. There is a gap between actual stock burned, value of the stock burned and what we received from insurance company that has been fully charged off in a book as of financial year 2018-2019. That will be all ladies and gentlemen. I am ready for questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain: Congratulations on a good set of numbers, a very fantastic year and also thank you so much for a very detailed presentation, which has been released by the company yesterday.

Vikram Mehra: Thank you.



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Rahul Jain: So coming straight to the questions. Three questions from my side, one on the music, second on Yoodlee films, third on some balance sheet items. As far as music, in your comments you mentioned about going aggressive on new techs for the next three years and your presentation does mention about incremental having a share of 20% market share in the incremental music acquisition. So can you just elaborate this in terms of the next three years what kind of content acquisition we are going to do and within music also this year as per your presentation you have spent about 32 Crores on music acquisition, so out of this 32 Crores, the amount which is totally written off NPL or as you mentioned how much would be written off NPL in this year?

Vikram Mehra: With the last part let me answer this. I told you the accounting policy that we are following out here is that in the year in which music is being acquired or the 66% of the content cost get charged off and the remaining 33% over the next three years, the entire marketing cost get charged off. So this financial year may have some of the previous year numbers also sitting in and some of the current year numbers also sitting in. So that 32 Crores is the overall value that is committed value from our side, which in a sense the cash flow, which is happening from our side when we go back and acquire that music. Your second question is what the budgets we are looking at are, yes we are looking at 20% share of the new film music there where we are static close to 0 at this moment. We are very roughly looking at a number broadly in the range of 200 Crores over the next three years.

Rahul Jain: Sure.

Vikram Mehra: Our commitment, which is a cash flow.

Rahul Jain: With regards to both music acquisition and also you mentioned about 25% growth if I take three years' ballpark you have a figure of about 200 Crores from licensing music business that should be in the range of about 370, 380 Crores assuming a 25% CAGR growth for the next three years versus that, so will you be able to maintain margins on the music business or will there be some operating leverage coming in due to the growth in this business?

Vikram Mehra: The fact of life is if I am talking about 25% it is primarily coming also on the back of the fact that we are acquiring new film music so these numbers are connected to each other. I do not know how else to go back and answer this question across to you. Our ability at this juncture the new film music helps our ability to renegotiate minimum guarantee deals and fixed fee deals at a far higher number than we have been able to do in the past. In the past when we used to renegotiate deals typically it had inflation. Now the number is looking substantial enough. This year when you are seeing our revenue is going up substantially on



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the licensing side, there also on the back of the films, which are going to be may be coming in 2019-2020. The way we all negotiate is my film may be 2019-2020 may be 2020-2021 films, if I am committed to that film I used that as a leverage to go back and renegotiate my deal for today because most of the deals are getting signed up in two years. So some amount of the benefit of the movie, which is going to be coming in 2019-2020 I am only speaking in 2018-2019, it all depends which deal comes up for renewal at what time, so there are two deals, which got renewed in the later part of last financial year and we were able to factor in the future releases to renegotiate a much higher increment.

Rahul Jain: Can we assume some kind of operating leverage coming in this business or would that be negated by the increased music acquisition cost?

Vikram Mehra: In the short term will be negated by the increased music acquisition cost. If I look only at a catalogue business, remember the catalogue business is pure profit business because apart from the royalty that we pay, there is no other major cost, leave aside all the corporate cost. There is no net cost that I am incurring apart from a very thin manpower. There is no direct cost, which is sitting in, so one can look at and say it is a pure, high profit business. We understand that if we do not reinvest in this, the number is never going to become large enough and may be in the long run we may become insignificant 10 or 20 years down the line. For us it is important that we keep on investing in it, the commitment to you is we are not going to be borrowing to invest today so that I can make money tomorrow I will be investing only from the money we are making today and internally also we have taken another call that at all time the acquisition, monetization responsibility or licensing is sitting with the same vertical head, vertical head cannot borrow from any other part of the business, vertical head has to ensure that this year this much revenue has returned so the next year a part of that can be reinvested out there in this. Remember there is huge headroom available. The music industry is still in a very nascent stage. We are genuinely seeing piracy taking a decline and as piracy keeps on coming down people will keep on moving to legal means of listening to music, which are very convenient and cheap and which means content players like us are in a very decent position.

