



**“Saregama India Limited
Q1 FY2022 Earnings Conference Call”**

July 23, 2021



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Moderator: Ladies and gentlemen, good day and welcome to the Saregama India Q1 FY2022 Earnings Conference Call, hosted by ICICI Securities. As a reminder, all participant lines will be in 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. Bhupindra Tiwari from ICICI Securities. Thank you and over to you Sir!

Bhupindra Tiwari: Good afternoon everybody. On behalf of ICICI Securities, we welcome you to this Q1 FY2022 results conference call of Saregama India Limited. From the company management, we have today Mr. Vikram Mehra who is Managing Director; Mr. B. L. Chandak who is Executive Director and Mr Pankaj Kedia who is from Investor Relations. Without further ado over to you Vikram!

Vikram Mehra: Good afternoon everyone. The shadow of COVID-19 continues both on our daily life and businesses. All of us are trying to find various ways to work around it. The only good part is that COVID-19 has accelerated the digital adoption in our country by at least four to five years and companies like Saregama are getting a great benefit out of it. Specifically, because the age group that was scared to adopt digital has also started adopting the same in a big fashion sitting at home. This simply means more and more people are now consuming content digitally and every time you consume content (Music, Film or a TV series), its owner ends up benefiting.

In FY21 we showed a solid financial performance and continue the trend this year too. Q1 revenue from operations grew around 37% and PAT grew by 73% on a year-on-year basis. If we look at operating income before the content charge, interest, and depreciation, then at INR 42 crores it is almost double of what we made in Q1 last financial year.

Do keep in mind this number doubled in FY21 over FY20. I am not committing to you guys that we are going to double for the entire FY22, but Q1 has been a good solid quarter for us. Especially keeping in mind that Q1 traditionally is our weakest quarter. A lot of our licensing income hikes and overflows actually come in Q3 and Q4. Carvaan sales are also seasonal in nature and peak in Q3. So keeping all the parameters in mind, Q1 is the weakest of the four quarters. This year it's the combination of better performance and phasing of some overflows, coming in Q1 instead of Q2, that has helped us increase profitability substantially over last year. In fact if you remove the other income part and just look at revenue from operations then our profitability in Q1 is even higher than Q4 of last year which actually never happened before.



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The biggest revenue and profit spinner for us continues to be music licensing that has been the trend for the last three years and this quarter is no different.

We have once again grown during this quarter by 20%. I keep on maintaining that we expect this growth rate to continue on a short to medium term basis. We see no reason why our music licensing growth is going to come down. We shared our intent to invest in new content around two years back. Because films were not getting released during the last couple of quarters, we started focusing more and more on Hindi original songs which are non-film songs.

Q1 saw the release of our biggest song so far called Paani Paani, that was sung by India's biggest popstar, Badshah. Honestly, the success of this song has exceeded our expectations too. It has trended at the number one position across YouTube globally, on all major music streaming apps and social media platforms. As I talk to you, it's the sixth week of that song going on. It is still there at the number one or two position almost everywhere.

It's not just one song that has done wonders. We also released multiple songs in Bhojpuri, Tamil and Gujarati during this quarter plus more Hindi songs. What gives me a lot of comfort is our performance across all these songs. If we look at Bhojpuri & Gujarati, then Saregama's market share of new music released across these languages is over 20% in terms of viewership on YouTube. All this is a direct result of our aggressive content acquisition in these markets, in sync with our publicly stated position of acquiring 20-25% of new content coming into the market.

Overall, in this quarter we released 56 songs across multiple languages. We also acquired rights of some of the very big Bollywood, Tamil, and Telugu films. Unfortunately, none of these films could get released during this quarter because of the lockdown. Theaters are still shut in Maharashtra and Delhi because of which films are not getting released, but our music deals are all locked up. The upside of no film music getting released is that non-film songs like Paani Paani are performing extremely well.

Our content charge continues to remain small, which is also one of the reasons for our higher Q1 profits. The content charge for this quarter is Rs.6.8 Crores compared to Rs.3.4 Crores in Q1 last year. So, it is not that we have spent less money on content than last year, but at Rs.6.8 Crores it is still far lower than what we would have liked to spend had normalcy been restored.



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Our focus on cash management continues. Post the dividend payout in April and some of the content buyout advances, our cash at the end of the quarters stands at Rs.138 Crores.

Our digital licensing business is going very steady. As more people got in the habit of consuming content digitally during lockdown, these habits are staying even post-lockdown, giving a huge boost to digital consumption. Our licensing business is growing in sync with that.

During this quarter alone if I share some of the names like Tikli & Laxmi Bomb which were released on Hotstar respectively ended up using our content. Phone Booth got released and ended up using our content. Various brands like Dream11, ITC, Spotify ended up releasing their ads during this quarter, using Saregama licensed music. The list of brands, films and digital series taking music license from Saregama is constantly growing

The 20% growth that we keep on talking about primarily comes out of the growth in the music industry, which is about 11% to 12% and increase in our market share. Why is the share going up? Two reasons : The retro music popularity is growing world over primarily because of its easy availability on digital platforms. Earlier in the days of cassettes and CD it was difficult for me to suddenly listen to a Raj Kapoor song if I did not have the cassette. Today when I am sitting there on a Friday evening and I want to listen to Pyar Hua Iqrar Hua, its very easy for me to just click a button on Gaana and the music will start. So the retro music consumption is going up. The second reason is our increasing investment in new music across multiple Indian languages.

