Stock Note

Saregama India Ltd.

February 26, 2024

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Saregama India Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Media and Entertainment	Rs. 406	Buy in Rs. 395-405 band and add more on dips in Rs. 354-360 band	Rs. 447	Rs. 477	2 -3 quarters

HDFC Scrip Code	SAREGAEQNR
BSE Code	532163
NSE Code	SAREGAMA
Bloomberg	SAREIN
CMP (Feb 23, 2024)	406
Equity Capital (RsCr)	19.3
Face Value (Rs)	1.0
Equity Share O/S (Cr)	19.3
Market Cap (RsCr)	7,824
Book Value (Rs)	74.3
Avg. 52 Wk Volumes (in '000s)	420.5
52 Week High	489
52 Week Low	303

Share holding Pattern % (Dec, 2023)	
Promoters	59.1
Institutions	19.7
Non Institutions	21.2
Total	100.0

* Refer at the end for explanation on Risk Ratings

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Our Take:

Saregama is the oldest music label in India, with the largest library of song intellectual property (IP) in its bouquet. The company housed IP rights to more than 150,000 songs, 70+ movies and 6,000+ hours of TV series under its umbrella as of Dec 31, 2023.

"Online Streaming" and "OTT Apps" have been the buzzwords that have transformed the Entertainment industry globally over the past decade. Fast-tracked by COVID-19 restrictions, India's content consumption boom is driven by structural growth drivers like pervasive digitization, emergence of new formats like short format videos, improving content quality and increasing popularity of regional content. Saregama's growth has been propelled by riding this wave of increasing content consumption, monetizing what is the largest music catalogue in the country. This has been further aided by adding new (film and non-film) music catalogues and other formats of content like films and web series to its repertoire.

Saregama's capability to monetize its vast music IP and meticulous investment in new music using data analytics (30-35% share of new music at pan-India level for next 3-4 years) has driven robust licensing growth for the company (5-year CAGR: 23%). Licensing revenues have also been aided by achieving leadership position across several regional markets with demand for regional music fast gaining popularity across the country (vernacular/Hindi music streaming grew at 14%/10% CAGR between FY20-23 in India).

Valuation & Recommendation:

We believe Saregama has pivoted at the right time from a music retailer to a pure play content company. The industry's shift towards the highly underpenetrated subscription model from ad-based model, especially in the OTT-Audio (OTTA) segment, is what we believe will provide additional levers for improved realization of Saregama's content. Saregama plans to produce 60 new films and web series for various digital platforms over the next 3-4 years. This segment helps diversify the limited seasonality (if any) in the music segment.

With a razor sharp focus on acquiring 25-30% of all the new music in India over the next 2-3 years, management seems confident that its music licensing business, should be able to double its revenues in the next 3 to 3.5 years. It aims to grow its Films and video vertical at 25% CAGR over the next 3-4 years, with a sustainable EBIT margin of around 15%, for the segment. Overall the company is expected to grow its topline at 25%-26% CAGR over next few years and double its overall profitability (PBT) over the next 3-4 years.

Saregama India Ltd.

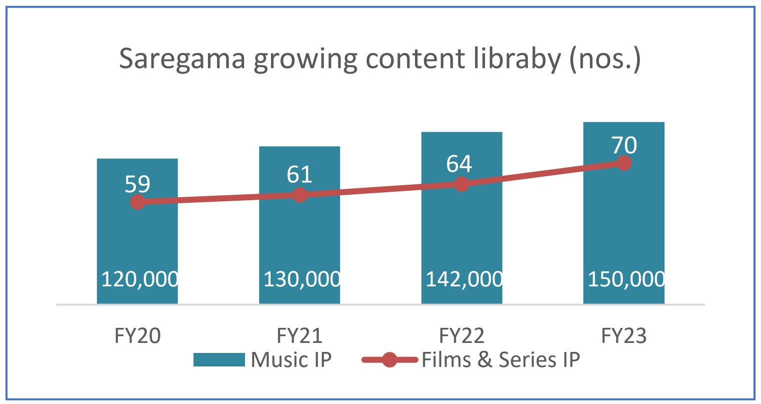
With 3 of the top 6 OTTA music platforms already going behind a paywall, the remaining 3 biggies could also gradually shift to a subscription model. Currently, the company earns ~Rs 10 paisa per stream on an average across the free platforms, with a minimum guarantee feature. However, this realization can significantly increase as streaming platforms distribute ~50% of the subscription revenue across record labels, proportionate to number of streams (less the minimum guarantee). This, we believe can provide a huge profit kicker for the company, going forward.

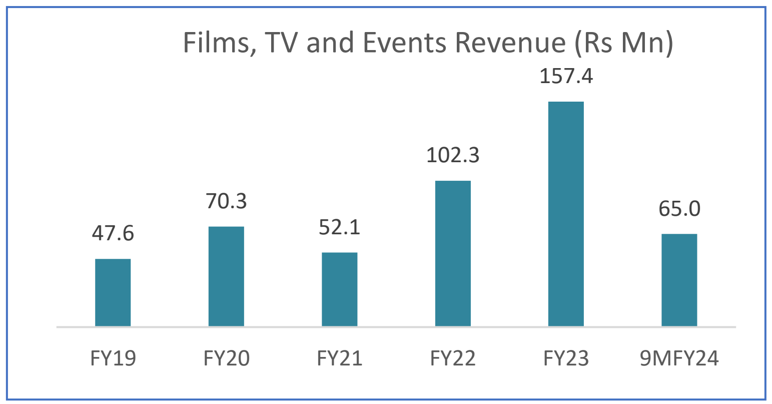
We think the base case fair value of the stock is Rs 447 (30.0x FY26E EPS) and the bull case fair value is Rs 477 (32.0x FY26E EPS). Investors can buy the stock in Rs 395-405 band (27.0x FY26E EPS) and add more on dips in Rs 354-360 (24.0x FY26E EPS) band.