Rahul Jain: Sure. With regards to Yoodlee Films, can you just share some more data in terms of the number of movies for which the cost has been written off in this current year 12 months and I feel that Music Teacher, which has been released in April that cost must not have been taken in FY2019?

Vikram Mehra: It was taken in FY2018-2019 because both the parts the cost as well as revenue has been taken in 2018-2019 because we got our money. Release is completely depending on the net



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rate they work out on the own calendar to decide which month, which movie should get released, but our lock-in happened from the day the agreement is signed I anyway cannot use that movie anywhere else and gets start from that day licensing period. Right now it is not connected to the release date.

Rahul Jain: So that means with regards to the output deal, which you have done, one output, which has been already done, in that as and when you are booking the cost along with that you would also book the revenue point, am I right?

Vikram Mehra: Yes. So in 2019 when the first movie will finally move from our side to the platform and these are licensing, we are not selling it, IP is maintained by us, but the day we transferred the movie we get a full money out there, we go back charge of the movie and recognize entire revenue.

Rahul Jain: So even charge when the movie is delivered?

Vikram Mehra: Charge when the movie is delivered.

Rahul Jain: Not before that, so it is not on WIP basis, whenever the movie is under production it will appear as a WIP or as an inventory?

Vikram Mehra: Sitting as part of my inventory.

Rahul Jain: Understood. Now coming down to some of the balance sheet items, one is if you could share details about what is the regular other income, which the company can derive because this quarter we have seen about 11 Crores, current year we have another income of roughly 50 Crores less, so what is regular other income, which Saregama will continue to us, for what all is included in the other income?

Vikram Mehra: So this time other income Rs.54, one is insurance item sitting, this is around Rs.32 Crores, so if we exclude the Red that is around Rs.18 Crores, other income in normal course of business we have some interest income, some dividend from the investments the group company shares we are carrying, whatever dividend we got on, there is some interest income we get from the loan, which we are giving into our subsidiaries and all, so that is one and there are some items always and every year as a practice we review our liabilities and wherever we see the liability is no longer required so we keep reversing those liabilities on a yearly basis, so that amount a little bit come in that every year, so it is a normal routine, so whatever the other income is coming it is generally routine course of business.



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- Rahul Jain:** Sure so that will be 18 is routine and 32, which you would have written off as part of damage?
- Vikram Mehra:** Only receivable is sitting in top line, so Rs.32 Crores if you see the note is there in the presentation as well and in the part of the accounts as well. So entire revenue of whatever the money we realized in the month of April is sitting as a part of my other income, but cost is actually the Carvaan cost, which goes into cost of production.
- Moderator:** Mr. Jain sorry to interrupt you, but I will request you to come back in the question queue for a followup questions.
- Rahul Jain:** No. I have the same question about balance sheet item probably.
- Moderator:** Sorry to interrupt, please Sir, I will request you to come back in the question queue.
- Rahul Jain:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Ravi Naredi from Naredi Investment. Please go ahead.
- Ravi Naredi:** Sir you are doing the fine job.
- Vikram Mehra:** Thanks Ravi.
- Ravi Naredi:** Sir how much losses we have booked; can you tell something?
- Vikram Mehra:** Sorry, Ravi can you repeat the question?
- Ravi Naredi:** Yes. How much insurance claim we have received in April and how much loss we have booked in 2018-2019?
- Vikram Mehra:** The total loss was 37.58 Crores and we received 32.18, so Rs.5.6 Crores is the loss exactly.
- Ravi Naredi:** Only 5 Crores is the loss?
- Vikram Mehra:** Yes, 5.6 Crores to be precise.
- Ravi Naredi:** Okay and what is the Carvaan target you are making for next one year, two years?



