“Saregama India Limited

Q3 FY '24 Earnings Conference Call”

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Moderator: Ladies and gentlemen, welcome to the Saregama India Limited Q3 FY '24 Earnings Conference Call 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 at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I 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, Tushar. Good afternoon, everyone, and welcome to the Saregama India Q3 FY '24 Earnings Call. 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 the opening remarks. Over to you, sir.

Vikram Mehra: Good afternoon, everyone. This is Vikram Mehra. The quarter 3 for FY24 saw operating revenues of INR 204 crores and PBT of INR 70 crores. I've spent over 9 years at Saregama and every quarter we are, getting more and more clearer about what business we are in and how we're going to reach our final target.

If I have to summarize in a single line about our strategy and what we want to do, it is to create IP and then monetize that IP. That's the only business we are in and will continue to be. The IP creation can be across audio and video, which includes music as well as film, series or short-format content.

On IP, monetization is primarily done through licensing deals to third-party platforms. It also extends to monetisation of artistes who create these IP, and it’s done through brand endorsements and live events.

So over time, what we create and how we monetize would have got changed, but the fact that we will focus only on creation and monetization, and not getting into the services business is very, very clear. Secondly, we don't want to sit on the laurels of the past catalogue that we have. Nonetheless, if we decide tomorrow that we don't want to invest in new content, we can easily draw very heavy margins from catalogue content. But consciously, as a management team and our board we want to prepare this company for 20 years down the line and not just for the next 2 to 3 years.

Let me start with the first vertical music licensing. This vertical has been growing at 23% CAGR for the last 5 years. As I mentioned in our last 2 calls, this year has seen a lot of pressure on the OTT audio side. Many of the platforms being under financial pressure have decided to move from free to paid.

This, actually, in the long run is very good news for us. All the labels have joined hands and are, in fact, helping the platforms in their journey. We have removed our conditions on minimum guarantees for platforms that have moved behind paywall. It will make the overall music economy far healthier. But there are short-term pains because of that.

Platforms moved to pay and the minimum guarantees going away, resulted into revenues on the OTT side being under serious pressure. We have been able to balance it to some extent by higher numbers in the other verticals but overall, there is pressure on the music side.

The good news is that all the pressure is practically going to get factored in financial year '24 itself. After this, we would have reached a base whereby anything from now onwards is going to be positive journey only resulting in similar growth rates that we have seen in the past from music licensing.

If you look at the global data for, OTT audio and video, which means normal streaming platforms as well a platform like YouTube have grown by 34% in calendar year '23. And India is finally showing the highest volume growth globally on audio streaming as well as audio plus video streaming of Music.

Please keep this in mind that India's growth is coming only on the back of just 200 million people streaming audio and some 350 million people streaming video. It means there's still a huge headroom of growth in terms of usage lying ahead of us.

All that we need to see now over the next 12 to 18 months is this base of users finally going behind a paywall and generating revenue for the platforms as well as labels. It has happened internationally. It's bound to happen in India. It's happening on the video streaming space in India. It will eventually start happening in the space of audio streaming too, give it 12 to 18 months.

This quarter saw the music release of Vidhu Vinod Chopra's 12th Fail, a movie which has won every accolade, and the music is doing very, very well. In Tamil, we had Dhanush's Captain Miller's music getting released; in Telugu, we had superstar Venkatesh’s movie Saindhav, getting released.

In Malayalam, we had Mohan Lal's Malaikottai Vaaliban's music getting released. We also released one of the rarest non-film songs that Arijit has done outside the film industry called Dil Haareya, which did very well for us. We had multiple songs by Bhojpuri superstar Neelkamal and by Gujarati number one star Rakesh Barot getting released.

But if you ask me, I think the greatest story for us has been a song released by India's biggest rapper called Divine. A year ago, nobody would have thought that someone like Divine is going to work with Saregama. Also, it's not just a song he has released but he has also agreed to do a concert tour across India with Saregama.

So, we have a twin relationship going on with him, on the live-event side and the music side. It's fulfilling the objective that we have been trying to pursue over the last few months - to make the brand younger and get more younger artists to work with us. Whether it's the Pocket Aces acquisition, or the fact that we are coming out with the latest Bollywood releases has helped change our image and profile in the industry.

Another very popular rapper in India, Krishna. released a song with us in the month of January.

The songs of the quarter 2 releases Zara Hatke Zara Bachke or Rocky Aur Rani Kii Prem Kahaani in Hindi, or Kushi in Telugu or RDX in Malayalam continue to do very, very well in quarter 3 also. If I look at our lineup for the next 12 months, which is a litmus test for all of us, are we able to generate enough amount of new content? We want to work with the best in the market in every major language.

Let me share the lineup which is one of the best lineups you can think of. We have three Dharma Production (Karan Johar) films that are releasing over the next 7, 8 months. One of them is an Alia's film while the second is a Vicky Kaushal and Tripti Dimri film. Further, there are 4 Jio Studio films that we will be releasing over this time including Stree 2 and Akshay Kumar's Sky Force.

Then there is Ajay Devgan's Maidan, and Diljit Dosanjh and A R Rahman's Chamkila getting released. In Kannada too, we have acquired music of a couple of superstar movies, Darshan's Devil . And Sudeep Kiccha's Max.

In Malayalam, we have Mammootty's Bazooka's music coming out. In Tamil, we have Suriya's fantasy film, Kanguva. It is creating lot of hype and publicity there. Its music is sitting with us. And I think one of the biggest wills be the Telugu film, Game Changer, starring Ram Charan and Kiara Advani directed by Shankar. Ram Charan is doing his first big film after the award-winning RRR, while veteran Shankar is making a film after a very, very long time.