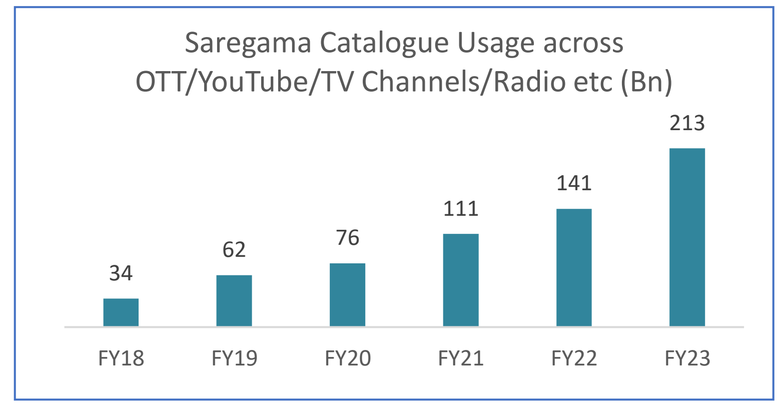
Financial Summary

Particulars (in Rs Cr)	Q3FY24	Q3FY23	YoY-%	Q2FY24	QoQ-%	FY22	FY23	FY24E	FY25E	FY26E
Operating Income	204	182	12%	172	19%	576	737	740	895	1110
EBITDA	66	63	4%	61	8%	199	221	237	283	353
APAT	52	53	-2%	48	9%	153	185	196	231	287
Diluted EPS (Rs)	2.7	2.8	-1%	2.3	20%	8.4	9.6	10.2	12.0	14.9
RoE-%						16.2	13.6	13.9	14.8	16.2
P/E (x)						48.2	42.1	39.9	33.8	27.2
EV/EBITDA (x)						35.8	34.2	31.2	26.1	20.8

(Source: Company, HDFC sec)







(Source: Company, HDFC sec)

Q3FY24 results: Key Highlights

Saregama reported a 12% YoY increase in its revenue from Rs 182 cr in Q3FY23 to Rs 204 cr in Q3FY24. EBITDA of the company was up 4% YoY, owing to a higher content charge offset partly by lower other expenses.

Music segment grew 9% YoY, contributing 83% to the company's topline. The growth in the segment was rather subdued due to the doing away of minimum guarantees from 3 of the top 6 OTTA platforms that shifted to a subscription-based model. This has had a short term impact on these platforms, however in the long term, it is expected to benefit both music labels as well as OTTA platforms. The impact on revenue from these minimum guarantees has already been factored in FY24 and the company expects revenue growth for the segment to return to normalcy Q1FY25 onwards.

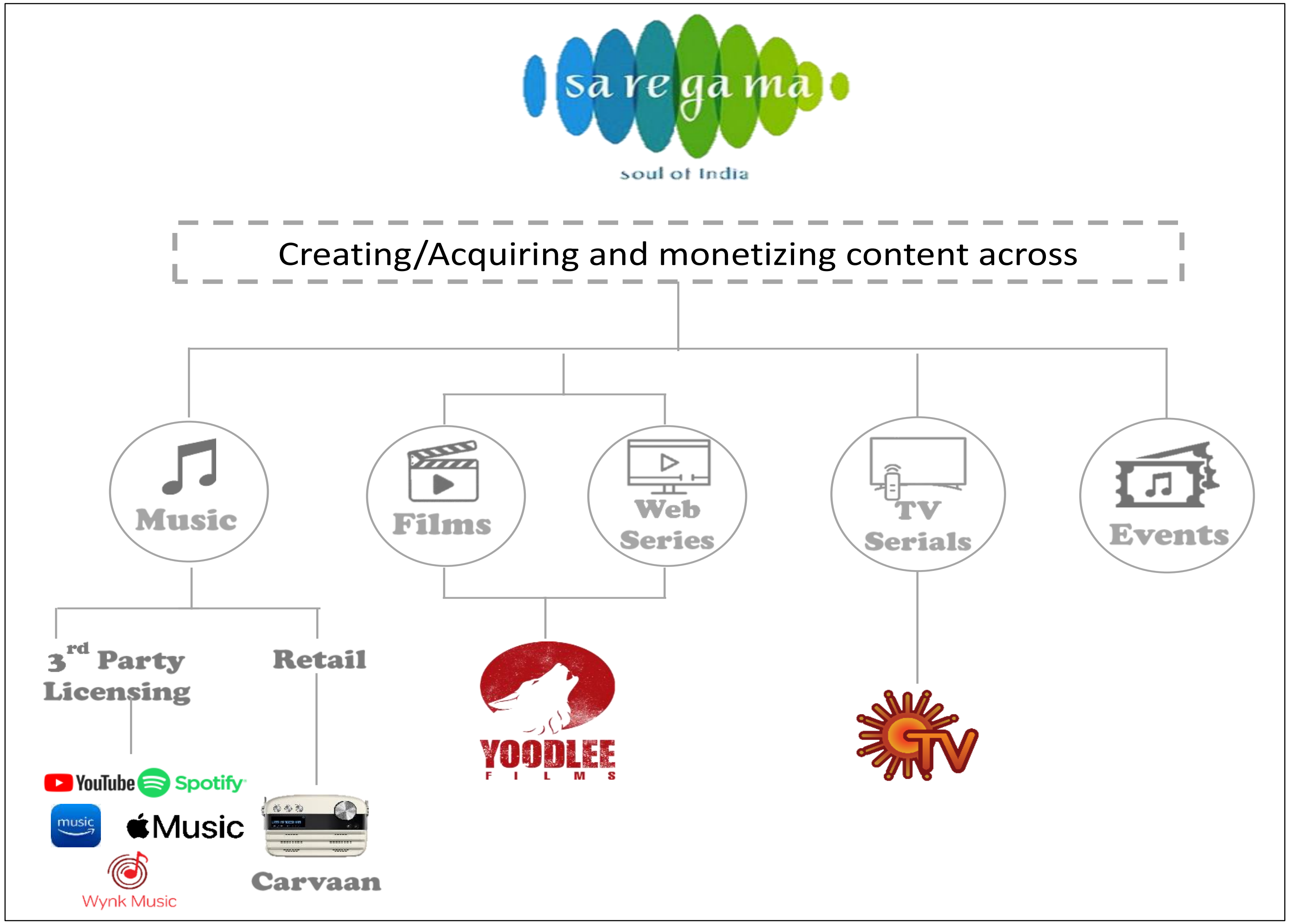
The films and videos segment reported a 18% YoY growth during the quarter, buoyed by the performance of Pocket Aces. While it was a subdued quarter for Yoodlee films, Saregama plans to launch 2 Malayalam and 2 Punjabi films in Q4FY24 under the banner.

