



“Saregama India Limited
Q3 FY2020 Earnings Conference Call”

February 03, 2020



ANANDRATHI



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Moderator: Ladies and gentlemen, good day and welcome to the Saregama India Limited Q3 FY2020 Earnings Conference Call, hosted by Anand Rathi Shares and Stock Brokers Limited. 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 Limited. Thank you and over to you Sir!

Shobit Singhal: Thank you Nirav. Good afternoon to all of you. Welcome to Q3 FY2020 Earnings Conference Call of Saregama India Limited. From the management side, we have today Mr. Vikram Mehra, Managing Director; Mr. Vineet Garg, CFO and Mr. B. L. Chandak, 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 afternoon everyone. A mixed bag quarter for us. Our consolidated income from operations for nine months about Rs 413 Crores compared to for the same nine months last year was Rs 418 Crores. We are almost close to being flat. The year-to-date PBT margin is around 9.2% and we are reasonably confident that by the end the year, it will be hovering around 12%. If I talk on quarter-on-quarter basis, our revenue from operations on Q3FY20 is Rs 129 Crores, which is 18% lower than last year while our PAT is 10.5 Crores compared to Rs 13.5 Crores last year.

The primary reason for this is lower than expected sales for Carvaan in Q3FY20 and the other issue is the timing of Diwali has divided the festival sale between Q2 and Q3

Our core business from music licensing continued on its growth trajectory, we have been projecting anything around 25% year-on-year on numbers, Good news is on a quarter-on-quarter basis, we have grown by 28% this year while if I do on a nine-month basis, we are at 23%, so we are in sync with the commitments that we have made. We are obviously investing in Hindi and Tamil content. There is also a lot of focus on other regional languages. All our consumer work seems to be indicating. There is a huge increase in music listening in local languages, which goes beyond the big languages. So everybody wants to focus on Hindi, Tamil, Telugu, Marathi, but there is a big market shipping out of Punjabi, Bhojpuri, Haryanvi, Gujarati, Bengali, there are large pockets of consumers sitting in and we are now evaluating many of those languages and seeing that should we enter those.



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The Carvaan numbers for the quarter was 1,98,000. Across all retail counters, we were getting this feedback that the amount of footfalls was far lower than what they saw last year. Diwali was a pretty dull Diwali. Unfortunately for us, we are still a Brick and Mortar product. Since Carvaan is still a relatively a new concept, most people have never seen a Carvaan in their life. They want to touch and feel it, unlike the mobile phone category. The most people know about the category, they are very happy to buy through digital and all the e-commerce platforms. In our case, people primary buy from retail outlets and if the footfall goes down in retail outlet it does start affecting our sale and that is what we have suffered this time.

During our last call, we had given this clear understanding to all of you that we will start cutting on a promotional spends to be in sync with where we see the consumer sentiment to be, we have gone out there and done that. Also, post Diwali we cut down a lot on a demonstrator, which are there in the field because if there are no footfalls happening at the retail outlets then no point putting up demonstrator in those retail outlets. Looking at the consumer sentiments we believe that this is a right action to be done wherein we are controlling both of our sales and marketing expenses and this will impact the current quarter.

The good part for us is that we have been talking for the last two quarters about our new product called Carvaan 2.0, which is a product, which gives you a Wi-Fi base return path, which allows us to stream much more content. The issue with Carvaan always has been in a way too concern that people keep on having with Carvaan, one that it talks only to 35, 40+ age segment and secondly focuses only on music, which cannot get updated. What Carvaan 2.0 allows us to do is to stream many more, we are streaming close to 1,00,000 songs of us now on to that Carvaan. If you buy a Hindi Carvaan, you will not only get the 5000 songs, which are preloaded for hundreds and thousands of other Hindi songs also Tamil song also Punjabi songs, you can listen to Ramayana and you can listen to Bhagavad Geeta, you can listen to Gurbani. You are no longer limited only to the content. If you do not want to connect it to a net you still maintain your 5000 songs, but if you connect to internet using the same easy actions of Carvaan one turn up the knob, you get access to much more content, which is their sitting behind Carvaan 2.0.

We have now taken recently another call and saying that we should open up this Carvaan 2.0 to consumers at large where any passionate retail consumer can also start contributing towards conten. The role model always is the rates popular streaming platforms in the world of video called You Tube. The question is can we do something similar in the world of audio. We already are having Carvaan 2.0 entering the homes of people, can we open into



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public at large, curate the content, which is provided unlike other platforms, which allow all content to be uploaded, we will be curating the content, so if you have a travel log or you have a great content on cooking, you have great content on stamp collection or you have a view on economics out here or you have content on parenting, you can submit the content to Saregama we curate it and we put the content up. Whenever we start making money from that content from our advertising we do a revenue share with the guy who is contributing the content.