In Punjabi, 2 film music albums of the No.1 star Gippy, Warning 2 and Shinda Shinda No Papa is with us.

As you heard the lineup from my side, you'll realize that we are not just a Hindi Bollywood music company. We want to dominate all the regional languages, which will give us a good negotiation position when we talk to all the platforms. But yes, with all the investment that we have been making, the content charge off which includes just the content charge off and the corresponding marketing has gone up by 54% year-on-year.

I'll repeat, we are in a transitional state. Our content spends are not going up in a linear fashion. Post QIP, we were clear, we are going to step up our investments in content not in an incremental fashion, but in a step jump fashion. This means in the short run, the investments will go up very, very steeply, which will result into revenues, just about matching the content charge-offs that we are taking.

Give it another 18 months or so, and you will start seeing that the incremental revenues we are getting from these investments will start far outweighing the charge-offs that we are taking corresponding to the newer content.

We went from a company which was not investing in content to a company which is now taking pole position in all the languages. So, this is the transitional time that we are going through. The absolute numbers on profits are never going to dip. In the short run, they will continue to go up, but they will go up far more steeply after another 18 months or so.

With all the new investments, we are holding on to our internal guideline as well as guidance to you that the payback periods have to be 5 years. The language mix is decided keeping in mind a payback period of 5 years. And post that, you have another 55 to 75 years left in front of you to keep on making money from these songs. Remember, Lag Jaa Gale is already a 60-year-old song, and we are still making money from it.

While we invest in new content, we continue working on our catalogue, both on promoting our existing songs using Instagram or ensuring those songs are made available in some of the newer movies that are coming out. We are using technology in a big fashion to push these songs. Also, we are creating a lot of versions of these songs. Whether it's the tech-based lo-fi versions or asking the new age artists to reimagine and recreate the songs and then promote these songs using Instagram. All of this is giving a new lease of life to the catalogue, and this work will continue happening.

There is enough amount of precedence that we see at the global level done by some of the biggest music companies whom we very closely follow and learn from. And we are realizing a lot of money can be made from the catalogue. If I go by the last 3 years' track record, our catalogue has been comfortably growing at 12% per annum, and I don't see any reason why it will get hit over the next 12 to 18 months. Once the OTT platforms start moving behind the paywall, I see catalogue easily managing 14% to 16% growth.

The new vertical under music licensing, is artist management. There, we have signed up artists and then we make them popular by placing them in our IP releases. Majority of them are music, but we are also using the power of our IP releases on the short format side, which is housed in Pocket Aces or maybe putting some of them under Yoodlee Films.

Once the artist is made popular, we then monetize these artists by getting brands for them who want to use them for the reach these guys have created on Instagram or YouTube and also place them in various live events. And whatever money the artist makes, Saregama gets a share of it.

So, it's an interesting model. We are making songs with them, which are anyway paying for themselves. But rather than using random people right now for our songs, we sign up artists and work only with them in the songs. So, the money comes not only from the songs, but by also monetizing the artist itself. We currently have 123-odd artists, under Pocket Aces and 15, under Saregama .

As the investment in new IP increases, we see these artists becoming bigger as a result of this , allowing us to make more money. Remember, digital advertising is growing at 31% per annum and we believe a large chunk of this investment, which is moving to the digital side will finally start following artists/influencers.

And the biggest beneficiary is Saregama, because Clout, our artist -influencer management business that we have under Pocket Aces is the number one player in this market. In fact, recently, they won the most innovative marketing agency at the Entrepreneurship Awards of 2023.

And with Saregama and Pocket Aces coming together is going to give us a massive edge because compared to every other artist management agency who just manage the artists, we are the only ones who can give breaks to artists in our own content. For example, if an artist join works with Agency X, they may agree to give a margin A to them. But if they work with us, we can get, in fact, 2A margin from the artist because we are also aligning the artist to feature in the music video/film/web series that we are doing. None of the other artist management agencies have a content business going on.

Overall, with a stated goal of acquiring 25% to 30% of all new music which is getting released in India, we are confident that our music licensing business, should be able to double its revenues in the next 3 to 3.5 years. And all this new content that we are talking about is going to be funded through our internal accruals or the QIP money.

Let me now shift gears and move to the video vertical, where we make films under the brand name Yoodlee. Digital content under the Dice brand, which is a vertical under Pocket Aces. On Instagram, we make content under the brand name FilterCopy and Nutshell. It is the explosion in the smartphone penetration and the relatively cheaper data, which is the biggest driver of this vertical.

We are still in very early stages of video compared to music where we have got over 120 years of experience now. We believe over the next 5 years, we should be able to grow this vertical at a CAGR of 25%, And, in a stable state it should be able to give us a 15% margin.

The way our deal structuring is done, in terms of cash inflows and outflows, what I am happy to share with you is that a 15% margin will result into a 21% IRR on this business. And the only capital that you need here is more in the nature of working capital, which again is going to be managed through internal accruals or maybe a small line of credit.

Quarter 3 saw the release of Crushed Season 3 and Half Love Half Arranged series from Pocket Aces (under the Dice brand) on Amazon. They were released by Pocket Aces before 11th of November, and the financial numbers you are seeing right now are only Pocket Aces numbers post-11 November. So, we don't have the benefit of the revenues of these two. I'm sharing this information just to tell you how strong our other business of Pocket Aces is.

FilterCopy, the biggest youth Instagram channel -- that is owned by Saregama through Pocket Aces, actually completed over 1 billion views on Instagram between January to November of 2023, making it by far the biggest thing that you're seeing on Instagram today. It is resulting into lots of brands, now chasing FilterCopy to get their products integrated into the video, and we see this business growing manifold.