Key Triggers:

A pure play content company – Capitalizing on the content consumption boom in India

Saregama has uniquely positioned itself as a 'Pure play content company' with primary focus on creating or acquiring content and monetizing it to third parties on an exclusive or non-exclusive basis. This also extends to monetization of artistes who create these IP, and it's done through brand endorsements and live events.

The digitization led demand for content in India has been rapidly increasing as consumption patterns transition from mass entertainment to customized content with multiple offerings across multiple platforms. India's OTT Audience universe has grown from 35.3 cr in 2021 to 48.1 cr in 2023. With the OTT penetration in India estimated at 34% in 2023. Saregama aims to capitalize on this content consumption boom, both through licensing its existing IP and building up of new IP.

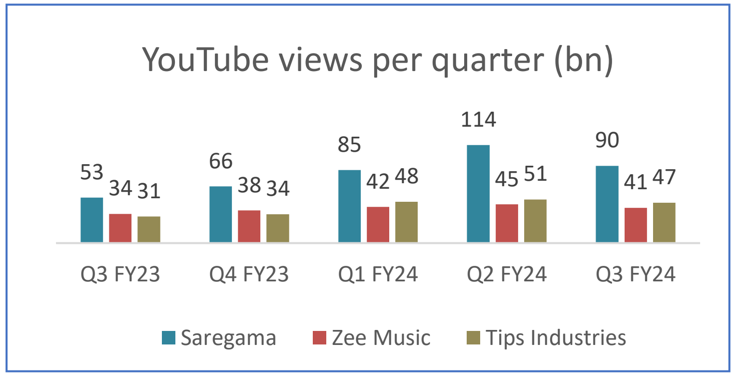


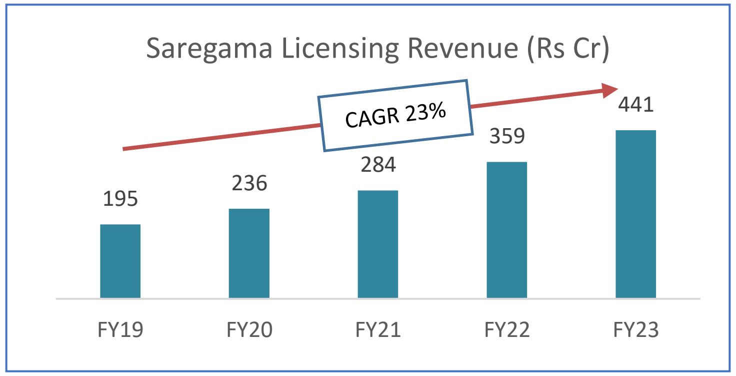
(Source: Company, HDFC sec)

Monetization of its Music legacy to drive growth

Saregama held India's largest intellectual property of more than 150,000 songs as of December 31, 2023. This is a solid entry barrier for new players, and enables Saregama to negotiate better deals with distribution platforms. The growing popularity of catalogue music, improvement in IP laws and reducing piracy has led to increased licensing revenue from various 3rd party platforms. The company's catalogue has been growing at 12% per annum over the last 3 years and is expected to grow at around 14% - 16%, once the remaining OTTA players start moving behind a paywall.

Saregama's music IP was used 213 bn times in FY23 across audio OTT platforms, YouTube, radio stations, TV channels, social media etc. The licensing business has grown at ~23% YoY for the last 5 years for the company and is expected to continue to grow at the same pace over the next few years, given the robust pipeline of new music acquisition – both film and non-film.





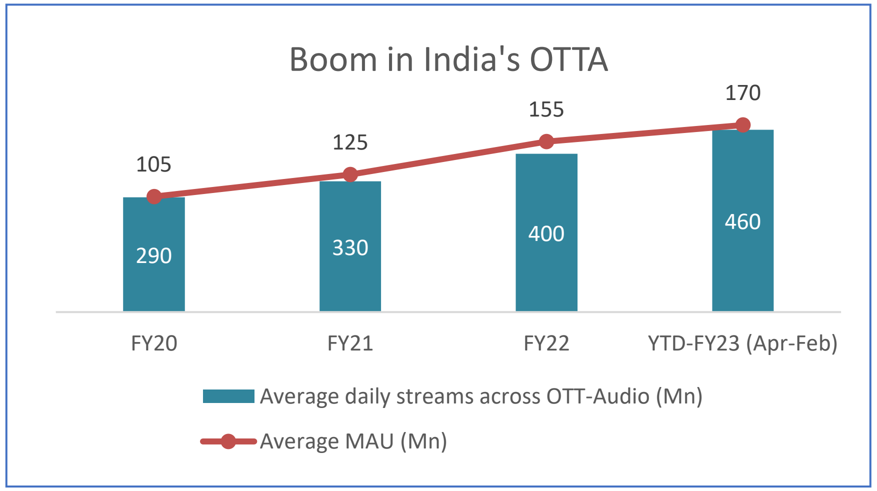
(Source: Company, HDFC sec)

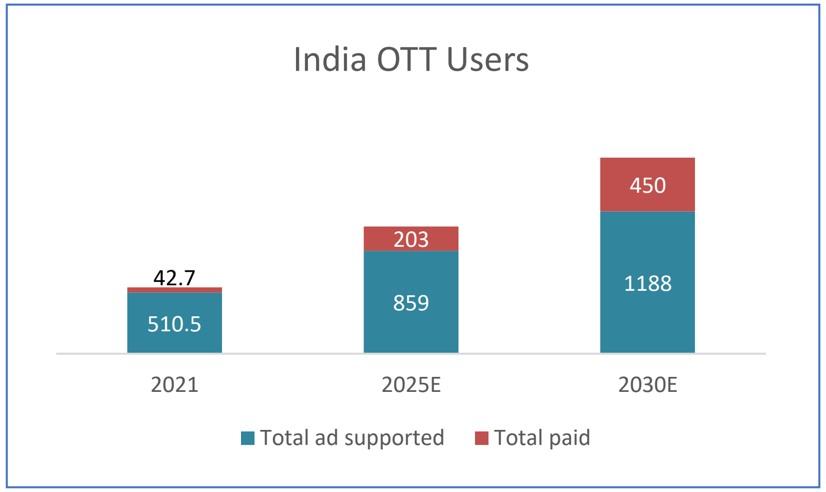
Shift towards subscription model

Saregama earns every time a customer listens to Saregama owned song either as revenue per play or a partial cut from advertisement (ad) revenue from these platforms:

- **Revenue per stream:** For free users, the company on an average earns around 10 paisa per stream for its song across various OTT audio platforms. In case of video OTT platforms such as YouTube, the company gets a share in its ad revenue
- **Share in subscription fee:** In case of paid users under the subscription model, a percentage of the subscription fee is shared by the platform with record labels

- The 3rd party licensing revenue for Saregama is expected to be driven by: (a) increase in number of users led by increased internet penetration and low data costs and (b) increase in revenue per stream as resulting from user migration towards the subscription model from ad-based model
- India remains one of the least penetrated countries in terms of paid audio streaming subscribers with around 1% of the total audio OTT subscribers being paid subscribers in 2021. The Indian Music Industry (IMI) expects the ratio of paid subscribers to overall OTT subscribers to increase from 1% in 2021 to 8% in 2025 and 14% in 2030.
- As OTT platforms move towards a subscription model from an ad-based model, the revenue per stream for record labels is expected to improve significantly as they receive a direct share in the monthly/annual subscription paid by the user



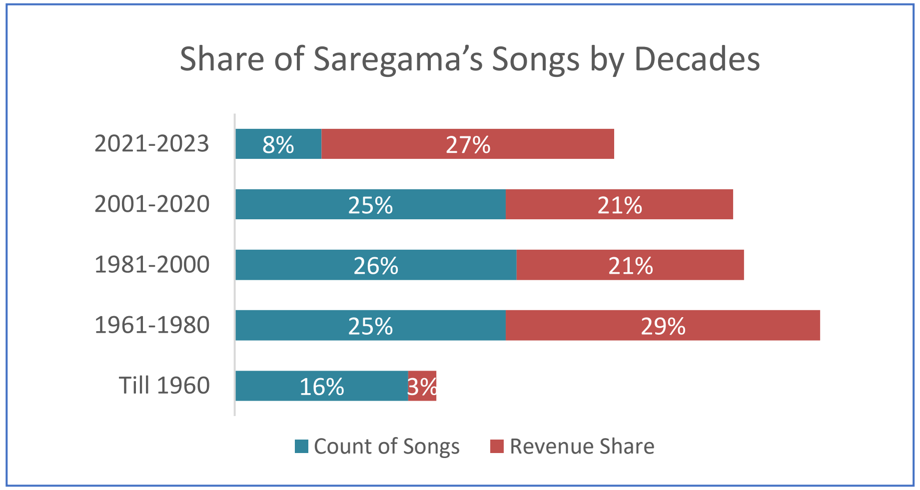


(Source: Company, HDFC sec)

Renewed focus on new content to gain market share

Despite having the largest catalogue of music in the country, Saregama lags its peers in terms of YouTube subscribers. This can be partly attributed to the content gap for 25 years prior to 2016 where it was not aggressive on acquiring new music content and focused on retail distribution of existing content.

Since 2016 however, the company has renewed its focus on acquiring new film and non-film music, across Hindi and other regional languages, with the aim to reclaim market leadership in terms of its music catalogue. The company aims to acquire 25% - 30% of all new music, released in India, investing around Rs 1,000 crores over the next 3-3.5 years, funded by QIP money and internal accruals.

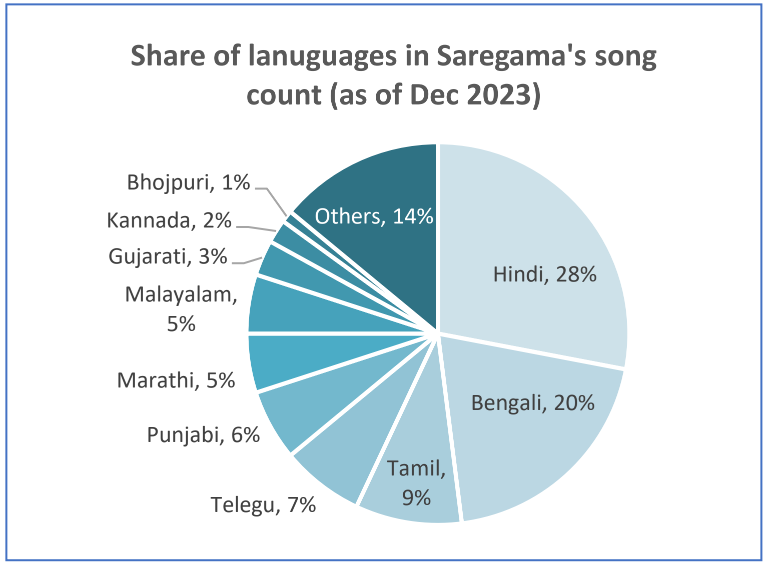


(Source: Company, HDFC sec)

Regional music gaining popularity, Saregama's regional dominance to give edge

Regional music has been one of the fastest growing genre in OTTA music streaming, growing at 14% CAGR between FY20-23, driven by increased availability of regional music across streaming platforms. Within vernacular, music from South Indian languages such as Kannada, Malayalam, Tamil, and Telugu has witnessed the fastest growth in the last 4 years.

Saregama has aggressively acquired content (music and films) across Hindi, Tamil, Punjabi, Bengali, Malayalam, Telegu, Bhojpuri and other languages. The company believes that the next wave of digital growth in India will come from the smaller cities, which have traditionally exhibited a tendency of leaning towards content in their own languages. Majority of the new music acquisition is expected to be in regional music.