Last year from Dussehra onwards the retail network started opening up, immediately giving a push to Carvaan sales. Our product being a part of a new category, is still a kind of product that the customer wants to touch and feel before buying. So retail network is crucial to the success of our product. It did well in the Q3 and the Q4 last year. The sales started falling since lockdowns started in March and the same trend continued this quarter. But inspite of complete lockdown during April and May, we were able to sell 45,000 units of Carvaan during the quarter. But the focus as promised earlier continues on controlling costs, till the retail network fully opens.

Last year was a breakeven for Carvaan business and in this year also it will atleast reach a breakeven. We will obviously try to improve the performance and write a marginal profit. Our focus on moving Carvaan from a standalone product to platform continues. This endeavor needs a marketing boost, which will happen only post retail networks fully opening up.



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On the Yoodlee side, there is no new film that got licensed during this quarter. It is more of a phasing issue than anything else. Also since April and May lockdowns were there, we could not finish the shoots of some of our films. But we are confident that on a full year basis, Yoodlee's performance this year will be far better than last year's breakeven. This year we should see growth both on revenue side and hopefully on the profitability too.

One of our films Collar Bomb was licensed to Hotstar in Q4 of FY21 and was released recently. The viewership data released by Ormax, one of the best digital tracking agencies, confirms that Collar Bomb was the most viewed OTT content during 12th to 18th July. This feat was achieved inspite of many big Bollywood films getting released on OTT during this week.

On our TV part, we are happy to share that TV shoots did not get affected by lockdowns. We found ways to change our storylines so that the shoots could happen in bubbles and we continued non-stop with the TV production business. That is why our revenue has been steady during the quarter. Also our serial Roja maintains its No.1 position even 15 months after launch. We currently have three serials running on Sun TV. All three of them are also getting monetized on YouTube and Facebook.

Overall, we are happy with our performance in Q1. Our core business of music remains steady and grew at 20%. Carvaan in spite of the lockdowns was able to achieve some kind of a recovery in the later part of the quarter, when the retail networks opened up and we believe the future quarters are going to be better. Our TV and films business was steady. We are quite hopeful of maintaining this momentum during the remaining part of the year. That will be all. I will be happy to take questions from you.

Moderator:

Thank you so much. We will now begin the question-and-answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Amit from 2Point2 Capital. Please go ahead.

Savi Jain:

This is Savi. My question is on the royalty expense so I just wanted to understand the way it is calculated and paid out especially because I was looking at one of your competitors who is also listed and they seem to have no royalty expense whatsoever and I also ended up asking them this question. They said that in our acquisition model we do not have any future payouts to anyone so I just wanted to understand whether this is different for different players or I thought it was standard so I just wanted to understand more of the royalty bit?



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Vikram Mehra: I think it is a very fair question. There are two parts to the answer. HMV or the Gramophone Company of India, the erstwhile form of Saregama, used to buy music in the pre 90s era on perpetual royalty basis, usually without any upfront advances. Then came the era of 90s, where the deals started happening on outright buyout basis without any future royalties. So, from a pure royalty, no upfront payments it became all upfront payment, no royalty payouts. Our royalty payouts for the older content is in the range of 10% to 15%. Then came the modern era where all Hindi film music acquisition deals happen on royalty plus upfront advances basis. Those Music labels who are just making money of their old catalogue and not acquiring any new content obviously may not have a large royalty payout. Our royalty payout is linked not only to our older catalogue but also to our new music acquisitions. Every music label who is currently active in acquiring new Hindi film music will have a royalty payout in their books.

Savi Jain: And will it be in the range of 10%?

Vikram Mehra: No, now the royalty payouts are higher than that.

Savi Jain: Just related to this question, I was looking at the UK market and the other developed markets structure, I am sure you are also following that there is a lot of backlash from the artists against the labels and the platform because they believe they are not getting their fresh share of revenues. Because of that there is an expectation that contest net royalty payment will increase and it is already much higher than what it is in India. So in India also do you think similar kind of stuff will happen?

Vikram Mehra: Fair enough point here. Structurally they are different in other parts of the market as the deals are between the label and the artist because there is no concept called film music. In India majority of the deals are between the film producer and the label and film producer has his own private deal going on with the artist. So when we pay royalties on film music, we are actually paying royalties to the film producers and not the artistes. But in the non-film music space, we pay royalties directly to the artiste. Coming to the bigger question in India we have a very, very smooth working relationship going on with the composers and the lyricists. All of us have formed a society called IPRS and all of us sit on the board of it. So I believe different countries are different in terms of structures. Thankfully we have a stable working relationship going on here.

Savi Jain: Sir you mentioned about the movie, it is paying to the producer but for something like that Badshah deal you would be currently paying directly to Badshah right, so what happens in that case?