There was not too much of action happening on the Yoodlee side in quarter 3. Quarter 4, we'll see 2 Malayalam films and 2 Punjabi films getting released. The live events business of ours, whose primary objective is to support the music business, saw a successful Australia tour of Diljit Dosanjh. We also did a show with Javed Akhtar saheb on the stories behind the biggest songs that had ever been released. Everywhere, it's a music element, which is important working with them, whether it is Diljit Dosanjh or Divine. It also helps us get into deeper relationships with these artists, which facilitates more and more of their music coming across to us.

In the last call, I had spoken to you about the music learning app that we plan to launch, which will teach music fan how to sing or play instruments using artificial intelligence. All the hits' songs from Saregama from Lata Mangeshkar's Lag Jaa Gale to Arjit Singh's What Jhumka from Rocky and Rani Kii Prem Kahaani.will be taught using this app.

And the best part is the people who do well in these courses, which are all going to be paid courses, will be given a chance to release a song or an album with Saregama. This is something that nobody else in the market can go back and support. Just like what we did many years ago with Carvaan, this will be one more way for us to monetize our incredible music library. We are hoping to launch this app sometime in March or April this year. And the way the app is being built, it seamlessly integrates with every other vertical we have in the company.

On the topic of technology, we are really going very heavy on converting all our older songs into Dolby Atmos or spatial audio. Over 2,500 songs have already been converted. The good news is that a lot of platforms like Apple are now incentivizing labels who are putting up their content in the newer format. Also, a presence in these newer formats means that more younger people are open to the idea of listening to older songs.

Carvaan saw a marginal decline in revenues this quarter. Though the unit sale numbers have gone up, we are selling more of the lower-priced units. This is a very conscious effort from our side. We have further reduced sales and marketing expenses that we are making on Carvaan. We are comfortable with the Carvaan revenues going down. , Strategically, as we move ahead, we are going to move Carvaan from a retail product to only an e-commerce selling product.

Over the next 3- to 3.5 years, we would be investing over INR1,000 crores in new content, all coming out of our internal accruals and QIP money. This will not only contribute to the immediate growth but also put company on a long-term growth path. The only reason that we are number two and not number one in the music market today is because we did not invest enough between 2000 to , 2019.

We want to go back and correct that. While we are investing heavy, we will hold on to our absolute profitability in the first 12 to 18 months. After 18 months, you will start seeing a steep increase in profitability. And from year 3 onwards, you are then looking at a step function jump and investment going away and a linear increase happening, the profitability should go up in a significant fashion.

If I look at the overall revenue for the company, excluding Carvaan, to continue growing at 25%, 26% CAGR over a 3–5-year period. And the overall profitability (PBT) of the company, to double in the next 3 to 4 years. Both the music vertical and the video vertical are going to contribute to this.

I'll reiterate -- it's easy for us to stop all investments and just focus on short-term profitability. We have taken a conscious call that's not the track that we are going to follow. We will invest heavy on content while ensuring that we maintain a short-term profitability. But in the midterm, we keep on increasing our profitability and in the long run this company will be much stronger than what this company is today.

You have just touched the tip of the iceberg. As the subscription economy starts taking off in the next 18, 24 months, you will see lots of money being made. That is what is happening in every other part of the world. And it's happening in the video space in India. So, the company, which is investing heavily, company that is using Artificial Intelligence to make the right content selection and has got technology to ensure there's no revenue leakage that's going to be the company, which is going to have the last laugh. And we are very confident that we are on track to be in that position.

Lastly, I'm thankful to the Board which has declared a 400% interim dividend. This is a way of thanking our investors for the faith and confidence they have shown in the company.

Thank you, and I'll be happy to take questions now.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Pulkit Chawla from Emkay Global Financial Services Limited.

Pulkit Chawla: So just wanted some understanding in this transition of movement to a paid platform. Now assuming that these key players that have actually transitioned to the complete paid platform would not have had a major market share, the impact on your revenues seems to be quite decent. And particularly, your competitor hasn't really seen any impact there. So, is there any difference in the way they deal the structure here? So, could you throw some colour round this first?

Vikram Mehra: So let me not talk about competition, that's wrong on my part. All I can tell you is that we have a significant part of our revenue from all these platforms. Unlike some of the other music industry players - listed and unlisted - , Saregama -- had gone out there and struck relationships with all the 9 platforms and got that efficiency level 2.5 to 3 years ago.

Some of the other guys have been able to do it only over the last 12 months. So, we already had a step jump that we had seen in our revenues in the past. So, there was no new platform coming in. We've already been running on full efficiency there. The impact was a little bigger on us as these 3 platforms- Resso, Gaana, and Hungama – were significant. We have been able to counter the impact you are seeing on the revenue by increasing revenue from the other verticals.

The good news is that come quarter 4, the entire thing will be factored in. After that, we will be back on track to start achieving 25%, 26% revenue growth at the company level.

Pulkit Chawla: That's helpful. Second, on Resso, I think now that Resso has started to move to India, do we see any financial impact here or these users that transitioned to a different platform? And consequently, like a company like ours -- it's not a...

Vikram Mehra: Resso had completely moved from free to paid. Revenue had come down dramatically, and that has been factored in. This is the third quarter in which that has been factored in.

Pulkit Chawla: And do you also foresee some -- that some more players might shut shop and maybe consolidation in the industry?

Vikram Mehra: So, who are the players that are left here? On the paid side, you have big players like Apple, Amazon. YouTube premium, Gaana and Hungama. Nothing is going to happen as far as these are concerned. The movement they went to the paid side, minimum guarantee went away. , The adverse impact on revenue has already been factored in.