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- Vikram Mehra:** When I am doing my closing statement let me talk about it at that time.
- Ravi Naredi:** This debt is standing in the balance sheet what is debt amount?
- Vikram Mehra:** Which loan you are talking about Sir?
- Ravi Naredi:** In this balance sheet item, you have some secured debt.
- Vikram Mehra:** We have small CC limit. If you say my borrowing is 53.8 Crores this is primarily because my insurance money was stuck up and I need to borrow money, so I got the money in April and this money is paid already.
- Ravi Naredi:** So now again the debt is zero and any comment on the rise in stock?
- Vikram Mehra:** Sir it would not be zero because remember our Carvaan numbers are going up substantially, which means working capital requirement is going up, which will need cash at any particular time, but the big difference was the delta was the insurance money, so 60 Crores at the moment this 31 Crores money has come in, then it is half.
- Ravi Naredi:** Right. Okay. Understand. Thank you and all the best.
- Moderator:** Thank you very much. The next question is from the line of Savi Jain from 2Point2 Capital. Please go ahead.
- Savi Jain:** First I just wanted to know your comments on the entire script you have is fortified whether in future you will work with them or are you working out something with them, so just if you can give some background?
- Vikram Mehra:** Those are operational part let me not handle them here. In the business that we are in negotiations will happen, even today our content is not there fortifying India content is there in every other country outside India and that deal is still going on. So these kinds of things will keep on happening here and there and part of these operations here. There is no philosophical fight in this business. You do not fight; it is a question of whether the right valuation is being given for your content or not. So in spite of whatever you read in the papers you go to US you will get all my content and in UK, and in Singapore.
- Savi Jain:** And the second question is on your music revenues for the quarter has grown by around 22% year-on-year for the quarter whereas if I look at the underlying parameters for example



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the number of OTT Streams or a number of You Tube views or for that matter the number of Carvaan sold, all have grown between 50% to 200%, so clearly there is a mismatch in the revenues and the volumes, so one is could you explain probably the script for Carvaan would have gone down significantly this year because I think in the previous quarter we did not have the making, so is that true?

Vikram Mehra: So I am still not very clear about your question but your observation is the right observation. The mix is changing. Till six months back we were just not working till September 2018 and we had to revamp mini completely at that time and launch it in October 2018 that is the time it took off. So last quarter was the first quarter where there were some numbers and January-March quarter when Mini started moving up lot on the back of Gurbani and Bhakti. So yes the mix has changed.

Savi Jain: Just to scale a question better so your revenues that you have shown in music for Q4 FY2019 is 22% higher than the last year quarter Q4 FY2018 so that is a 22% growth and this Music is half is contributed almost by Carvaan and the other half is for licensing revenue. Now that Carvaan volume, which in another slide you have given that is a 47% growth over the last year.

Vikram Mehra: The Carvaan last year was 100% Carvaan, the Carvaan this quarter got a large share of mini also sitting as part of it.

Savi Jain: Right. So I presumed that is one part.

Moderator: Sorry to interrupt you Mr. Jain. I will request you to come back in the question queue for a followup question.

Savi Jain: Sure.

Moderator: Thank you. The next question is from the line of Akash Chaturvedi from Turtle Capital. Please go ahead.

Akash Chaturvedi: Sir I just wanted to get more understanding about the licensing revenue, could you just tell me what are the components of the licensing revenue and what are the growth drivers for each of them?

Vikram Mehra: The biggest component in licensing revenue is streaming. So this is when we go license our content to platforms like Gaana, JioSaavn, Hungama, Wynk, Amazon, Apple, Google. So



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all these guys take a license from us to use the content and every time a song of mine is getting played out there in those platforms, we get paid on a variable basis and we have also covered since we have caught with the biggest catalogue of the country. We also end up charging them large minimal value to protect downside there. The second largest source of revenue is what we call internally publishing, this is when we give rights to TV channels that they can do reality shows with the Music or they can play some music in any of that TV serials, same thing applies to digital so somebody is doing a web series on Amazon and Netflix and they want to use our music somewhere in the background, they need to take a license from us. If are using our music in their brand and jingle they need to take a license from us. If a new film is coming in which you want to somewhere use our music in the background they need to take a license from us. This is the second largest source and radio is also part of it. Then we also have society so every time you play music in a public area you need to take a license according to law of land. When you buy music or you listen to Gaana it is only for private consumption. You cannot play the music in a birthday party that you are having at Taj or Oberoi. You need to take a public performance license. There are societies that all the labels have created, will issue these licenses on behalf of all labels so that the money gets distributed amongst us. That is my third largest source of revenue and then there is You Tube.

Savi Jain: You Tube is not part of the same anything?

Vikram Mehra: The You Tube we keep streaming only as audio and You Tube is a bigger marketing thing for us rather revenue game. Revenue game offers much more on audio streaming.