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- Vikram Mehra:** But the majority of the content in India is film content. So right now yes on a Badshah deal I am with you but non-film music in Hindi still it is relatively small. We also have a Akshay Kumar movie called Bellbottom, Ajay Devgan movie called Maidaan, we have two of Sanjay Leela Bhansali films, we have a Ranveer film with Shankar, we have an Ayushmann Khurrana film. So there is enough films music that we have acquired and as theaters open up all that music is going to come out.
- Savi Jain:** Just my concluding question is I get a feel that the overall share of the pie for the artist in India is significantly lower than say developed markets so in India the platform, the label and the producers are taking a significantly larger proportion of the total revenue pie as compared to say in the developed markets where the artist really make a lot of money, is that true?
- Vikram Mehra:** This is not the forum for me to discuss this please. It is wrong to discuss an industry issue in a Saregama investor call. I can take this question offline.
- Savi Jain:** Sure. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Arpit Shah from Stallion Asset Management. Please go ahead.
- Arpit Shah:** Mr. Mehra, congratulation on a good set of numbers. I just had a couple of questions regarding the license margin. I just wanted to understand the split between the fixed and the variable parts. So how much money do we get from first stream revenues like from that kind of contracts and what kind of revenues that we got from fixed contracts, maybe you can just bifurcate that?
- Vikram Mehra:** Variable, so I will give you a rough idea. Our biggest two sources of revenue will be the music streaming apps which pay on a variable basis with a minimum guarantee and YouTube which also pays on a variable basis. These form a bulk of our revenues and this is all variable in nature. We may have a minimum guarantee to take care of a downside. Upside is all sitting with us.
- Arpit Shah:** So if we see any player which will be not producing new music more to which the growth would be from the whole IP that would be with us?
- Vikram Mehra:** See if you see my annual presentation which is there on our website, we have shared some data there. We are seeing a steady increase in the catalogue music consumption year-on-year. This trend is true not just for Saregama, but also for the international labels. The



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reason is the easy availability of catalogue music on digital apps. We track the performance of each of our 130k songs on annual basis. So if we take a RD Burman song, it would have performed better in 2020 compared to the 2019, better in 2019 compared to 2018, better in 2018 compared to 2017. From 2015 onwards we are seeing that every song is making more money in the subsequent year.

Arpit Shah: We have signed up with Badshah for Paani Paani or is it the kind of sort of a large star for any of our film for non-films Hindi music what would be the typical cost for the production what is the typical cost?

Vikram Mehra: We can't share such specifics on the call because of competitive reasons. Our internal target is to recover the total investment on new content acquisition and its marketing during the year, within the following five years.

Arpit Shah: I just wanted to understand what kind of ROIC we have from the large artists for larger songs. Like for something significant, like a Badshah song, these would be expensive sign ups so what could be a typical ROIC for such new kind of songs?

Vikram Mehra: I will repeat my answer. The payback period target for all content investment during a financial year is five years. I cannot get into specific financials of a particular song, whether expensive or cheap. We obviously do a combination of flagship properties, smaller properties, film songs, non-film songs, Hindi songs, regional songs, and then come out with the optimal structure to enhance our content appeal while achieving 5 year payback period

Arpit Shah: Just one last question if I ask. How are our revenues from radio? Are we having discussions with radio from the point of view of royalty for the music industry?

Vikram Mehra: I would not be able to comment on radio at all. We are in court with them. Today, radio forms a very, very small part of our revenue streams.

Arpit Shah: One thought potentially for 4 or 5 lakhs, right?

Vikram Mehra: There is no downside because Radio revenues are already very low. Radio has not been a substantial chunk of revenue for any of the music labels in India, beyond that because it's in court, won't be able to comment.

Arpit Shah: Thank you so much. That is it.



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Moderator: Thank you. The next question is from the line of Devanshu Sampat from Yes Securities. Please go ahead.

Devanshu Sampat: Good afternoon. I had a few questions; first the decisions on music licensing as well as Carvaan. Music licensing we had invested about 17 Crores to 18 Crores in terms of content in the past two years, and we still have been able to grow at about a healthy 20% pace and I guess a lot of that is to do with the tie ups and the business development efforts that we have done. But if I remember correctly, in your previous calls you had mentioned that all the efficiencies have been brought in and now the growth is largely driven by the new music that we acquired. So, this is sort of a continuation which the previous participant also said. Because of the lack of availability, if we are not able to buy or reach a 100 Crores sort of target, will we be able to manage the 20%, 25% envisaged growths this year. So that is one. Secondly, if no major releases mainly for the music happens, will our content charge be 17% to 18% in the same range basically is there a budget for the recent music that comes out every year?

Vikram Mehra: Our content budget is not a hard number that we have to spend come what may. This is our intent to spend assuming there is enough content in the market. If tomorrow for whatever reason there is a lockdown happening in our country for nine months, if nothing is going to be shot so even if we want to spend we cannot spend, so obviously we are going to be constrained by the supply. Going by whatever we people have been able to do in the last six months, we are reasonably hopeful that we should be able to release a good amount of content in the remaining three quarters. Many of the songs have already been shot. Its now just a question of releasing them. Some of the films are all ready. They are just waiting for the Maharashtra and Delhi territory to open and music to be released with films. The regional music is still being shot and we are releasing that music out.

Our content acquisition target is not basis a budget but basis market share. We plan to acquire 20% to 25% of all new music getting released in the market. If the total music that comes in the market is very little, we will acquire 20% to 25% of that little music. Will the the overall music industry shrink this year due to less music coming out? I don't think so. Looking at the current signs in the economy and the entertainment industry, we are confident that Indian music industry will manage to grow at 11-12%, and Saregama's music licensing revenue will grow at 20% this year.