(Source: Company, HDFC sec)

Key Concerns

Increasing competition from domestic and international players

Leading international players have been eyeing a bigger market share in the Indian music industry as witnessed by recent M&A activity like Warner Music India's acquisition of Divo, Universal Music's majority stake purchase in TM Ventures and Venus Music's acquisition by Paris-based Believe. Increasing competition from existing and new emerging companies in the Indian music industry may impact the company's market share. However, high entry barriers in the industry will limit the impact of increasing competition.

Higher Content Costs may keep margins in check

As the industry shifts towards subscription model from ad-based model, record labels will get a huge profit kicker, resulting in lower payback periods. As payback periods become shorter, it will result in increased content cost for record labels. This will keep the company's margins in check. Saregama aims to counter this by maintaining its discipline of not picking up content with a payback period of more than 5 years

Scalability of Films and Web Series business

The films and web series in India is extremely crowded at present with the emergence of multiple small and large OTT players in the space, resulting in a plethora of content for the consumers across different platforms. The company needs to partner with the right digital platforms and create differentiated content in order to scale its films and web series segment

Dependence on OTT players for growth

Saregama is dependent on 3rd party platforms for its licensing business. The ever changing consumer preferences on the music and video streaming industry may pose a challenge for the company as its partnerships with 3rd party digital platforms keeps evolving

Other risks include slower than expected paid-subscriber addition, inadequate to cover losses from the lack of advertising revenue, as OTTAs transition from the ad-supported to the paid-subscription model; rise of digital piracy due to non-willingness to pay for music; higher than expected investments in non-music segments and rise in depreciation/amortisation due to acquisition of music rights and digital properties.

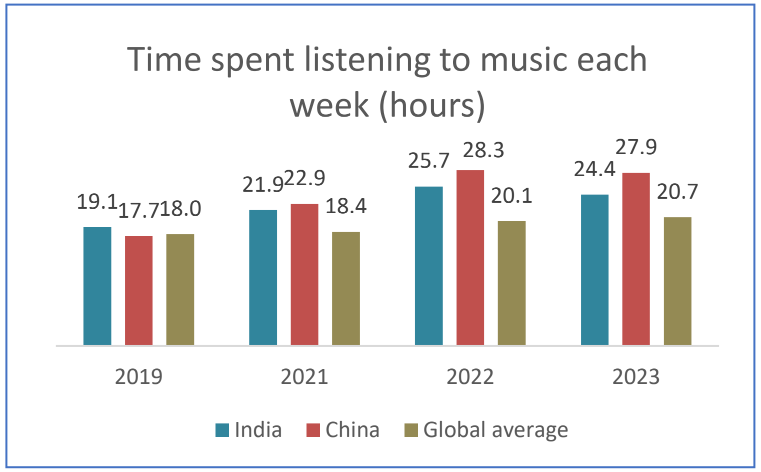
Industry Overview

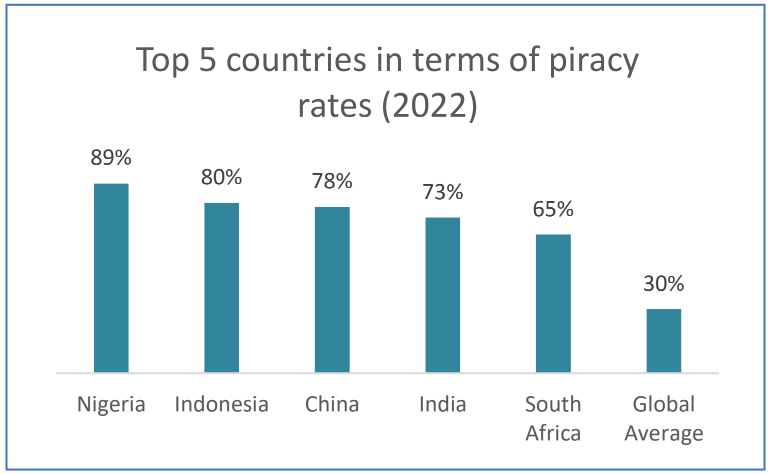
India's transformational music industry

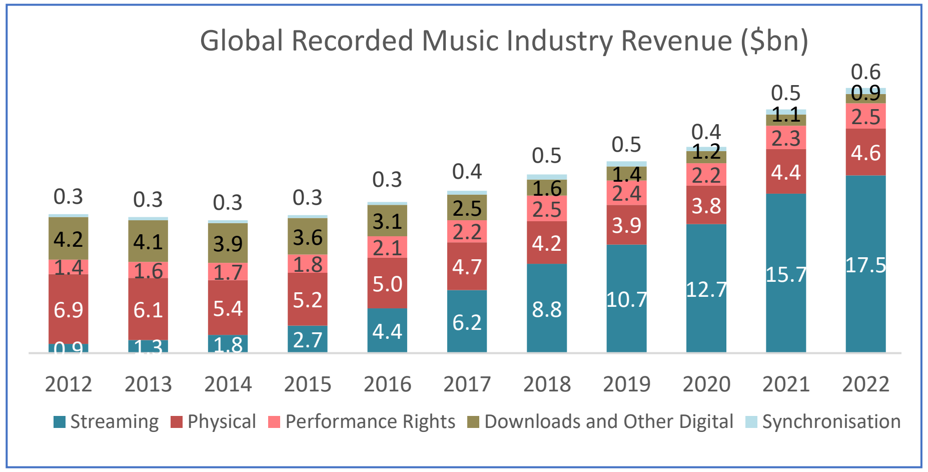
The global recorded music industry has grown at 6.7% CAGR between CY12-22 in terms of revenue, within which streaming revenue has grown at a staggering pace of 34.5% CAGR during in period and accounted for 67.0% of the total industry revenue in 2022. The Indian music industry currently ranks 17th in the world (as per IFPI metrics) and has outgrown the global growth in recent years. Indian recorded music industry grew at 17.5% CAGR between 2017-2021 as compared to global growth of 10.7% CAGR during the same period. Music in India generated Rs 12,000 cr of revenue in 2022 of which Rs 5,692 cr was through digital platforms.

The average time spent listening to music each week in India has seen an increase post the pandemic, rising from 19.1 hours in 2019 to 24.4 hours in 2023. However, China has outpaced India during this period with an average time of 27.9 hours per week in 2022 as compared to 17.7 hours in 2019. However, as per IFPI around 74% of Indians still used unlicensed or illegal ways to listen to music in 2023. The increase in music consumption in India is driven by a shift towards streaming services and other new licensing formats, which in turn is a result of increasing penetration of smartphones, expanding internet base and low data costs.