Savi Jain: Sir it could be great if you could give us a breakup at least of the component?

Vikram Mehra: I can tell you that the line share of that over 50% is coming from audio streaming.

Savi Jain: Okay and what will be the growth driver for each of the component?

Vikram Mehra: The first one audio streaming for the last four years is growing at 40% and the part out is here as more and more smart phones are going up and the data is becoming more, more ubiquitous people are moving from pirated sites like songspk.pk or downloading pirated music from the local shop. We are moving to legitimate needs of streaming platforms. One of the players Gaana just declared 100 million active customers. Five days back, Times of India company, they declared that all of them are growing very, very rapidly and we are writing on back of them. The other publishing part, the business is earlier being coming only from TV channel, now it is also coming from the digital platforms, all of them have



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their web series and they are taking licenses from us and that business is also growing anything around 18 to 20%. These two are the largest ones at the juncture.

Savi Jain: Alright. Fine. Thank you Sir.

Moderator: Thank you very much. The next question is from the line of Siddhant D, an Individual Investor. We will move to the next question. The next question is from the line of Manav Vijay from Essel Mutual Fund. Please go ahead.

Manav Vijay: Sir in your PPT you have been mentioning about the gross margins that you make on Carvaan so you are at 23% at the beginning and you are closer to 25%, so first of all when you let us say so in FY2020 when you move from 9 lakh Carvaan to let us say 1.2 million as we have given in the PPT, these margins will move up or the probability is low?

Vikram Mehra: Probability is low. I think we will maintain at a 25% margin if at all there is a moment max a percent can happen a lot will depend; which way the dollar is moving because majority of our stuff is getting assembled in China. We were able to go back and improve our margins to this level of 25% in spite of dollar moving from 65 bugs to 71-72 bugs most part of the last financial year. If dollar only moves to 65 the margins are looking even better, but otherwise our 9 lakhs to 12 lakhs is not that bigger game changer to reduce my cost of goods sold on a per unit basis. Last 12 months we have been able to drive margins just because it was a second year of operations and efficiencies started coming in warehousing and logistic and service.

Manav Vijay: My second question is Sir at the EBITDA level what kind of margin Carvaan should be making?

Vikram Mehra: See at this juncture, the only number we are giving, let me just explain to you when we say gross margins what is included and what is not included, While calculating gross margin, we are deducting cost of goods sold, import duties, servicing cost, logistic cost, warehousing cost, content royalties that we are paying out there, and all the below the line marketing expenses so putting up dealer outlet, putting up a man who is demonstrating the product across to you all that cost is taking care of debited before we arrived at 25% margin, the only cost we are not debiting is above the line media cost, a cost of an ad running on TV channel or You Tube or news paper ad. Those costs are only cost which I kept out while calculating the gross margin.



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- Manav Vijay:** Fair enough. My third question to you Sir so even I have already reached around 22500 billing outset in FY2019, what is possible for FY2020, why I am asking this question is because I mean in one of the meetings you had mentioned that in FY2020 you will be pushing a lot in the Tier-2 and Tier-3 towns so what is possible for FY2020?
- Vikram Mehra:** So we are looking at minimum number of 30000, retail outlets selling the product and the majority of the growth is going to be coming only from BTA and CTA towns.
- Manav Vijay:** My last question to you so you have roughly 110 Crores worth of shares of your A group company, your intent to sell them anytime in the near future or you will continue to hold them?
- Vikram Mehra:** Will continue to hold them.
- Manav Vijay:** Perfect. Thank you and all the best Sir.
- Moderator:** Thank you. The next question is from the line of Rhutu Mantri from Abakkus. Please go ahead.
- Rhutu Mantri:** Congratulation on a good year. My question is on the revenue from the music segment, the consolidated and standalone so if I see the numbers as 13 Crores difference. So can you tell us what exactly that is?
- Vineet Garg:** So music and consolidated is primarily our open media is not part of it and we have three subsidiaries, one in US, one in UK, and one in Dubai, whatever the sale is happening there is also part of that.
- Vikram Mehra:** The key part is the subsidiaries that we have outside, so all these deals of Carvaan and licensing that we are doing out of US, we typically routed from a subsidiary which is selling there. That revenue gets combined at a consolidated level only.
- Rhutu Mantri:** Okay. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Yogesh Kirve from B&K Securities. Please go ahead.