If anything, the numbers are going to go up when the pay business starts taking off. The moment the other 3 big guys who are left, which is Spotify, Wynk, and Saavn, move to paid, the overall industry is going to jump by 2,2.5x in revenue on the audio OTT side We're just waiting for these 3 platforms to turn paid.

Pulkit Chawla: And finally, just a plan for the remaining QIP funds, is it to be used for more acquisitions or just for picking up new content?

Vikram Mehra: So, it will be used for strengthening our position in the space of music. Both organic and inorganic opportunities are being looked at. It will be purely utilised for music. We have no intent to use it for the video vertical.

Moderator: And the next question is from the line of CA Garvit Goyal from NVEST Analysis Advisory LLP.

CA Garvit Goyal: First question is on the guidance side. So is the guidance that we have been provided for this year, it remains intact or not?

Vikram Mehra: So, you need to clarify what guidance are we talking about, which guidance are we talking about?

CA Garvit Goyal: Our top line guidance, sir? Like we were targeting a ballpark number of INR930 crores, INR940 crores for 2024.

Vikram Mehra: I've never given that guidance. So sorry, I'll have to...

CA Garvit Goyal: We have given in terms of CAGR, 22% to 25% CAGR.

Vikram Mehra: I'll again go back on this. What we people have said in the beginning is that we expected Music licensing part to grow at 23%. We are maintaining our stand that on a 3-year basis, we see 25% to 26% CAGR at the corporate level.

CA Garvit Goyal: Then this 25% to 26% CAGR is on an overall basis or for the music segment only?

Vikram Mehra: **This is for the** corporate level; we are giving a guidance of 25% to 26% CAGR over the next 3 to 5 years.

CA Garvit Goyal: Understood. And sir, you mentioned like Q2 onwards, the growth will be there in the music segment like the older pain is factored in. So, I need to understand by growth, do you mean like the benefit in the terms of the subscription model is likely to come in from FY '25 only? Or it will take some time to ramp.

Vikram Mehra: So let me further clarify, when I'm saying 25%, 26% (excluding Carvaan), we are looking at 25% to 26% growth. At the end of the year, we always end up declaring the Carvaan revenues. This growth that we are seeing is basis the business being the way it is today. It's just a new content strategy, which is going to help us achieve this. As and when the – audio OTT business starts transitioning to paid in 18 to 24 months, our growth and our profitability can become even better.

CA Garvit Goyal: Understood sir, and sir, you also mentioned like Spotify, Wynk and Saavn going behind the paywall. So, are there any expected timelines or the negotiations happening? Or what is the scenario right now for them.

Vikram Mehra: I'm not saying they're going behind paywall. I am nobody to go and declare that. I'm saying they are the only ones who are left, who have not gone behind a paywall. When they go behind the paywall, it will result into the entire industry behind a paywall and the revenues that music labels make from audio OTT platforms should go up by 2 to 3x.

My personal belief is in the next 12 to 18 months, you will end up getting these guys also moving. A year back, we had maintained a stand that in 2 to 3 years, industry will go behind the paywall. –In the last 1 year, 3 have already moved. Hopefully, the second part of my projection is also going to come true.

Moderator: The next question is from the line of Nitin Sharma from M C Pro Research.

Nitin Sharma: So, two questions. First of all, this INR1,000 crores content investment, is there a broader breakup in mind to how much will be spent on different categories and also some visibility on the event segment will be helpful?

Vikram Mehra: So, on the music part, -- this investment will be spread between both Hindi and Regional with a large share going on the regional side. We believe that regional music ends up giving you a better return on investment. The competitive intensity out there is also on the lower side, and we are very, very strongly placed to take pole position in all the regional languages of the country.

Also, we are realizing that over the last 10 years, the consumption pattern of people is changing. On the entertainment side, both video and music, it's changing from listening only to Hindi or English music to consuming more and more of content in their own languages - the local languages. And we are just trying to benefit from this change in culture.

Now your second part was on the live event side. See we are just 1-year old on the live event side. We are still testing waters and have not gone out there and done any massive investments. Actually, there is no investment needed on live event. It's literally a working capital that gets stuck out there for a month to 45 days at any particular time.

Our focus is to primarily work with the top singers, allowing us to build a deeper relationship with them. Till now, we have worked primarily with Diljit Dosanjh, resulting into Diljit Dosanjh giving us songs for the first time. Diljit, as you may know, is the biggest non-film singer in India and getting a song from Diljit is a very big thing. This speaks volumes of the strength of our relationship courtesy the live event business. .

And with Divine, who's the biggest rapper, something similar is happening. We are doing a tour with Divine, which has already helped us release a song of Divine. So, we will use live events in a more strategic fashion to cultivate relationships. Will live event become a loss leader? No.

Give us a year or so for us to stabilize this business. And we believe right now that there will be some amount of margin . It will be single-digit margin business, but a much higher IRR because the capital gets locked out there for a very, very short time.

Nitin Sharma: So is there any thought process in terms of how many live events you would have...

Vikram Mehra: Very early in the day., All I can tell you is our live event business will be limited only to music. We are not competing with other people right now who do live events. We are focusing only and only on musical concerts/ musical plays and nothing else. We will go and grow this in a very slow and steady fashion.

Nitin Sharma: Understood. And my second question is a bookkeeping one. So, what is the other noncurrent financial liabilities and what it is like at the end of December?

Pankaj: Non-Current Financial Liabilities represents derivative liability for the future investment in Pocket Aces. That is part of the unallocated bucket. The liabilities are based on purchase price allocation exercise done for Pocket Aces investments.

Moderator: And the next question is from the line of Lokesh Manik from Vallum Capital.