Globally streaming across subscription audio, ad-supported audio and videos accounted for around 51% of the total music consumption and 67% of music industry revenue in 2022. Whereas in India streaming across the three accounted for 45% of total music consumption and contributed to ~87% (2021) of the total industry revenue. The music streaming market in India is projected to grow at 7.6% CAGR between 2024-2027. The user penetration rate is projected to be 6.3% in 2024 and is expected to increase to 7.1% by 2027.





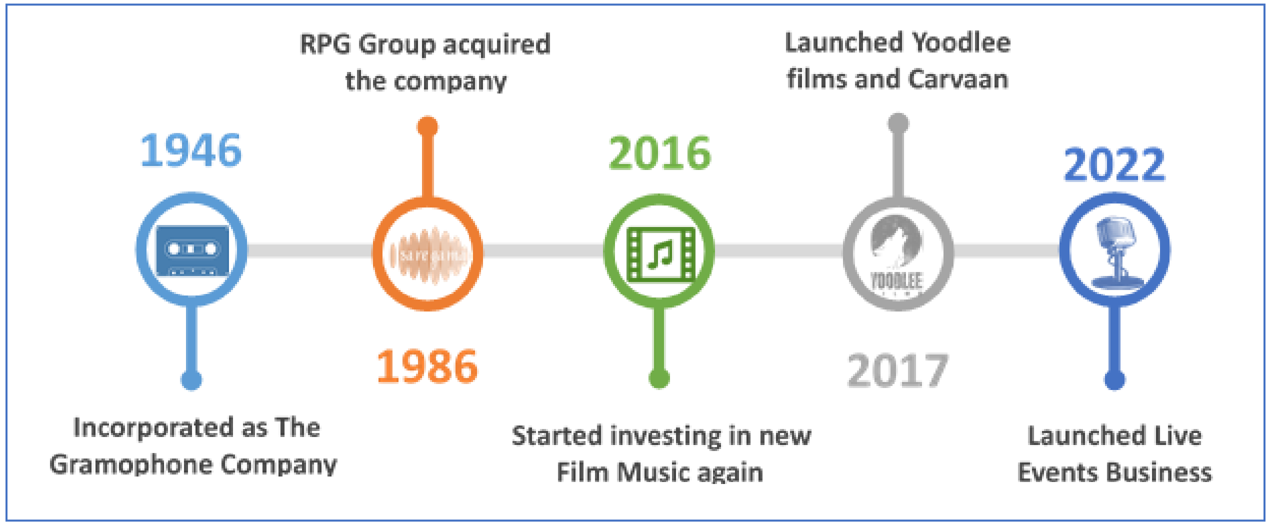


(Source: Company, HDFC sec)

About the company

Saregama India Ltd (Saregama), the erstwhile HMV India, has a legacy of more than 115 years in the entertainment business in India and was initially established as a branch of Electrical & Musical Industries Ltd, London in 1901. In 1902, the company recorded India's first song ever under its music label. In 1946, it was incorporated as a private limited company under the name of "The Gramophone Co. (India) Ltd" and was later acquired by RPG group in 1986.

Journey So Far



(Source: Company, HDFC sec)

Saregama operates through 3 main divisions – Music (Licensing and Retailing), Films, Web series & TV Serials and Events.

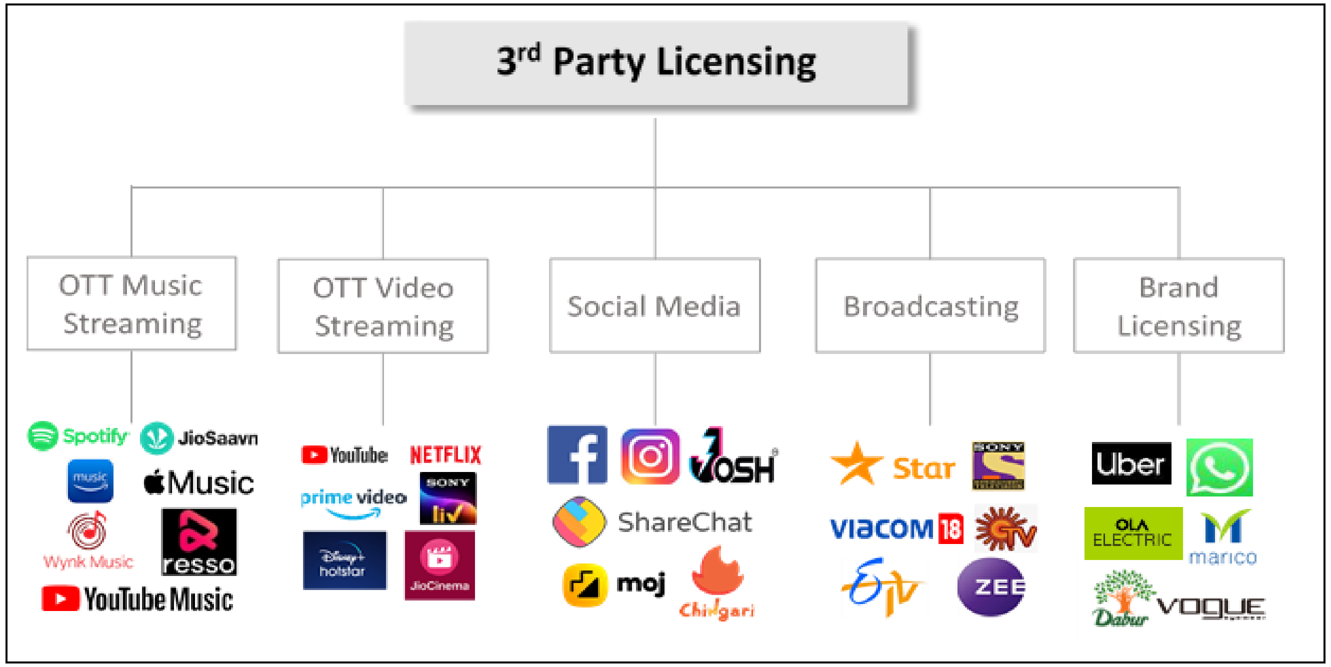
Music Segment

Saregama boasts India's largest music library of more than 1,50,000 songs, comprising of both film and non-film music. Its music library, a mix of catalogue and new songs spans across multiple genres and 18 different languages.