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Yogesh Kirve: Thank you for the opportunity. Sir for new music that we have released over the last 12 to 18 months what has been the experience so far in terms of the profitability or in terms of the recovery of our investments?

Vikram Mehra: Our commitment on new music is that the payback period of five years. However, what we have seen that movies we have acquired in the last 18 months, we seem to be doing better than that. Also when we buy a new music, these recoveries happened in two fashion, one which everybody understands, if the songs are doing well they will get that much more revenue. The bigger part is that even before the movie is released we use this as a negotiation suppose Salman Khan movies with us, we will use that then negotiation to renegotiate our fixed fees and minimum guarantee dealers. So you go back and factor in large increment in your licensing deals even before that movie gets released in the market. So if you are seeing 33% increase, which has happened in the financial year on licensing a large role is also of the fact that we started acquiring new film music and we are made a very clear cut message to the market that we will continue acquiring it. Whichever deals we people have renegotiated in the third or the fourth quarter of the last financial year we are using these as negotiation.

Yogesh Kirve: I understand. Sir can you talk specifically about our catalogue revenues, so what sort of growth profile can be expected, is there possibility of double digit growth?

Vikram Mehra: See licensing is going to be growing 25% odd plus minus one or two percent as an overall basis because when we are negotiating we negotiate for the entire things not just old catalogue content, also that new content that is going to come in the next one to two years, so it is a 25% growth that plus or minus 1 or 2% that we are looking at.

Yogesh Kirve: Okay and Sir finally the output deal so can you just explain what is the nature of these kind of deals, so profit margin is something which was raised?

Vikram Mehra: Typically, our output deals will be working in each of these movies are going to be costing in the range of 4 Crores and we will be working at an operating margin of 20 to 30%. The IP will stay with us.

Yogesh Kirve: Okay.

Moderator: Sorry to interrupt you Mr. Kirve. I will request you to come back in the question queue.

Yogesh Kirve: Sure.



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- Moderator:** Thank you. The next question is from the line of Alisha Mahawla from Avendus Wealth. Please go ahead.
- Alisha Mahawla:** Can you share what is the average realization for Carvaan versus what it was in the last quarter or same quarter last year?
- Vikram Mehra:** Carvaan realization for full financial year is around Rs.3200.
- Alisha Mahawla:** Okay. This is for FY2019, okay and also Sir with respect to...
- Vikram Mehra:** Alisha just remember this is the combination of Carvaan and Carvaan Mini it is a combined realization that we are giving you.
- Alisha Mahawla:** I understood. Thanks Sir. The other thing I wanted to understand that with respect to Yoodlee Films, so if I see the revenue split that you give for TV and films I am assuming most of it will be for the movies?
- Vikram Mehra:** No. Most of them is for television.
- Alisha Mahawla:** Most of it is for television. Sir what I wanted to understand is that is the movie revenue going to be lumpy?
- Vikram Mehra:** Yes, see it will be in a way up till now it has been lumpy because it all depends on the particular quarter in which the deal gets closed, but the cost also is going to follow the revenue path only. So generally what has happened when we enter into contract for a movie we recognize the full contract value and we charge up the full movie in the same month?
- Alisha Mahawla:** The reason I am asking is like you were saying that the next movie which is like post production will come in October, so is it safe to assume that Q1 and Q2 will not see too much of revenue from the movie business?
- Vikram Mehra:** Let me not get in to that specific, the output deal is getting in action from November. There are other films that we are making. In 2018-2019 we did not make any movie under an output deal. We get the film and then we licensed out to Netflix and there will still be more movies coming in where we are going to follow a similar model.
- Alisha Mahawla:** Okay. Thank you so much Sir.



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Moderator: Thank you. The next question is from the line of Aman Vij from Astute Investment. Please go ahead.

Aman Vij: The first question is on the growth on the You Tube segment for the year, if you can tell us and the remaining portion, so ex-publishing, ex-streaming, ex-You tube, what is the remaining portion for the overall year?

Vikram Mehra: I just mentioned, you mentioned three things of force in the society?

Aman Vij: Yes.