Lokesh Manik: Vikram the first question is on your thesis that given in 18 months, we see many people go behind the paid wall. It is just to play Devil's Advocate. We've seen this in the global markets. In India, here we are quite lower on the per capita income front. So just want to get a sense of what gives you the confidence that people will shift towards prepaid economy. That is -- that was the first part.

Vikram Mehra: We don't break the chain of thought here. The growth projection that we have been giving , is that we will be able to grow the company at , at 25- 26% (excluding Carvaan) and should be able to double our profits in the next 3 to 4 years. This is independent of audio OTT business turning, going behind the paid wall. I want to make that point very clear. As and when we move behind the paid wall, that's a cherry on the top.

Now the second part about what gives us the confidence. I was asked a very similar question in 2006 when I was part of a different company. On the DTH side saying that what was giving us confidence that DTH will ever take off in India when the rates of DTH was twice that of cable in 2006. And here, you had not 1, not 2 at that time, 3 big platforms going away. And even today, they are at a very, very significant scale in spite of having a rate which is higher than cable.

If you start looking at the video OTT platforms, whether it's Jio or it's a Hotstar or it is a Voot, Sony Liv, Zee5, Netflix, Amazon, the numbers are significantly high. So, it's not that Indians don't want to pay. But you need to give them value and need to somewhere stop the availability of free content. Then people are ready to pay for entertainment.

So, the key part is the 3 guys who were giving it free have to go behind the paid wall. Piracy is dying in the larger cities. So, somebody sitting in Bombay, Delhi, Bangalore, Calcutta, Lucknow, Jaipur, will opt for a paid subscription as long as the pricing is reasonable . It does have a INR500 per month market also on the music side. Yet, a double-digit number on a per monthly subscription is something most Indians will be very comfortable paying.

So yes, I'm very confident that these 3 players, as they start moving more aggressively on putting their content completely behind a pay wall, which we will very strongly support as music labels, you will see that economy taking off in a very big fashion. You already see that on a big platform like Spotify, they have made the free experience reasonably bad.

It's still available for free, but the number of breaks and advertising and the gaps that they started putting here is pushing people towards the pay side and you will see this number growing up significantly.

Lokesh Manik: Vikram, my second question was on live event vertical -- so globally, what we are seeing is Music is dominated usually by the non-film music and single artist? Is that a trend you're seeing in India, or you would have some statistics in terms of what percentage is film-music and non-film music?

Vikram Mehra: I'm not very clear, but you said -- your voice right now was echoing. In the international market, we see what?

Lokesh Manik: In the international market, Music is dominated by non-film music. There is no film music in the international market. You have the independent baskets, like I say...

Vikram Mehra: So, the live event business -- is based on all the non-film artists only. The two names I gave you with whom we have been working at this juncture, Diljit Dosanjh, is the biggest non-film artist coming out of India and Divine, the biggest rapper coming out of India.

We are in this quarter 4 which I'll talk about and then we talk about quarter 4, 3 months from now, have just launched a new vertical under the talent management called Saregama Talent whereby we are now grooming young kids, who are very talented or musical prodigies to become great performers with eye not only to make their music videos and songs big, but also to start pitching them for live concerts..

So that 3, 4 years from now, Saregama becomes a label, which has a Taylor Swift or a Justin Bieber equivalent artist coming out there from our stable, who will become big, both on recorded music circuit as well as the live circuit.

Lokesh Manik: My question was actually, are you seeing a trend change in the industry where you are seeing non-film music picking up in India versus film music?

Vikram Mehra: Yes, that's why we are investing on these artists.

Lokesh Manik: Okay. So, what percentage would this be? Any idea?

Vikram Mehra: See film music still dominates. There is nothing that compares with a Ranveer Singh and Alia Bhatt dancing to Tum Kya Mile or What Jhumka. There's a magic, it is something very, very different. We're a movie crazy country. But the younger generation is also very open to listening to non-film music.

And that's why we want to strengthen our relationships with all the major non-film big artists across languages, whether it's Hindi or Bhojpuri or Gujarati or Bengali or Punjabi and also start creating some of the artists of our own.

Moderator: And the next question is from the line of Govindarajan from CSIM.

Govindarajan: I have two quick questions. First, you said the industry has done away with minimum guarantees. Is this limited to these 3 players who have gone behind paid or the minimum guarantees are done away for Spotify, Saavn and...

Vikram Mehra: So, in general, minimum guarantees are taken out for the guys who have gone fully behind paid.

Govindarajan: Okay. So, the other 3 are still with minimum guarantees?

Vikram Mehra: I can't comment on that part. But the one who have gone behind paid walls don't have minimum guarantees.

Govindarajan: Okay. But you're not telling me whether the others are with minimum or not?

Vikram Mehra: There are all kinds of models, you're getting into a very specific path right now, and there are only 3 guys left. So, I'll leave it there. But the paid platforms are all now sitting without minimum guarantees. There we get a percentage of actuals, which is the way business is done in all other parts of the world.

Govindarajan: The reason I ask is there's been a big disruption to revenues because of these going away from minimum guarantee and that could happen with the other three as well.

Vikram Mehra: So, the beautiful part is that other 3, the moment they go behind the paid wall, the pay economy takes off because then the user has no option. Right now, we are in the worst phase as a company, in those 3 platforms -- have gone behind the paid wall. So, money from minimum guarantees stopped, which were significant in financial year '23 and has become zero in FY'24 for us. The pay economy hasn't taken off because the other 3 continue to be there on the free side.

Though the consumer has been able to shift to those guys, the moment those three also go away and everybody goes behind a paid wall then the pay economy takes off. This is 2x to 3x higher in revenue accrual than the free guys. For us, the redeeming feature is that, unlike some other players, we had a significant revenue coming from these guys in the FY '23 revenue base.