Saregama monetizes its music IP via 2 formats – Licensing and Retail

Music licensing - The company holds Rights to Master IP (actual song) and Publishing IP (lyrics, composition) across all media for global territory, across its library. This music is non-exclusively licensed to partners for short periods, on a variable or fixed fee basis. The company licenses its songs to Music Streaming, Video Streaming and Short-format Video platforms through various types of commercial structures.

All these platforms are in the early stages of growth with huge upside potential over the next few years, on the back of content consumption growing online. Both advertising and subscription are expected to drive this revenue growth. 48% of the company's licensing revenue comes from 21st century songs compared to 30% in FY21.

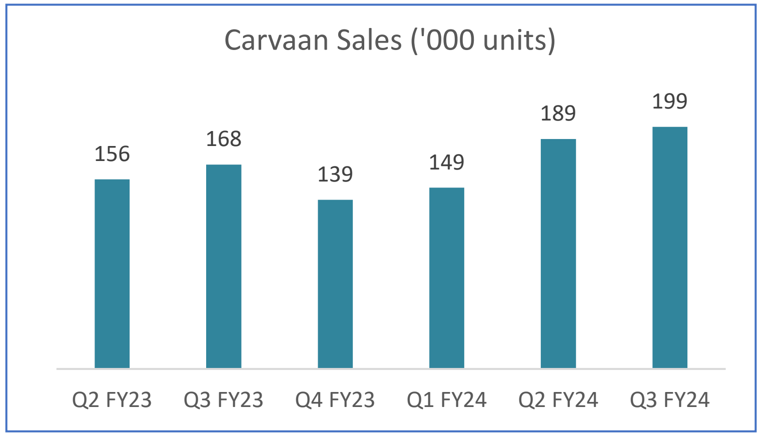


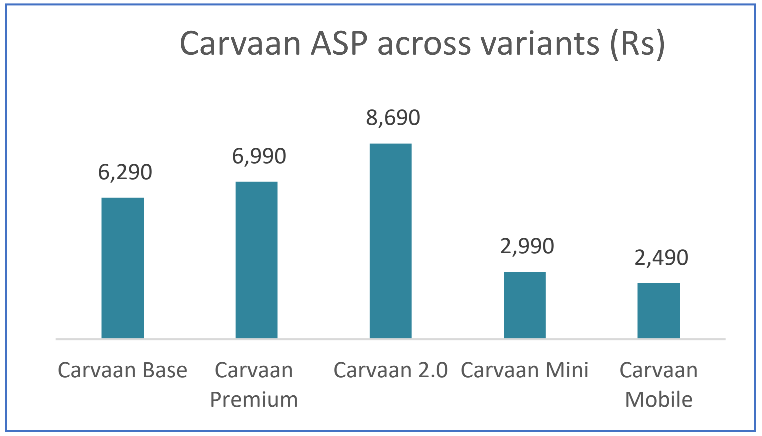
**Above list is illustrative, not exhaustive*
(Source: Company, HDFC sec)

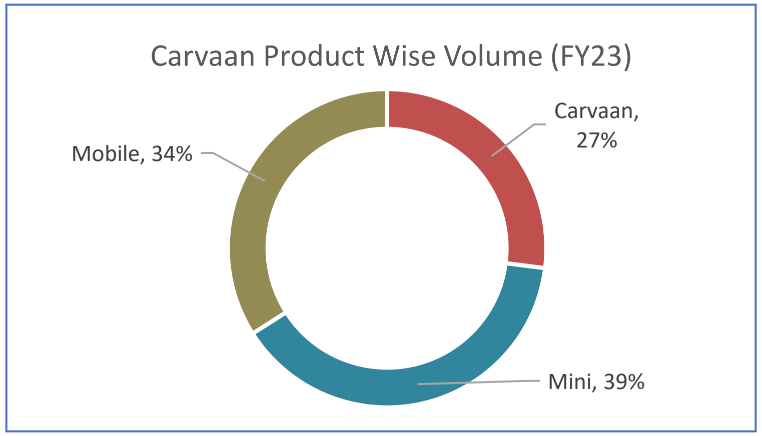
Music retailing through Carvaan - Saregama reinvented itself in 2017, with the launch of Carvaan as an audio player with inbuilt speakers and 5,000 preloaded songs, targeted at audience aged 35+, who value convenience over control for their audio listening experience. The company has since launched various models of Carvaan including base model, Mini, Mobile and Music bar with similar margins across all variants.

Saregama now positions the product as a platform with daily updatable audio content in the form of songs, prayers, content for kids, 3rd party hosted content and audio podcasts. Thus, the company aims to transform Carvaan from a one-time margin product to a recurring advertising and subscription revenue product.

The company has not been incurring any additional costs for marketing of Carvaan and has been selling it completely as a pull product. While the unit sales of Carvaan increased by 40% YoY to 5.6 lakh units in FY23 and up to 5.4 lakh in 9MFY24, the overall sales have come down in recent quarters due to increasing share of lower Average Selling Price (ASP) products like Carvaan Mini and Mobile.







(Source: Company, HDFC sec)

Films, Web Series and TV Serials Segment

Films and Web Series - In 2017, Saregama forayed into films and web series content creation for 3rd party digital platforms under the banner “Yoodlee Films”. Over the last 4 years, Yoodlee has successfully licensed/released 25 films on various digital streaming platforms.

Yoodlee targets to launch over 60 films and web series episodes over the next 3-4 years. However, that management is clear that it will be producing theatrical films only for regional languages and web series across all languages for OTT and does not aim to foray in the production of big budget Bollywood movies.