Devanshu Sampat: Is there a strategy for us to remix or rerelease any of the songs that we already have as the effort to keep our content growing which is maybe a strategy that you have invested in, or



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in a situation where content acquisition becomes a challenge, is there something like we are thinking of or is now something that can probably get the engine moving for us?

Vikram Mehra:

I am assuming you are talking about remixes and reinterpretations of old songs. They also need to be re-sung or remixed with a brand new video. So creating a remix is as simple or complicated as doing an original song. Currently our focus is on new content creation because it gives us not only a new song, but also the rights to a new set of lyrics and new music composition. When you do a remix, then basically it is a derivative of the rights that you anyway owned. So there always has to be balance between remixes and originals, originals both in terms of independent music and film music and you will see from our side, both coming out like we did last year. This year also you will find a few remixes coming out from our side.

Devanshu Sampat:

Can you help me understand a bit between the dynamics, between the music license revenues in India versus abroad, because given our international revenues have also been growing at a healthy pace, and I assume that there would be higher proportion of paid up subscribers abroad, so the revenue or the economics will be a bit more favorable, so can you throw some light on this in terms of how this, you think can play out? Will it be additional tie-ups that will grow the revenues for us internationally or is it simply just higher usage?

Vikram Mehra:

When we say International, we are talking about Indians living outside India consuming Indian content on various apps. Since a higher % of these customers are paid subscribers, we get higher revenues from them. I am personally more bullish on India. Soon you will see the transition from an ad-driven business or a free business to a subscription-based business. Globally, the number of paid subscribers for music streaming have grown up from a paltry 50 million to 450 million now. You have significant numbers even in places like China. I see no reason why in India, over a two-to-three-year horizon, most of the music streaming platforms should not move towards paid economy. When we people make our projection of a 20% increase in a music licensing revenue, we don't factor in transition to a paid economy. If that happens the growth can be far higher.

Devanshu Sampat:

I understand that. If I may, I have a couple of questions regarding the Carvaan side of the business also. Now if you look at the price points, they vary between anywhere Rs.2000 to Rs.6000 so as such you are essentially targeting the relatively affluent part of the society and to add to this, even in your presentation to say that you are targeting people above the age of 35 and plus, I also fall into that category. But I am guessing majorly younger people as a section of the society, they would generally be tech savvy, having phones, earphones or may be wireless devices, so do you think that I am guessing we are betting big on the



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platform aspect of Carvaan to really take off and target these people, but what are your thoughts on people who already have or already are used to using a phones and wireless devices, the Bluetooth speakers and those kinds of things versus having a provisionally has an idea of testing it for people who are technically finding it difficult to adapt to technologies which is basically with the 50 or 60 plus age category.

Vikram Mehra:

I will take you through one of my trips to a Kanpur or Ujjain or a Banaras and introduce few people in the age of 35 to 40 randomly and you will realize that there is a lot of difference in a typical 40 year living in Mumbai, Delhi, Kolkata, Bengaluru, Chennai to somebody living in Kanpur. Unlike the more tech savvy customers staying in large towns, customers in smaller towns are tech hesitant. The typical reaction to anything new of a 35-40 year old living in a smaller town is “when my son or daughter comes, they will fix it as we are not able to do it”. I can also assure you that of this entire 2.5 million odd Carvaans that have been sold practically, each one of those people will have a smartphone in their hand and a smart TV in their home. So, who is buying Carvaan? People have been buying Carvaan are those who value convenience over control. They have all their devices in their life right now to control their life, to control their viewing / listening experience. But they are yearning for the relaxed world where when they come home, they can have a cup of tea or a drink, read the newspaper or a book with their favorite music playing in the background, without any onus on them to decide which song to hear next. My 21-year-old son does not understand this philosophy. I think 15 years back even I had a problem understanding this philosophy. With age, you start valuing convenience over any kind of control, which newer devices give us. That has been the mantra behind Carvaan, the product. This is also the mantra behind Carvaan, the platform. Whatever we have sold, we have sold basis this customer insight only and we hope that it will hold us steady in the days to come. If in future we realize that customers have changed completely in our country, we will change our business strategy accordingly.

Devanshu Sampat:

I have one more followup question to this. So, is there a risk mitigation plan here in the sense, what is it that will have to happen that will let us decide okay maybe this is not going as per plan, we need to scale back or maybe close down, is there a number?

Vikram Mehra:

If you ask me right now, financial year 2021 was just a mitigation plan. Though we completely believe in the product, we realized during the first COVID lockdown that it was not the time to accelerate the demand. With retail network shut, the risks were high and we instead start focusing on cost management to achieve a breakeven. Even though we launched newer product variants like Karaoke, Mini Kids Carvaan etc, we didn't put marketing monies behind them as the timing was wrong. We are clear about it. Till the time



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we are very convinced that the retail market has fully opened and the customers are happy to step out of their home and touch and feel the product and buy it, you will not see us spending any big bucks on Carvaan. We will just keep on going steady, worst case scenario do a breakeven.

Moderator: Thank you. The next question is from the line of Vivek Gautam from GS Investment. Please go ahead.

Vivek Gautam: First of all I would like to congratulate you on the retro music popularity, for example, this Ludo movie has become phenomenal with the song, O Beta Ji. So, I just wanted to understand how big is the opportunity for retro music in films and ads. How big is that opportunity size for us?