Broadcasting is showing a huge upswing all over the world and we believe if we can build a platform with the content created in a transparent fashion, we may be able to unleash the power of broadcast to the fullest.

Something I want to share with you guys, when we open this Carvaan 2.0 to consumers for the first time, tentatively in the month of October, the average amount that a user was using, the podcasting content not the preloaded content was 25 minutes, which went up steadily from a 25 minutes to a 33 minutes in the month of January. Now, a Carvaan 2.0 very clearly attempt to move Carvaan from being a standalone product to a platform. From a platform perspective when I am saying 33 minutes, if comparable to that on an average time people are spending on a face book platform and only marginally lower than the time spend by an average user on You Tube as a platform. Now the numbers are very different, the numbers out here are still very small in terms of average number of users who are tuning daily, but the good news is people who are tuning in are spending a reasonable amount of time, which in future opens up a great advertising opportunity for us as a platform.

As mentioned earlier, we know the imageries that the Carvaan enjoys in the market, the three big pillars Carvaan is built on music, nostalgia and premium value. We realized the Carvaan has got position as the single most unique and differentiated premium music brand. There is no other music brand in the country today. There are some streaming platforms, but they are not differentiated from each other. Carvaan has got a unique identity and a premium image. We want to extend the same thing to touch the customer in different aspects. So, we made an attempt to launch at digital property on You Tube called Carvaan lounge. What is it? nothing very different. We take some of the biggest retro songs, reinterpret the song using the new age singers like Papon, Benny Dayal, Neeti Mohan and Jonita Gandhi, they re-do the song, we put it up at the You Tube property. How do we make money?, we get sponsorship revenue, we make money through advertising on You Tube and the same content starts going to a partners like Gaana, JioSaavn, Wynk and Hungama and we make money out of that too. So, the Carvaan brand is getting extended from being preloaded music hardware to a digital property. On the other side in the month of January,



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we are now experimenting and saying “can we also get into fast moving product like earphones.” Each of these properties get no additional marketing spend. We go back and work on how to leverage the equity of Carvaan and get to additional categories.

If I spend a minute on Carvaan earphones, Carvaan earphones is an attempt from our side not only to extend the equity of Carvaan, but also get an entry in the smaller retail outlets, which till now are not keeping Carvaan with them. We get an entry through Carvaan earphones and that will over time allow us to also start introducing Carvaan mini in this particular market.

The big other additional advantage of this entire thing that starts coming in that the brands starts in keeping relevant to more and more younger people. Carvaan Lounge which is additional property, Carvaan earphones or recently we have launched Housie on Carvaan 2.0 is making the brand getting more relevant to relatively younger people, so it should not become a brand of 50+, but it should be in equally relevant brand for a 30 years to 35 years old.

On the TV serial side, our serial Roja continues to be the number one show of Tamil Nadu. It is a matter of great pride because in the 19 years we have done a lot of good content on Sun TV, we never had a programme of ours, which was a number one rated programme across channels, across time bands and this show was not even there in the prime 7 O’clock show. Our ability to liquidate inventory on Sun TV remains steady and strong after two years of not writing that great numbers. Sun TV business of ours is looking pretty decent.

On the film side, it was a quarter, which sounds no activity. As I mentioned last quarter, there was a bunching that had had happened, we had sold two films to Hotstar, two films to Netflix in that particular quarter because of which there were no movie that came in out here and if you see my quarter-on-quarter numbers the primary difference is an impact of this only. It is a bunching of movies that happened in second quarter with Q3 going blank out here. This kind of a phenomena keeps on happening out, it all depends on which date is agreement signed and we start recognizing the revenue only when the agreement gets signed and hence you have the selling issue which happens.

Great news for us, that debts are under control. We were able to repay Rs 33 Crores of debt during the last nine months. Our debt has come down to Rs 28 Crores because this is a concern, which was getting raised. We had given the assurance that we will pay the debt and we have been actively repaying our debt. Also we had committed that the stock acquisition rights that the company have that we are coming out with the scheme whereby



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we will be killing the stock acquisition rights and we have been able to cancel 200,000 stock acquisition rights as of January 17, 2010 and in a phased fashion we will be cancelling the remaining stock acquisition rights too. That will be all from my side ladies and gentlemen.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: Carvaan story you have told the details everything, so now the number is 6.67 Lakhs for nine months, so what is our revise target this year?