Vikram Mehra: Right which is the two societies that pay us money for the rights for which they collect and not get into the specific how much is what, but the lions money like in the music licensing is getting between streaming and publishing, the other two are relatively small, we have lot of hope from societies, they were in respective till about two years back, one of them got a registration from Government of India the registered society, Mr. Javed Akhtar is the Chairman of the board of that society and we are expecting the society to grow up substantially in the days to come under his leadership and I expect our revenues to grow. If it does not happen let me not project the number.

Aman Vij: Okay. Telecom for whole year is almost?

Vikram Mehra: Negligible now. Telecom is completely going away. The caller ring back tone business is almost dying at the stage. So we have some numbers, but there are literally single digits.

Aman Vij: Sure and the second question is basically two parts someone was asking you that question, what is the advance normally you get per deal or per movie?

Vikram Mehra: See again we are not going into specific financial deals and output deals, there is no movie we released under output till now, 2018-2019 were all films that we made and then licensed out. In that case there is no advance. We make the film, we then go back and licensed it at a price that make sense to us and we are able to retain the IP. Under the output deals there is an ex-percentage of the final committed amount, these guys end up paying us, but while we people are calculating the profitability of the film we are considering the cost of capital. The cost of capital is the money which is stuck, the cost of the film minus the advance that we people have got, so it is not very high.



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Aman Vij: On the acquisitions part, you talked about music acquisition has target for three years is 200 Crores and movies you have talked about 40 to 50 Crores per year, so that amounts to like 300 to 350 Crores, while our operations might be able to generate around 200?

Vikram Mehra: I understand the music part, where did you get the movie 40 to 50 Crores?

Aman Vij: The cost of making say 12 movies.

Vikram Mehra: But they are paying us immediately. As you come closer with the cost immediately you get paid full money by them. It is fund for itself. The working capital that the movie business is taking is negligible.

Aman Vij: Okay. So overall capex will be around 200?

Vikram Mehra: If you consider that as capex for a music business yes that is only form of capex we have. It is 200 Crores over three years.

Aman Vij: Okay. Thank you.

Moderator: Thank you very much. The next question is from the line of Aakash Manghani from BOI AXA Mutual Fund. Please go ahead.

Aakash Manghani: How do you plan to fund the capex for this 200 Crores movie acquisition cost. With this year, cash flow seems to be negligible in fact negative, so as you grow in the existing business the required working capital obviously will go up, so how do you fund this?

Vineet Garg: No. This year cash flow, it looks negative, it is not actually positive when you start the business initially you will have some amount of – you need to pump money more in working capital, as the business get matured and processes get settle down that keep reducing so we are not expecting working capital to grow at the rate doing currently that is one and second my profitability projection is much higher in compare to the current one. So this going to be completely funded internally for internal accruals. There is no plan to borrow money and invest in movies under any circumstances.

Vikram Mehra: This is a comfort I can give you, we have plans for Rs 200 Crores as Vineet said with the assumption of profitability. Therefore, whatever profitability targets we are not able to meet, we will reduce the investments in the films. That is a call you can take literally every day and say no more future films music.



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- Aakash Manghani:** How does one come up with analysis of what sort of IRR can you make on this 200 Crores investment or what is the payback that you can generate, you are acquiring music after very, very long period of time, so what is the math that goes behind?
- Vikram Mehra:** We have internally gone back and said that our films for music that we acquire gives us an advantage, which is direct in terms of money that you can make out of number of streams, You Tube views, caller ring back tones or the music with your licensing of that to various music channels, then it gives you advantages on societies may – the public performances that keep on adding at all.
- Aakash Manghani:** No. I know all the revenue streams, but today if you are putting money upfront thus you spent 100 Crores this financial year, what is the revenue over the next five, six, seven years or whatever timeframe you have in mind that you can accrue out of this capex when there will be some calculations that goes behind?
- Vikram Mehra:** Yes, I am telling on the basis on the various portions that we have, we have gone back and put numbers. When we started the first set of films, which are very, very small films, we are using the actual data, which is coming out on our assumptions. We start acquiring new films two years back, but our budgets were negligible at that time, which allowed us to check whether assumptions are in order or not. First year, much of the cost of the film should get recovered out of society, out of radio, out of caller ring back tone, out of streaming. Under assumptions we are getting movie after movie to see whether we are going right or wrong. As I said yes there will be big hit movies that may come in terms of music and there may also be a real flop. As a new film music catalogue, adding payback period less than five years is making sense for us.
- Aakash Manghani:** Okay that is what I am looking for, okay. Thanks.
- Moderator:** Thank you very much. The next question is from the line of Ravi Kumar, an Individual Investor. Please go ahead.
- Ravi Kumar:** I would like to know in terms of volume, which one is selling more Carvaan Mini or Carvaan?
- Vikram Mehra:** Sir I will not get into that side now. They are different. One is the gifting product for 5000 songs and the other is much cheaper product working more on the thematic side, devotional music, Rabindra Sangeet, Gurbani two different markets.