Vikram Mehra: It is very difficult for me to give a size of retro music as such. 2015 onwards we are seeing globally a huge upswing happening on music. Indian market is no exception. If you see the American market or the European market, everywhere there is a rapid growth coming in and the reasons are very obvious. This time the digital consumption is not browser based. Earlier we all used to go to www.xyz.com to do anything. In that world, it was very difficult for content owners to control piracy done by rogue operators sitting outside India. If somebody was doing piracy sitting out of Afghanistan or Africa there is no way we could have controlled it. From 2015 onwards as Apple and Android based smartphones have become the way of life, more and more people consume content through apps. And in the world of apps, it is difficult to do piracy because Apple and Google are extremely strict that none of the apps sitting on their platform should encourage piracy. So, every time we are able to find somebody going and consuming a content without rightfully taking license, we reach out to these platforms and they are very cooperative in ensuring that any app which is infringing will be pulled down. This is ensuring that all of us are getting bang for the buck for the IP that we people own. This is one of the primary reasons why music-based licensing revenue is going up substantially.

Vivek Gautam: Congratulations. Sanjay Leela Bansali is a master understanding of the music, the music which stays with us for a long time, but are we paying very high cost and would it be lucrative for us after paying such high costs for the music rights.

Vikram Mehra: Let me first tell you how we choose and how we decide the value of any song? We have turned it into a part science. Every song which is being released in India in the last 36 months, across languages, enters our database. This includes competitors' songs. For every song, we know the director, lyricist, musician. Etc. We also know the performance of the



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song on Youtube. Using these data points we are able to build predictive models allowing us to predict revenue potential of new songs. When a producer comes to us and says, “this is my picture, there are five songs along with the artiste names and song moods”, we are able to predict, what will be the potential of those songs over the next five years. It is not perfect science, but it reduces subjectivity. This is combined with listening session by employees, under the age of 30, who share their feedback on the songs. We then combine the quantitative stuff which is thrown by the models with the qualitative part and then take a call how much should we be ready to pay. We make our utmost attempt that vanity does not come in the play and we are also bound by the commitment that a block of music bought in an year should have a payback period of five years. So if we are going to be buying music by paying obscene amount of money, we will not be able to live up to this. We are anyway writing off the cost of 48% in year one itself. So, if we take silly decisions it will start showing in our books immediately. Hopefully, this gives you a comfort.

Vivek Gautam: Thank you Sir. Keep up the good work.

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

Ravi Naredi: Vikram Ji, thank you very much for nice results, fantastic in all respects. Sir, how many songs is listened on Youtube, Facebook, Netflix, Spotify, Gaana. How do we receive the revenue from advertisement or per song cost?

Vikram Mehra: In all the platforms, the deals are different. If you are listening to the song on a Gaana or a Spotify we get paid every time you listen to a song. So it is a variable deal. So every time if you go and listen to the song, say “Rote Hue Aate Hain Sab” or “Main Pani Pani Ho Gayi” Saregama will get paid. If you are in Youtube and you listen to a Saregama song on Youtube, then Youtube will share 55% of the advertising revenue that they make by showing you the ads. If you are going to Star Plus and watching a reality show in which Saregama music is getting used, the channel will typically pay us a fixed fee and this fees gets renegotiated every one or two years. If a Google or a Dream11 is using our song in an ad of theirs, they pay us depending on what is the extent of usage of a song, for how many days the ad will run and will it run only on television or also on digital mediums, will it run only in India or outside India too.

Ravi Naredi: How much do we get paid from Gaana/ Spotify, can you disclose this?



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- Vikram Mehra:** Yes, we can give you a broad idea. On an average we get paid 10 paisa every time somebody listens to our song. We also get a share of the subscription amount paid by a paid subscriber of the music platform. All of this is protected by a minimum guarantee committed to us
- Ravi Naredi:** Minimum guarantee is there in the film industry, that is there.
- Vikram Mehra:** Bigger Labels are able to get the minimum guarantee from everywhere.
- Ravi Naredi:** Sir, secondly, Yoodlee Movie first movie when we released, I think three years has been passed, is it so?
- Vikram Mehra:** The licensing of the first movie, 3yrs is just about to pass now.
- Ravi Naredi:** So after three years, the film will again come to us or five years after?
- Vikram Mehra:** Sir, it depends. Some of our deals are for four years, some are five, some are 11, some are three, but you are right principally every time the licensing deal gets over, we get the movie back and then it is up to us whom do we license it the second time. The good part is that the cost has been written off in the year one itself. So whatever money the movie makes in the second round will straight move to the bottomline.
- Ravi Naredi:** So, Vikram Ji that is why I would like to know any film, if the right has been lapses and again we have resold it or given right to any of the persons? How much money we received?
- Vikram Mehra:** I would not be able to tell you that, now if you see we have not yet completed the cycle of first rights for any of the films.
- Ravi Naredi:** Definitely, now it is about to complete three years, but...?
- Vikram Mehra:** Our initial movie deals were four-year licensing deals. Still waiting for them to get over. Some of our later deals were for 3 years. So within a year or two, you will start seeing numbers coming in. More important part is due to the good performance of those movies, we are getting many more movie and series deals now from these big platforms. I had said it in my last quarter call, I will maintain this that we see Yoodlee reaching a triple digit revenue number in the next two to three years.
- Ravi Naredi:** This year how much movie we have planned to release till March 31, 2022?