That's why -- on a like-to-like basis, FY '24 is under pressure. But in FY '24, you don't have revenues from any of these platforms. So, from 1st April, you will once again see a very significant growth coming in.

Govindarajan: I get that. Second, you had mentioned the total acquisition -- music acquisition of about INR1,000 crores. I mean, you're roughly talking about INR300 crores a year. Now if I look at your cash flow statement for the 9 months, you've invested about INR160 crores in new music, spent on new content. Is that the equivalent number that we are talking about, INR160 crores over the 9 months going to INR300 crores a year?

Vikram Mehra: Broadly, yes.

Govindarajan: Okay. And given your accounting policy, content charges should go to INR300 crores in about 3, 4 years. It should catch up with the regular spend in 3, 4 years...

Vikram Mehra: In any year the marketing expenses are charged off immediately. Marketing to content vary from language to language. There are languages where marketing is pretty high, while there are languages, the marketing is very, very low.

So, depending on the mix, year-on-year basis, , the marketing gets charged off immediately. And then you take the first-year charge-off of that year's investment and the second or the third- or fourth-year charge-off of the previous year's investments.

Govindarajan: I think a couple of years back, had mentioned generally, marketing is about 25% of the spend.

Vikram Mehra: Yes, it is on an aggregate level, yes, it is.

Govindarajan: I'm just a little confused on the 1 statement that you made that you expect to hold on to profitability in the next 12 to 18 months. Are we talking about percentage margins? Or are we talking about absolute profit?

Vikram Mehra: There will be an improvement in profitability going all throughout. What you will see is that the revenue will grow at a rate slightly faster over the next 18 months, than the rate at which profitability is growing. But over a period of 3.5 years , you are talking of profitability also doubling as revenue also comes close to doubling.

Govindarajan: Yes, it's a tricky period because this is when your content charges will go up a lot from INR25 crores...

Vikram Mehra: The growth rate on profitability may be lower than the growth rate in revenue, but the growth rate is going to be a significant positive growth rate.

Govindarajan: And lastly, for the three guys who haven't moved to paid, especially one of them who has made -- Spotify, you mentioned has made free thought so attractive. Are we seeing any change in the mix of paid with the subscriber?

Vikram Mehra: Yes, we are. I'll just leave it there. The green shoots are there all across. So, we are happy with the way things are moving.

Moderator: The next question is from the line of Keval from DSP Investment Managers.

Keval: So first of all, sir, can you throw some light on how are the payment terms different under free subscription and paid wall?

Vikram Mehra: Typically, on the free side, we get paid on an average INR0.10 per stream. If then somebody listens to our song -- say free customer, on an average, we get paid INR0.10. And if it's a paid customer, we get a share, which is roughly 50% of what the customer is paying. We get a share of that 50% based on actual consumption.

So, if you have heard 50 songs, suppose you are INR100 subscriber, then around INR50 will be treated as the content pool which will get equally divided across all the songs you heard during the month. So, if you heard 50 songs, then every song starts becoming worth INR 1 ; if you heard 100 songs, every song starts becoming worth INR0.50.

That's the pay part. Free part is INR0.10 flat on per stream heard. In the case, the platform is offering both free and pay, we charge a minimum guarantee typically. If the platform is only pay, we take away this condition of minimum guarantee.

Keval: Understood sir. So again, a question on that. So, let's say, it's up on a paid customer, he listens to 100 songs, and he has paid INR500 for subscription. So now I understand that, that INR500, 50% of that divides between 100 songs and it's paid to the particular labels. Now in the case, let's say, he hears 1,000 songs for that INR500 of subscription. So, isn't it a double-edged sword that on paid wall, we might even get lower remuneration compared to free side?

Vikram Mehra: Sure. If we get 100 million customers and all of them spend 14 hours a day just listening to music, maybe you're right. In that case, the deal structures are going to get changed once again. The younger segment, which is the early mover segment that comes in is that intense music listing part and they end up doing 100 songs odd on a per month basis.

Most people like you and me typically don't get that kind of a time to listen to music on a daily basis, month after month at that significant number. Deals are all done keeping in mind the amount of consumption, which is happening.

We are getting data on the consumption basis also. So, we know what we are getting with the guys who have turned paid. We believe at this juncture, looking at that data, the value of a song heard by our paid customer is any time between 2.5 to 5x of song heard by a free customer.

Keval: Understood, sir. And sir, last question that you mentioned. Payments from three platforms have been stopped. So, what is the reason? And how big is the impact of that?

Vikram Mehra: Correction- minimum guarantees are stopped because they have moved from free to pay. And in pay, we don't charge minimum guarantees, as their pay business is yet to build up. These three had a significant play out there with us, I can’t give you the specifics now. But whatever it is, 3 quarters have already been factored in.

There's only one quarter left. After that, the entire impact of these 3 players is going to be wiped out. And we people start building -- once again, giving me the confidence that we should be able to grow the revenue of the company at a 25% to 26% CAGR over the next 3 to 5 years.

Moderator: The next question is from the line of Udhayaprakash from Value Research.

Udhayaprakash: I want to understand how the performance of movie affects your screening of let's say, after movie release. Can you give in the context of an album that...

Vikram Mehra: Can you please repeat the question?

Udhayaprakash: Sir, I want to understand how the streaming of a particular album or song continues after the release of movie happened? How does the reception of the movie affect the streaming -- number of streams going forward? Can you give in the context of we say an album that hasn't been received well, but movie has performed well.