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- Ravi Kumar:** My second question is what is the share value of the investments we have in group companies?
- Vikram Mehra:** These are actually Ind-AS account, so every reporting period.
- Ravi Kumar:** Approximate.
- Vikram Mehra:** This is the current fair value.
- Ravi Kumar:** Approximately how much it will be?
- Vikram Mehra:** If you see my balance sheet, I have investment of 121 Crores.
- Ravi Kumar:** Thank you. My last question is being you looking at picking over catalogue from other companies in the sense say for example some music company want to sell out their catalogue, is there any opportunities are you looking at?
- Vikram Mehra:** Yes. We are always looking at if it is making financial sense to take somebody else's catalogue we are always open to the idea.
- Ravi Kumar:** Are there any available in the market in the sense are you get any feel of like that?
- Vikram Mehra:** There are these labels which do not know how to go back and monetize and our Carvaan are in a very good position to monetize music because we are not only dependent on digital streaming, we also have own product to monetize. So yes we are looking at, if anything decent falls in place at the right pricing.
- Ravi Kumar:** Okay. Are any companies approaching us for monetizing their catalogue in Carvaan?
- Vikram Mehra:** Companies have come in but we have to work in line that Saregama should be paying them something to ensure their content. we are completely flatly saying no. At this moment, Carvaan is a product, which is positioned for the 20th century music or practically everything that era.
- Ravi Kumar:** Why I am asking this question is in between we do not have our own content in the latest music, we have old catalogue in between lot of new music and lot of very good music is there, which is not in our catalogue, so if you can tackle it in Carvaan?



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Vikram Mehra: Philosophically I am with you, but I can tell you this Carvaan is not about new music. The music of Total Dhamaal and Ek Ladki Ko Dekha has done extremely well, but we are not putting that a part of Carvaan. Targeted at 5 plus people who want to listen to music, which has got nostalgia value attached to it in a lean back fashion.

Ravi Kumar: Okay. Thank you. All the best.

Moderator: Thank you very much. Ladies and gentlemen due to time constraint we will take the last question from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: Sure Sir. I just wanted to know about the renegotiation of license and deals, which happened for our company, so you said that because of acquiring a new music we have got some more bargaining power to renegotiate our own contract as well, so if you can Vikram elaborate a bit on that?

Vikram Mehra: we have taken a conscious call that all our licensing contracts are now maximum duration of two years, this has a position that at the end of second year now we can go back and ask for increment, which is in sync with the new film music that will be taking. Earlier when we were a catalogue company did not matter whether we do a two-year deal or a three-year deal, because it is not that the deal was getting renewed and we are getting a massive hike. Now you know that every year the new count in catalogue grow sustainably. If you do two year deals and everytime the second year, two years getting over, that is the time we use the new content as the hope for negotiation.

Ankit Gupta: Sure. Sir basically as you are binding the new content with the old content we have?

Vikram Mehra: That is a catalogue. That takes some old catalogue also per se higher because any other company which buys new film music will not be in a position to negotiate with a platform as good as we can do because we combined a new film music with Kishore Kumar's music and then we go back and start negotiating.

Ankit Gupta: Okay and Vikram just one clarification last year there was not much growth on the licensing fees was it because of in FY2018 versus FY2017 I am talking about, was it on account of the fall out of the telecom revenues?

Vikram Mehra: Yes. You are right. So the biggest issue now, the telecom effect is slowly going away. At one-time telecom was about 40% of overall licensing revenue. Second we were able to renegotiate at a far better level in some of the deals that came for up renewal this year



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because we got into new film music for the first time with some bigger titles like Total Dhamaal and Ek Ladki Ko Dekha It is a combination of the two. My projection will continue being in the space of 25% and not 33%, which we have done this year.