Vikram Mehra: Our last projection was one million and it is a very stretch number. At this juncture, I will not change anything. We will continue with those kind of numbers.

Ravi Naredi: It is very low margin business for us. Now we talk about the movie, how is going on and how much more movies are coming in this current quarter?

Vikram Mehra: Movies, at this juncture high likelihood that we will be able to close one more deal this quarter. So, the way the movie part happens, as the movie starts getting ready we start opening a negotiation both with the digital guys as well as cable and satellite guys. Typically, you will find 1-2 movie in a quarter. Q2 was an exception with bunching of agreements happened and all four got released in that particular quarter. Let me go back to the point that you raised on Carvaan that it is a very low margin business, please do understand we are moving Carvaan from being a product business to a platform business. As it starts moving into a platform business and you start getting more and more users then it will no longer be a business where you make upfront margin. It will start becoming a business where you start making advertising money from every new user who becomes part of Carvaan. It will be very similar to any platform that you know, which is based on advertising, it is all that we are moving from being a onetime product business where you make margin upfront and you never make money from this customer. To a platform business where you make some money upfront and then you start managing money from the consumer in the long run also.

Ravi Naredi: One more thing, we are planning 20 movies every year, is it right?

Vikram Mehra: That is the target we are working on, but we are consciously slowing down our earlier plan of first making movie and then finding a buyer. We more than more working on a model where the first the buyer say we want some movie and then we start making the movie.



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- Ravi Naredi:** So, this financial year, we will be finished with how many movies ?
- Vikram Mehra:** We have done five deals already till now and hopefully we will be able to close one more in this quarter.
- Ravi Naredi:** So this will be sixth movie this year, right?
- Vikram Mehra:** Yes.
- Ravi Naredi:** How much money we have spent to acquire the new rights of music this year, films music?
- Vikram Mehra:** Till now the total amount of money we people have spent is Rs 32 Crores.
- Ravi Naredi:** Any more in pipeline in this current quarter?
- Vikram Mehra:** It all depends if the movie gets released in this quarter and with the Bollywood, the problem is we do not know, movies really keeps on changing here and there. We have said this earlier that we will like to spend close to Rs 200 Crores on music acquisition over three years. This year has been much lower compared to that because some of the movies just did not happen, but directionally that is where we want to go back in move. We believe that music is a huge growth segment whether it is a TV business, whether it is digital business, live events business everybody ends up using music there and as more and more video content is coming up, more and more scope for music to get integrated in it and hence we will continue investing heavily on a core business of music.
- Ravi Naredi:** Okay. Vikram Ji all the best and any land monetization, development is there, you want to share or nothing is there?
- Vikram Mehra:** Whenever something comes up, we will share with you.
- Ravi Naredi:** Thank you Sir. All the best.
- Moderator:** Thank you. Next question is from the line of Akash Shah from AMS Securities. Please go ahead.
- Akash Shah:** Like you are saying that you will open up Carvaan 2.0 for advertisement revenue but will it not affect the image and the USP of Carvaan of being advertisement free and of being the late pack music experience?



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Vikram Mehra: The late pack remains a same. So, the core part of Carvaan, which has 5000 songs preloaded in it, advertising will never enter that area. It is the streaming content, which will have it, which may be non-music content. So music content is going to be kept free from advertising. Non-music, already we have BBC channels there on Carvaan. You have money control channel on Carvaan, you have Anupama Chopra's film companion, who does movie reviews or channel review on Carvaan. You have kid's stories, kid's nursery rhyme, kid's learning tables for all the grandchildren, for such kind of content we can charge advertising money or we can charge subscription money. The entire focus is to ensure the more and more people end up consuming content using this platform that is why data is shared with you how the number has gone up substantially. Average amount of time people use listing to non-music content. Music remains advertising free.

Akash Shah: So, you are basically saying that it is not firmed up whether it will evolve advertisement or subscription?

Vikram Mehra: It can always be combination; there may be some channels that are better suited to advertising. It is the same work, which happens on a DTH platform. Some channels are free to air, some channels are paid, free to air get advertising, so we are saying the focus is to use the power of Carvaan and its retro music to push more and more Carvaans and build a platform business on top of it.

Akash Shah: So currently, are we charging anything to the other content creators who are putting up their content on Carvaan?

Vikram Mehra: No, we are not charging a carriage fee if you are asking. Our commitments in many of the premium content guys is that please give your content free to us and as and when we make money we will share that revenue with you.

Akash Shah: That is helpful. Thank you.

Moderator: Thank you. Next question is from the line of Jaideep Merchant from Janak Merchant Securities Private limited. Please go ahead.