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- Vikram Mehra:** Let COVID-19 completely settle.
- Ravi Naredi:** Right. Definitely we understand you are doing very hard work and intelligent work, so working is quite different and talking on concall is a different thing. So just, you are doing fantastic, I knew it and I am fortunate enough I am the shareholder of Saregama since long and getting a very good return also. All the best Sir.
- Moderator:** Thank you. The next question is from the line of Saket Mehrotra from Tusk Investments. Please go ahead.
- Saket Mehrotra:** Congratulations on a great set of numbers. The first question I have Vikram is on the film revenue model, typically do these films that you license to say OTTs present in the current scenario, do they have MR fees or is there some variable component just like music streaming based on the number?
- Vikram Mehra:** Flat fees. There is no upside.
- Saket Mehrotra:** Secondly, Vikram any concrete plans of reorganizing the publishing business because recently we saw the group company also had to have a publication, so if this could be reorganized with that?
- Vikram Mehra:** All I can say at this moment is that we are looking at it very, very closely and seriously. Our Chairman, Mr. Goenka himself is personally involved in it. We are looking at it. That is all I can say at this moment. We are fully aware of the feedback from all the investors on that particular topic and we hopefully will come back to you shortly.
- Saket Mehrotra:** Vikram, I just saw that there is another song that is getting released by the new artist that you are signing are these going to be exclusive with Saregama or are they are free to be with other music labels as well?
- Vikram Mehra:** As I talk to you, we do not sign artists. We work with everybody in the market. We are not into artist management. That vertical does not exist in Saregama today. So, when you see our numbers also, you will never see any revenue against artists. Our endeavor is that work with every artist in the market, whosoever is doing pretty well, go and work with them and do some experiments with budding artists, but we do not sign up the artist.
- Saket Mehrotra:** Just continuation of this where you said that think of working with say new age artists and experimenting recently, we saw this Canadian artist called Teshar and his song Jalebi Baby which became viral and then went to UMG. So do we have a mechanism in place to keep



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finding say these viral tracks, and maybe try and work with them to get the rights of those songs?

Vikram Mehra: Absolutely. Our country of 1.3B people is full of talent and the real challenge is to discover and launch this talent. We are working with multiple partners in this space, both in Hindi and regional languages. It's the regional languages that give us an edge over competition

Saket Mehrotra: Thank you.

Moderator: Thank you. The next question is from the line of Ankush Agrawal from DPI-Research. Please go ahead.

Ankush Agrawal: Thank you for taking my question. Firstly, if you can give color on what kind of split do we have in terms of revenue from sound recording and publishing rights, some broad breakup if you can give?

Vikram Mehra: We do not disclose sound recording versus publishing rights breakup because both the rights are sitting with a single company unlike some of our global counterparts where these rights are in different companies.

Ankush Agrawal: My intention was to understand what kind of profitability is there because on publishing rights, I think we have to share 25% with the composer and 25% lyricist?

Vikram Mehra: The good part is, majority of the revenues made by our company were coming out of sound recording. The publishing rights were something on which there were lot of disputes going on in the entire music industry. It is only in 2017 that everybody came together and created a society called IPRS under the Chairmanship of Javed Sahab and we are now seeing that society is slowly increasing its revenue. Are we bullish? I think personally, I am very bullish that the publishing revenues in the days to come in India going to up substantially. They will be collected by IPRS and 50% of whatever they collect comes to us because we are the owners of the rights so there are huge potential upside in future. We do not put a number to it. As and when the numbers are coming in, you will start seeing but hopefully, they will push the growth higher than the proposed 20%.

Ankush Agrawal: My second question was on IPRS itself; you have mentioned in your annual report from the last two years that you see it is untouched market till now so what has actually changed over here why were these rights was not getting executed and why were we not getting revenues out of it till 2017?



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- Vikram Mehra:** Till 2012 there was lack of clarity on this right. There was a copyright amendment that was passed in 2012 which clarified that whenever a song is consumed, the user needs to pay for both the sound-recording and publishing rights. Post that there was a lot of debate in the industry on the tariff and mechanics of collecting publishing rights. Finally the industry came together in 2017 under the aegis of IPRS, with all three stakeholders, publisher owners, composers, and lyricists working. It took us two years to make this society as the fastest growing publishing society globally. Last 18 mos have been difficult because of Covid, but we expect the revenues to bounce back with the return of normalcy.
- Ankush Agrawal:** Just one clarification over here, in any public event entire right is about publishing rights and there is no part of anvil of recordings?
- Vikram Mehra:** Whenever in a public event, there is recorded music being played then event organisers need to clear both sound recording rights and publishing rights. Suppose you were doing public event, you have party of yours, happening in a five-star hotel and you start playing Badshah's "Pani Pani", you will need get your public performance sound recording rights cleared by a society called PPL and then you also need to get publishing rights cleared by IPRS. But if there is a live show going without any recorded music being played, then you only need to clear your rights from IPRS.
- Ankush Agrawal:** That was very helpful. Just last one, can you give me how much is total industry spend on new music, specifically in Bollywood?
- Vikram Mehra:** The number I can share with you. Our understanding is that the total investment in new content across languages, across film and non-film should be in the range of Rs.600 Crores, going upto 700cr next year
- Ankush Agrawal:** Okay got it.
- Moderator:** Thank you. The next question is from the line of Kashyap Javeri from Emkay Investment Managers. Please go ahead.
- Kashyap Javeri:** Thank you very much for the opportunity and congratulations for great set of numbers. Just one question from my side, if I look at last two years FY2020 and FY2021 because the content generation and acquisition was on slightly slower side. We could see significant positive upswing on the operating as well as free cash flows. In fact we sort of paid out fair dividend also in FY2021, in a non-COVID normalized year when the content origination as



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well as acquisition goes back in full swing, what could be the impact on the cash flows and consequently your dividend paying policy?