Ankit Gupta: Okay and one question on the balance sheet side, on other current asset we have seen a sharp jump from 30 Crores to almost 90 Crores, so any breakup of that does it include the insurance payment which was pending and you got relieved?

Vikram Mehra: Yes. It is right. It is basically the insurance claim.

Ankit Gupta: Okay and just last question Vikram, any borrowing numbers that we are kept in mind that not go beyond this number on the borrowing side that is why the Carvaan growing, the major content going up, film production going up, so any ballpark figure or assuming that we are kept on the borrowing?

Vikram Mehra: In principle, we wanted to be a debt free company this is the cash credit limit only I have to make the availability or the cash mismatch, nothing else, so there is no term loan, this primarily because of the insurance claim. The money is realized and is paid as well. So where you see the next set of balance sheet, you will see the debt will go down and the sufficient amount is going to be fluctuating on day to day basis.

Ankit Gupta: Okay. Thank you so much.

Moderator: Thank you very much. I will now hand the conference over to the management for closing comments.

Vikram Mehra: Thank you guys. A good year that we people just completed and we are even more bullish about 2019-2020. The focus for Carvaan is going to be to take it more and more to the Tier-B and Tier-C towns. Currently, the awareness level of Carvaan is very, very low in those markets. We will be going out there and ensuring that more awareness getting created. We should allow us to grow the Carvaan numbers substantially. Our projection for the next three years combined all Carvaan knowledge variants is 5 million units incremental, I am not including the numbers that we have done. This is 2019-2020, 2020-2021, 2021-2022. These three years cumulative 5 million units across various variants of Carvaan for the specific financial year 2019-2020, we are looking at 1.2 million units of Carvaan. So 33% growth is what we people are aiming at for Carvaan in this financial year. Margins we will go back at this juncture; our focus will be 25% only of gross margins going to be there. On the licensing side we see us growing the number by around 25% plus minus 1 or 2%, we



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will be going in investing a new film music on Hindi, Tamil primarily, our budget approximately what we are looking is around 200 Crores for three years in terms of commitments, but this is completely linked to the fact that that we are able to achieve the revenue targets we are taking for ourselves. We are not going to get into any long term commitments here. All these deals have movie by movie deal. You see your last quarter's numbers, see which was revenues are moving and then take a call to you, you want to buy a more film music or not. The film business, the Yoodlee Film business is looking quite stable at this moment. At one juncture, it was being treated as a high risk business it may become the most stable business that we have in the gain because majority of the movie that are going to made only against output deals, that means a revenue is assured, we are looking at a 20% to 30% margin, 2019-2020 will go out there to build reputation out there, so 2018-2019 was about make your name and do not lose money. 2019-2020 is expand make your name and start making some amount of money, the moment comes at 2020-2021 odd that is the time we will have a library of some 30, 40 films sitting out there with us. That is the time we will be able to negotiate far better.

My closing comments will be being the overall game plan that we have for Saregama as a company what is unique about Saregama: There are four -five trends happening in the market, number of smart phones are going up substantially, the data is becoming less than three bugs a gig, lot of people is spending time commuting to office and that time is going up. At home you see that one spouse is there on television other spouse is on their device, Children are on their own devices. We see in the days to come as piracy also starts coming down more and more people will consume audio video content. Music or video and they will consume this through legitimate needs with the access becoming that much cheaper and the quality becoming that much better and pricing being low, piracy is bound to come down, we are already seeing 10% reduction in government released piracy numbers. We see that premium content owner will be in a very good position to monetize this growing boom of entertainment consumption happening on smart devices. Saregama which has existing catalogue of 1.2 lakh songs across 18 different languages, we own literally that entire golden era of Indian music plus we are ready to back and invest over 200 Crores over the next three years in a judicious fashion to keep on cementing a position in the new film music catalogue also by that time hopefully 50 films of us being in place and overall 6000, 7000 hours of Tamil serial content. We will be in a substantial position to keep on improving our negotiation provision across all platforms. We will continue with a conscious call that we have taken that Saregama will remain a pure play content company. We are not into the platform business. We will license our content to every platform and get the best part of monetization for the IP that we own. That will be all guys. Thanks a lot. Thank you.



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Moderator: Thank you very much. On behalf of Anand Rathi Share and Stock Brokers Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.