Jaideep Merchant: Vikram, I have two questions. One, is there has been a sharp jump in the salary in this quarter? Secondly, in the start in your comments you mentioned that you are still sticking to a 12% PBT for the whole year, that will come from lower expenses or there is going to be some movie launches in Q4?



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Vikram Mehra: The lower expenses are going to be happening and some kickers are licensing income because the way agreements functions as it gets into their second year between a two year deal, there is a great hikes in the second year may be delta jam and some of that is going to be kicking in and lower cost structures. On the salary front Vineet clarify.

Vineet Garg: There was a SAR impact in Q2. In Q3, there is a reduction of SAR of around Rs 5 Crores. So, I think if the difference is net off then salary will actually reduce by Rs 1.5 Crores, which is because of reduction of the manpower.

Jaideep Merchant: I am sorry. I was unable to understand that can you just explain?

Vineet Garg: Salary in Q2 were Rs.11.5 Crores. This need to be increased by Rs 5 Crores because that is a SAR credit we got in Q2 because of drop in share price. In Q3 price has gone up and there is a jump of Rs 2 Crore. So, Rs 17.23 Crores showing in Q3 is to be reduced by Rs.2 Crores.

Jaideep Merchant: Now in Q4 of course there is no SAR, so now this variation will not come?

Vikram Mehra: We have total 300,000 shares, out of which 200,000 are already cancelled, rest I think we should able to cancel in the next 12 months time.

Jaideep Merchant: One more question Sir, the average sale price of the Carvaan can you just give us YoY and QoQ number?

Vikram Mehra: It will be coming down because lower end Carvaan selling more in this financial year. As we are entering more and more into smaller towns the price is coming down.

Jaideep Merchant: Thank you.

Moderator: Thank you. The next question is from the line of Adit Shah from Vibrant Securities Private Limited. Please go ahead.

Adit Shah: Thanks for the opportunity. So, last concall you had mentioned that for short term deals of your films the entire cost of production has written off immediately, so could you tell me how many of these are short-term deals and how many of these are long- term deals that you currently have?

Vikram Mehra: All the accounting policy is same right now for all our films.



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- Adit Shah:** So all of them are at short-term deals, none of them are long-term deals?
- Vikram Mehra:** Accounting does not make any impact on the deal size. The accounting policy we follow because we are selling movie only in digital platforms. So, we recognized the full license period whatever the number of years we give, in one go and we charge up the movie in the same month.
- Adit Shah:** Typically for how long is the license period for?
- Vikram Mehra:** The deal by deal varies right now. There are three year deals also, there are longer- term deals also.
- Adit Shah:** The minimum you are saying is three years?
- Vikram Mehra:** Yes, three years minimum.
- Adit Shah:** Thank you. I will get back in the queue.
- Moderator:** Thank you. Next question is from the line of Jaideep Merchant from Janak Merchant Securities. Please go ahead.
- Jaideep Merchant:** Vikram, just a question related to the earlier question of the speaker. The Rs 32 Crores of content, which we bought last year, as per our policy we write off 75% of this, is that 75% done monthly like divide by 12 in one year or it is done 75% on day one when you write it off?
- Vikram Mehra:** In content charging, whenever we enter into contract especially the music buying agreement, this divided into two parts, generally have advertisement revenue and the minimum guarantee fees we pay. Advertisement revenue is charged off at the time it is spent, which is generally the launch month of the movie. Whatever the amount we agree generally it is 20% to 25% cost of a total agreement. Balance 75% is 67% of that. We charge in the first 12 months, it is not in one month, it is 12 months from the date of launch of movie. The movie gets launched in the month of February it will go two months in the same year and 10 months in the next financial year.
- Jaideep Merchant:** Yes. The question was that would the content acquisition cost was back ended last year or it was in the middle of the year or was it front ended Sir?