Vikram Mehra: So I will not be able to comment. We will continue to give dividend but I cannot comment anything beyond that. On the first part your understanding that the profitability of the last year was governed a lot by low content investment is partly true and I have said it in my last quarter call that when we were declaring a profitability or PBT of around Rs.150 Crores, Last year we did not invest enough in new content because it was not possible to do it and secondly we had one off income also that happened last year. Post correcting for these two factors, our profitability should have been 110-120crs. So is that the number which is sustainable number with a newer content investment coming in? Yes. As we people will go forward two things that are clear- One that the entire investment in new content has to come out of the cash that will be generated by the music business. We have a very clear-cut commitment given to the board that we will not be raising debt to do content purchases.

Kashyap Javeri: When you say inorganic it is like acquiring library from somebody else?

Vikram Mehra: Picking up from other music label? So that is difficult to anticipate but on song by song or movie by movie entire thing is going to be funded by internal accruals. Also, keep in mind that we people take a charge of 48%. Say, if we people are acquiring movie worth a Crore, the chances of 80 lakhs will be towards content and 20 lakhs will be towards marketing. The entire Crores 48% is charged off to the books in year one itself.

Kashyap Javeri: Could you repeat those numbers?

Vikram Mehra: So roughly 80% of spends typically are going towards content acquisition and 20% of the commitment towards marketing of that content, so if a film is costing a Crore chances are that the 80 lakh has gone to the content owner as an advance and 20 lakh has gone out commitment from our side on marketing of the music. On our kitty 48% gets charged off in the year one itself.

Kashyap Javeri: Of the total 100?

Vikram Mehra: Of the total 100. Remaining amount gets charged off over the next five years. We are also committed to a 5-year payback period. In the short run there may be a phasing issue between the content charge off and the resultant revenues, but on a 2 year time frame revenues from new content should match or overtake the charge offs.



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- Kashyap Javeri:** Ok, just so you get it technically bit more clear, then in that case even if let us say you were charging like you said the charging to the P&L might be in a phased manner, but if I look at your cash ROCE that should reflect your IRR or let us say payback period which you are very confident about?
- Vikram Mehra:** I will take this offline with you, but keep these two parameters in mind that we charge it off over six years of which 48% is charged off in year one while we expect to recover the cost which is both content and marketing over a period of 5 years. Also the entire funding will be done through internal cash accruals, not going to spend more than what will people earn.
- Kashyap Javeri:** That is it from my side. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Rajesh Kothari from AlfAccurate. Please go ahead.
- Rajesh Kothari:** Good evening Sir. I had two questions. My first question is, can you give some color in terms of how the competition intensity is when you are buying the music rights or even if you are entering into agreements. And globally for example, the Sony's and the UMG's of the world and, when they themselves are so big, what kind of trends you are seeing from the competition perspective, the key competitors and how aggressive they are?
- Vikram Mehra:** We are not the number one player in the market. We are the number two player in the market, so there is clearly a formidable competitor sitting in. Where we differentiate ourselves vis-à-vis our competitor is the ability to market music. As a company which is one, run by professionals, second has got very high-quality marketing talent, also courtesy Carvaan, we are the only music label which has got a retail business and best of the marketing talent actually sits down on the retail side and not on the B2B side. We are able to attract that talent and keep it in our system. This is a great value to our movie producer, because most movie producers consider music that they release before the film to be the biggest promotion tactic for their movie, so they want to work with people who are very, very marketing savvy. This is really helping us out. Second, Saregama has a very long track record of being very particular about royalty payments. Our payments are accurate and timely, winning a nod from producers.
- Rajesh Kothari:** For example, Sony's of the world or for example, say YouTube, do you think they can also compete with you? I am not talking about the traditional number one competitor; I am talking about these new edge competitor



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- Vikram Mehra:** The entry barriers in our industry are huge. Anybody can release a song but to build a substantial catalogue takes decades. When you acquire the music of one film you get on an average four to five songs. If you acquire music of 100 films from 100 producers, a herculean task for anyone, then you get 500 songs in the year. You do it for a decade you get 5000 songs, you do it for 50 years then you get only 25000 songs. Compare it with Saregama existing catalogue of 130000 songs. The other one or two big guys are also sitting with large libraries. Just because of the sheer size Saregama has, we are able to market our content much better and we are able to get better deals from our partner. So for a newer guy to compete is difficult. You may have a song being released on YouTube which may do well, but on a sustained basis to develop business around it is a difficult task. The same dynamics apply in the global music industry.
- Rajesh Kothari:** Basically, they generally do not compete with you, right, sorry for my limited knowledge in the industry, say for example does the Youtube actually competes with you at any point of time normally or other players like that?
- Vikram Mehra:** None of the partners create content, so there is a clearcut distinction, we do not get into their space, we are not launching a Spotify or Gaana or a YouTube or a Netflix equivalent, we are pure play content IP company while most of these guys are pure play platforms, so you will not find music being created by any of these guys.
- Rajesh Kothari:** Understood and Sir, my second question in the opening remark, I do not know correct me if I am wrong, you mentioned something that normally first quarter is weak, but this time it is strong because of prepayment of revenue from Q2 to Q1. I did not understand that statement? Can you clarify please?
- Vikram Mehra:** My statement was Q1 anyway was pretty steady this time for us and it is also held, we have a concept for overflows, so I spoke to you about our various OTT deals which are minimum guarantee-based deals. Our policy is that if there is an overflow coming on this minimum guarantees it is booked only when it is received. It happens here that typically that our overflows come in Q2, Q3, one of the overflows has come in Q1 at this time.
- Rajesh Kothari:** But that can happen in Q2 right for some other deal, so that is normal part of your business am I right and it can overflow any time?
- Vikram Mehra:** It is a phasing issue. Some part has come in Q1 while other will come in subsequent quarters. Our focus is to increase our disclosures for better understanding of our business.