On the other hand, the album that has been received very well but the movie didn't perform well. How much impact does it make? And how does it affect -- because the acquired content based on the story and based on, we have our own calculations, payback [inaudible] performance of a movie, does it change those things. Does it have a huge impact on it?

Vikram Mehra: At a very broad level, a movie performance does have an impact. But does it impact very significantly, no. If you look at earlier days, 60s, 70s, 80s. If I'm going to give you the names of some of the songs, I can bet that you won't even know the names of the movies, but their songs became very, very big. It very often happens even today that songs which are coming from smaller movies suddenly become very big.

But in general, if the movie is also hit like. A very good example I'll take for you right now is the movie called 12th Fail. Have you heard of the movie? It's a Vidhu Vinod Chopra's movie, which has become a massive hit. It's a very small budget film, which has become a raging hit at this moment. The actors were -- they're not the A category actor, they are amazing actors, but they were not the A category actor.

So, the moneys that we paid for the movie cum music right now were also on the lower side. The songs opened on the lower side of traction. We released the song before the release of the film. It was not very big number in terms of streams that we were getting or video views.

As the movie became a hit on the theatres and has become even bigger on Hotstar, the performance of the songs on a daily stream basis have gone up by 8x. So, it has an impact. And if you like look at a movie called Zara Hatke Zara Bachke -- the producer of Zara Hatke Zara Bachke went on record saying that the only reason the movie opened up that big is because the songs became a cult even before the release of the film.

So, there is a relationship between the music and films, but it's not a complete causal effect relationship. I'll call it a more of a linearity effect . There is a correlation but not a 100% causal effect. So, one's success or one's failure doesn't necessarily result into other things also failing or being successful. On YouTube, if it's my favourite actor dancing and I like the video of that very, very well, it really doesn't matter right now whether the movie became a hit or not.

Udhayaprakash: So we can say that if the movie is performing well, we'll have a multiplier effect on the album but on the other hand, even if the movie doesn't perform well, that doesn't mean there will be an equal downside, but there will be a slight impact on the performance of the number of streams going forward.

Vikram Mehra: What you also realize is that sometimes in the music is not as per our expectations. Even if the movie does well right now, does nothing to the song. So, it's a combination. See when we pay on films, what we are ensuring is that some of the biggest stars whose face has got a crazy amount of fan following, they get connected to the music -- or the video of that song.

And hence, we get massive amount of sampling upfront, which means the marketing money that we have to spend to make that song popular comes down dramatically because every fan is going to go there and listen to the song at least once or twice. And then the song will start working on its own.

Udhayaprakash: And sir, my second question is on the difference between our approach to, let's say, a big movie or small movie. When you're approaching a big movie that has big stars and a big production house, we cannot go ahead and give a number that you will achieve this number of views, but you know that certain set of audience will listen to the song, but the same cannot be assured or expected for a small movie.

So can we say that when we are -- although we are still paying lower amount when we acquired content for small movies which is more of a volume gain, can we say, similarity in Bollywood or regional languages.

Vikram Mehra: So, what often happens is when you're working on smaller movies, it means not working with the top actors and actresses or directors. At that time, we put a lot of importance also on the quality of music that's coming out. There's a whole idea of applying predictive AI to decide whether to take it or not, even with the smaller actors and what is the amount of money we can make from it, that applies to every song that we e acquire in the company.

So predictive AI has got a big role there. But after that, on a smaller movie, if the quality of songs is a very decent, we just go and pick it up. If the quality of the music is also not something that people enjoy, in that case, we have said no to those movies in the past. In fact, some of these are bigger movies which released recently.

Udhayaprakash: And my final question is on, we have always been aggressive in the front of marketing -- I mean, for our new release. So how will Pocket Aces come into play in this area, marketing of a new content?

Vikram Mehra: I will just give you 1 stat out here. In this very, very short period of 45 days that the people have worked together with Pocket Aces in Q3 we had already managed a reach of 60 million on the digital side for our music using Pocket Aces assets. It's helping us magnify the popularity of our songs manifold using the footprint that Pocket Aces has.

If I remember my numbers correctly, Pocket Aces has added over 120 million to our overall digital footprint. Today, we have got over 230 million subscribers/followers on digital media. Very few companies can claim this.

This is the biggest currency we are investing in. Tomorrow, when customers want to listen to something and brands want to advertise anywhere, this is what's going to help us and put us on a pole position compared to all other players who are maybe driving current profitability rather than preparing the company for 3 to 5 years down the line.

Udhayaprakash: And so right now on significant stake in Pocket Aces and we also use them for marketing new content? Can we also expect cost synergies in terms of marketing going forward?

Vikram Mehra: There will be. So , rather than trying to go out there and just reduce cost, we are asking ourselves how we can go there and give bigger growth. There are areas in which cost efficiencies are being driven, not necessarily just to go out and cut marketing expenses. I think the growth opportunity is very much a bigger one sitting in front of us.

The aim is to make my songs which are released by the music side become that much bigger using the digital power of Pocket Aces.? Also, the intent is to make the influencer business of Pocket Aces , become that much bigger using our ability to create music and music videos so that both businesses grow at a much faster pace than they were doing in the past to achieve the synergies? And that's the reason I'm saying we are really growing at 25%, 26% on a sustained basis, that's where all these growth numbers are coming from.

Moderator: Ladies and gentlemen, the last question for today is from the line of Chirag Shah from White Pine Investment Management Private Limited.

Chirag Shah: Sir, first, just a basic question of clarification. So, for example, YouTube has gone behind paid wall. So even if there is a free subscriber who is listening to YouTube and listening to a particular music, how would you be paid for that? And how different it is, what is the gap versus a paid subscriber here?