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- Vikram Mehra:** Last year we had two large movies, which come in the January and February.
- Jaideep Merchant:** So, almost large part of the advertising, it is not the advertising but the content write off would have happened in this year actually?
- Vikram Mehra:** Yes. You are right.
- Jaideep Merchant:** So if I adjust for that the advertising and sales promotion would have fallen much further than what the number is still showing at the other advertising and promotion not the content?
- Vikram Mehra:** Jaideep, come again.
- Jaideep Merchant:** Is it safe to assume that a large part of the movies acquired last year the write off has happened this year because there was only two, three months last year?
- Vikram Mehra:** It all depends two of the movies, there is a movie like 102 Not Out, which came at the beginning of the year and that would have got written up last year. There are movies like Total Dhamaal and Ek Ladki Ko Dekha Toh Aisa Laga, which were January and February released in 2019. Their marketing expenses got written off last year but the content will be in this year also. It all depends on phasing of the movies. It is actually from the date of launch of movie.
- Jaideep Merchant:** Got it Sir. Thank you.
- Moderator:** Thank you. Next question is from the line of Jaideep Merchant from Janak Merchant Securities.
- Jaideep Merchant:** Vikram, last question, how is the pipeline for the content, there are some aggressive targets you have given for content acquisition over three to four years, so how is that going ahead?
- Vikram Mehra:** What we experienced till two years back that most movie producers were apprehensive about suddenly working with a company, which had not been doing a movie acquisition for 15 years. Over the last two years especially with the marketing success of Carvaan, more and more movie producers are finding very comfortable to know that yes, the Saregama Team will be great marketing partner for our music and hence more and more willing to share the content with us and get into deals with us. We are also extremely cautious at this juncture, we are just starting this game of music acquisition. We were being very, very



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cautious about which all deals do we do, should we pay premium, should we not pay premium and hence it is a cautious move. But I think we are moving on the right side and that is helping us grow the licensing income by 23%.

Jaideep Merchant: Okay because you have guided for some 200 odd Crores of?

Vikram Mehra: Over three years, this is a comfort that I gave you that, just because we have numbers in front of us we will not keep blowing out cash. We need to be very comfortable that the movie acquisition is coming at a price that makes logical sense. Once in a while to make a big statement, one can go out there for a large movie just to tell people we are there back in the game apart from that no. By and large movie will be bought at the valuation that makes sense based on the mathematical models that we have developed internally.

Moderator: Next question is from the line of Mr. Amit Jain, an individual investor. Please go ahead.

Amit Jain: My question is regarding the movies part, so two of the movies KD and Hamid got theatre release, so how does it work in theatre, so just wanted to get a sense of it because these movies got good reviews and one of them went onto get a National Award, so how are they performing in theatres?

Vikram Mehra: This is very clear and we people release movies in theatre only to get critics review. Our strategy till now has been very clear, theatrical revenue not part of our revenue mix. We do this, when we are confident about the movie, we release it in 15 to 20 to 25 screens only across country. We get critics review done and we use that to go back and sell it to the digital platforms and same thing has happened in a movie like Hamid or KD very limited amount of screens. For a theatre business to work, there need to be having bigger stars to pull people into the theatre. We release stock in theatre only and only for reviews. It is our marketing strategy than part of our revenue strategy.

Amit Jain: Got it. Thanks.

Moderator: Sir, we do not have any questions here.

Vikram Mehra: Should I start the closing remarks?

Moderator: Sure Sir. Go ahead.



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Vikram Mehra:

As we look forward towards this quarter, we maintain our stand that our PBT should be hovering around 12% by the time we end the year. Licensing income should continue on its growth part that it is currently showing 23% growth on nine months to nine months' basis. We are focused on investing on content continues. On the film side, Hindi and Tamil and on the non-film side. We focus on the regional languages in a big way. The new Carvaan variants which are there going to get launched any time will be karaoke. There is a Carvaan variant around kid's content and there is another one with Art of Living, which is Shri Shri Ravi Shankar content. All these products have clearly dependent on the fact that things improve and churn up pretty fast because our factory was out there. At least for the next of couple of months we should not have any stock out issue on account of China close down because as I mentioned in the past, we have two months inventory we keep with us is all time. We should bail us out over the next 15, 20, 30 days but the moment China Factory opens up we will be launching these new variants also. Lot of focus of Carvaan will be to move it from one-time margin product to an ongoing advertising or subscription revenue platform and we will be working with content partners to come as part of Carvaan 2.0. On the South side, we expect the trend to continue what we are seeing for the last two quarters where a number should look good in terms of ratings and hence advertising revenue. On the film side, we will continue with the new approach, which is focus more on films which are built only if there is a confirmed buyer. This quarter is most likely one film. We will share more about it at the end of the year. So, overall it may look on this Q3 that there is some reduction that has happened compared to Q2. If you ask me, it is all about the phasing of the films part. Had we booked only two films last quarter and two films in this quarter, the revenue would have got balanced out between Q2 and Q3. The tail wind of discretionary products being postponed will continue and I expect that to continue hurting Carvaan in this quarter also, but our focus will be to control cost as much as possible till the time we do not see consumer sentiment again becoming very positive towards discretionary products. That will be all. Thanks a lot.

Moderator:

Thank you very much. On behalf of Anand Rathi Shares & Stock Brokers Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.