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Rajesh Kothari: Great Sir. Thank you. Wish you all the best.

Moderator: Thank you. The next question is from the line of Vivek Gautam from GS Investment. Please go ahead.

Vivek Gautam: Could you just highlight the progress India is making regarding two factors. Number one is the paid subscriber for music in different platforms and number two, the increased litigation and governance in India if you report some IT validation like in China, it is almost 94%, how much is it in India and how much is it looking like in future? Thank you.

Vikram Mehra: Let me put the second part first. Overall, we work with Government of India closely on the piracy issue and I can tell you both across films and music we are seeing a fall in the incidents of piracy in India. There are two reasons for it. One, it is becoming so much more easier for a customer to get access to legal music or film today You can go to Gaana or a Saavn or a Wynn or a Spotify and legally hear music, so why will you go out in and indulge in piracy. Secondly, even if you want to indulge in piracy, it is becoming difficult to get access to pirated content, because most people do not use browsers any longer. Instead they go to apps for content consumption, and these apps are bound by Google / Apple store rules. This is what is helping rate of piracy coming down in our country. Is it still very high? Yes it's still high, but the good news is that it is falling down. Also we are seeing judiciary, now getting active and acknowledging that the IP piracy is as good or bad as stealing somebody's physical products. There are lots of livelihoods which are dependent on IP and if someone's rights are getting stolen and other person is taking advantage of it proper legal action should be taken. This is helping IP get its space under the sun. The first part that you asked me was about subscription. This is my personal view. I think Indian customer may be ready to pay, if the pricing is right, but most of the existing music platforms are more worried about building their valuations than building their bottomlines and if the focus is on valuation then you push more and more on monthly active users which means you need to put your content free rather than do it on a paid basis. Eventually, all of these platforms are going to fall in place and push paid economy. The international players are anyway pushing for paid business, and it's a matter of time before Indian platforms follow suit. Is subscription a very large number today? No it is not. Do we expect this number to grow up substantially? Yes we do. If that number goes up substantially, will we benefit a lot? Yes we will.

Vivek Gautam: The judiciary comments of yours is because our courts are more famous for Tareekh pe Tareekh culture, so how effective have been they?



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- Vikram Mehra:** I could not get your question.
- Vivek Gautam:** We are famous for Tareekh pe tareekh, film by Sunny Deol, because judiciary basically keeps on postponing. I just wanted to understand how effective they have been?
- Vikram Mehra:** Pirating or infringing a song 25 years back was never considered stealing, now judiciary is coming to the rescue of the IP owners. The various global treaties India has signed puts the onus on everyone to protect IP, and we are seeing the benefits flowing to every IP owner across audio and video.
- Vivek Gautam:** Thank you Sir.
- Moderator:** Thank you. That was the last question. I would now like to hand the conference over to the management for closing comments.
- Vikram Mehra:** Thank you guys. Long evening we had. We people are happy about the way company has performed in Q1 and we maintain a bullish stand as we go to the remaining three quarters of the year. Music licensing, our projections have been 20% to 25% growth on a short to medium term basis and we stick to those numbers, there is no change, we will keep on continuing with our investments in new content across Hindi film, Tamil film, Telugu film, Hindi non-film, Bhojpuri non-film, Gujarati non-film, Punjabi non-film, and couple of other regional languages non-film. We believe as markets start opening up, many big films will start releasing in Q2 and Q3, giving a big upside to Saregama because a lot of music belongs to us. For Carvaan till the time the markets are not fully opened up and customers cannot go freely, we will keep on controlling our costs both on the manpower and the marketing side. Our focus is going to be on margins and not on revenue. Films our previous position continues. Our focus is going to be firstly on making movies on a pre-sales basis. Secondly, we will focus a lot on making web series and will be announcing our first web series shortly. Thirdly, there will be focus on regional movies. Regional language-based music, films, series is an overarching theme that we believe in. We want to invest in regional content heavily because we believe the next bunch of digital customers will come from the smaller markets and they are going to be much more comfortable consuming content in their language than in Hindi. While we do so, we won't take our eye off the main stream Bollywood content. So, overall hopefully in Q2 will come back to you guys with equally positive news. Thank you.
- Moderator:** Thank you. On behalf of ICICI Securities that concludes this conference. Thank you everyone for joining us and you may now disconnect your lines.