Vikram Mehra: For YouTube, there are two services; There is YouTube and there's YouTube Premium. YouTube is a free part. If -- on a YouTube free part, if an ad is presented on any IP that we people control, either on our own channel or user-generated content, if an ad is being put, we get 55% of it. YouTube retains 45% of it. That's a free business Model.

So that's free. If you move to the paid part of YouTube, you are paid subscriber of YouTube, which means no ads are going to be presented to you. In that case, whatever you're paying to YouTube, it follows a very similar model like audio streaming platforms. Whatever you paid to YouTube - a percentage of that is earmarked as content pool, which will be divided equally across all the content you consume during that.

Chirag Shah: So, look, staying on the free part, so you are saying if the ad is played, music is played and the ad is played, whichever, you get 55% of that ad that -- I didn't understand that?

Vikram Mehra: Suppose you are Hindustan Unilever. You have put up an ad, your campaign is going on, paid x rupee right now for every time your ad is presented behind, before a video and between the video.

Chirag Shah: I understood now. .

Vikram Mehra: So that money will come to us.

Chirag Shah: But I presume that would be far lower on a per song basis as compared to what you get in paid. Maybe -- maybe on the paid subscriber would be 4x, 5x and more than this, right? Is that the right way to....

Vikram Mehra: Paid economy, I'll repeat what I said earlier, in general, a paid customer when he or she consumes our music ends up being 2x to 3x more valuable.

Chirag Shah: Okay. Sir, second, a basic query, suppose in the case of a paid subscriber, okay? If the song is downloaded by him in his mobile library. I'm just using a mobile as an example. And if you repeatedly hear that when either is off-line or online, it -- in both the cases, it will be counted a number of times, right? So, there are algos, even if they listen to the song offline...

Vikram Mehra: Contractually, we are protected there. And all these platforms have a technology, whereby at the local cache level in the app, they will be keeping a track of how many times you heard if you are a paid customer or free customer. They also -- when you offline something, they also offer offline ads along with it. So that when you are watching something offline , ads are also presented there. We get advantage of all that.

Chirag Shah: Okay. So, there are algos or software available even if it is offline...

Vikram Mehra: Not now, this is over a 5-year-old technology. .

Chirag Shah: Yes, I know just. Sir, last thing is, if I have to ask you that the music content acquisition payback, how do you look at it over the next 3 years as compared to past 3 years, maybe for yourself as well as the industry. So has the payback got elongated. And if yes, how much it has elongated versus what you have seen last year?

Vikram Mehra: Actually, it has not got elongated right now. When we started investing in newer content, when -- literally, we were buying music in lakhs or INR 1 crores that time also I maintained the policy of 5-year payback period. And if you go through every call of mine over the last 7, 8 years, you will consistently hear that our internal benchmark is 5 years.

We only buy content where we are confident that we should be able to manage things in pay back periods of 5 years. Wherever we believe that the numbers are not supporting this objective we just walk out of those deals.

Chirag Shah: You are saying despite there has been some aggression in the industry, because some of this content has even gone for INR50 crores and INR40 crores kind of numbers. We think the paybacks are not getting affected.

Vikram Mehra: I'll give twin answers to this. One, if the value of the content has gone up, then the revenue from that content has also gone up. The YouTubes of the world or audio streaming apps or short format apps like Instagram were not giving you money 5 years ago, the way they are giving now. Also, content pricing goes in sync with the realization we are witnessing.

Also on the competitive intensity, in every language, there are only 2 to 3 players. There is nobody else. It is not that the 20 players are fighting this out because entry barriers are very, very high in music industry. It is between 2, 3 players.

Chirag Shah: Sir, I was under impression that given the way recent biddings have happened for album, movie album, is there a risk that paybacks got elongated?

Vikram Mehra: No, I'll just give you an example from something I posted 2 days ago, we had released a Bhojpuri song an year ago called Lal Ghaghara, by Bhojpuri industry’s number one star called Pawan Singh. And that song just two days ago, has crossed 300 million views on YouTube. Even a 100 million was unheard of thought from 4 years ago in our country.

Chirag Shah: No, I was more referring to movie album, the way...

Vikram Mehra: In movie album, On Rocky Aur Rani kii Prem Kahaani we have already 100 million number. I have the Badshah song of Paani Paani touching 700 million. I have the songs of a Zara Hatke Zara Bachke, two of them crossing 120 million. Many of them are crossing -- over 100 million numbers on Spotify alone.

As digital explosion is happening, more people are jumping onto this digital bandwagon, and the overall consumption has gone up in a significant fashion. You have What Jhumka, which is sitting at over 260 million views on YouTube today. I have Phir Aur Kya Chahiye sitting at 240 million. I have a Telugu song from the movie Dasara sitting at 210 million, a song from the Telugu movie Kushi sitting at 170 million. And then you have a Tere Vaaste from Zara Hatke sitting at 420 million, and movie is not even 1 year old.

The numbers are looking massive. The key part out here is that the fundamentals that are used to buy music has to be very strong. We have invested very heavily on predictive AI, which is becoming a big aid for us.

Second, we have a decentralized decision-taking mechanism so that somebody sitting in Mumbai at the senior level is not taking all the decision. Somebody who understands the local languages is taking a decision and is also responsible for the revenue numbers that are coming in.

Their bonuses are tied to what kind of payback is the music selected by them giving to us. These mechanisms that we have built in the setup of ours, which is 100% professionally driven here is what gives me the confidence that we will be able to sustain this 5-year payback. And on payback even I do not even give you a guidance of 5 to 7, I'm very clear about it. It cannot exceed 5 years.

Moderator: Ladies and gentlemen, that was the last question for today. On behalf of Emkay Global Financial Services, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

Vikram Mehra: Thank you, guys.