The company has a secure revenue-first strategy for films and web series production, where it first secures a licensing deal with the digital platform and only then starting to make the production

TV Serials - Saregama plans to continue its TV serial production for Sun TV, generating 1200-1500 hours of annual content. As of FY23, the company has created 6,000+ hours of TV content and at any given time broadcasts 3-4 serials creating around 15-16 hours of content per week

The IP of these serials is owned by Saregama and is also monetized on other platforms like YouTube (1.8 Bn views in FY23).

Events Segment

Saregama is strengthening its relationships with the artistes by organising entertaining live performances. Ticketing is the primary revenue source, supplemented by sponsorships and use of video assets of the performances on digital mediums. Deeper relationships and brand value will further help the music licensing vertical of its business.

New Initiatives – Artist Management and Music Learning App

Artist Management - Saregama's new vertical under music licensing is Artist Management, where the company signs up with artists and make them popular by placing them in its IP releases. Once the artist is made popular, Saregama then monetizes 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. Saregama currently has 123-odd artists, under Pocket Aces and 15, under Saregama.

Music Learning App – The company plans to launch a music learning app through which it will teach music fans how to sing or play using AI through paid courses. The company believes that this is one more way for it to monetize its library. The company expects to launch the app sometime in April or March 2024.

Management Overview

Management Overview		
Name	**Designation**	**Description**
Vikram Mehra	Managing Director	Mr. Vikram has been with the company since October 2014. Before joining Saregama, he served as Chief Marketing Officer and Chief Commercial Officer at Tata Sky. He has also done stints with Star TV, Tata Motors and TCS. Vikram is a TAS (Tata Administrative Services) alumni and holds an MBA degree from IIM Lucknow and a B.Tech in Computer Science from IIT Roorkee
Pankaj Chaturvedi	Chief Financial Officer	Mr. Pankaj is a Chartered Accountant with over 2 decades of experience in various industries including Telecom, Aviation and consumer electronics. He has handled areas such as Accounting, Planning & Strategy, Business finance, Risk Assurance and Analytics across organizations such as Go Airlines, Vodafone, Reliance Jio and Hitachi
Kumar Ajit	Sr. Vice President, Music Retail	Mr. Ajit is responsible for developing and evolving the strategic direction of the overall Retail Music Business vertical. His earlier experience is with companies like Tata Sky, LG and Onida. Ajit is a Post Graduate in Business Management in Marketing & Finance from ICFAI Business School, Hyderabad
Siddharth Anand Kumar	Vice President, Films and Series	Mr. Siddharth has completed his Post-graduation from Hampshire College (MA, USA) and has been a cinematographer, editor, writer, director and producer in the Indian Film and TV industry since the last 19 years. He has also directed multiple TV series across channels, including for Saregama in the past. Siddharth has been spearheading Yoodlee since its inception

(Source: Company, HDFC sec)

Peer comparison:

Saregama amortizes the content cost of music rights over the useful life of the rights whereas Tips Industries writes off the entire content cost in the quarter of release. Hence EBITDA margins of Saregama are lower as compared to Tips due to staggered amortization of new content cost.

Company	Mcap (Rs cr)	Revenue				EBITDA Margin				Adj. PAT				RoE				P/E (X)			
		FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E
Saregama	7830	576	737	740	895	34.5	30.0	32.0	31.6	164	185	196	231	16.2	13.6	13.9	14.8	48.2	42.1	39.9	33.8
Tips Industries	6398	136	187	240	304	63.6	54.6	66.5	66.4	64	76	124	156	63.4	56.3	66.7	62.8	100.0	83.6	51.4	40.8

(Source: Company, HDFC sec)

Financials

Income Statement

Particulars (in Rs Cr)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues	**521**	**442**	**576**	**737**	**740**	**895**	**1110**
Growth (%)	***-4.3***	***-15.2***	***30.4***	***27.8***	***0.4***	***21.0***	***24.0***
Operating Expenses	461	312	377	516	503	613	757
EBITDA	**60**	**130**	**199**	**221**	**237**	**283**	**353**
Growth (%)	***58.5***	***115.2***	***52.9***	***11.1***	***7.2***	***19.3***	***24.8***
EBITDA Margin (%)	***11.6***	***29.4***	***34.5***	***30.0***	***32.0***	***31.6***	***31.8***
Depreciation	5	6	13	21	31	35	41
Other Income	11	31	35	54	61	67	78
EBIT	**67**	**155**	**221**	**254**	**266**	**314**	**389**
Interest expenses	7	3	5	6	5	4	4
PBT	**60**	**152**	**216**	**248**	**262**	**310**	**385**
Tax	17	38	52	63	66	79	98
PAT	**43**	**113**	**164**	**185**	**196**	**231**	**287**
Share of Asso./Minority Int.	0	-1	0	0	0	0	0
Adj. PAT	**43**	**112**	**164**	**185**	**196**	**231**	**287**
Growth (%)	***-19.6***	***158.8***	***35.6***	***21.5***	***5.6***	***18.2***	***24.1***
EPS	2.5	6.5	8.4	9.6	10.2	12.0	14.9

Balance Sheet

Particulars (in Rs Cr) - As at March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
SOURCE OF FUNDS							
Share Capital	17	17	19	19	19	19	19
Reserves	381	488	1358	1323	1461	1634	1863
Shareholders' Funds	**399**	**506**	**1378**	**1342**	**1480**	**1653**	**1883**
Minority Interest	2	3	3	3	3	3	3
Total Debt	10	1	1	1	1	1	1
Net Deferred Taxes	46	51	56	46	46	46	46
Total Sources of Funds	**457**	**561**	**1438**	**1393**	**1530**	**1704**	**1933**
APPLICATION OF FUNDS							
Net Block & Goodwill	216	224	276	339	378	442	501
CWIP	0	0	0	0	0	0	0
Investments	78	139	678	241	316	366	416
Other Non-Curr. Assets	8	14	32	111	111	135	167
Total Non-Current Assets	**302**	**377**	**987**	**691**	**805**	**943**	**1084**
Inventories	94	69	105	164	172	196	228
Debtors	108	87	108	148	148	179	222
Cash & Equivalents	7	11	153	17	100	59	47
Other Current Assets	109	239	335	684	634	706	800
Total Current Assets	**318**	**407**	**701**	**1013**	**1054**	**1141**	**1297**
Creditors	58	56	65	70	81	93	109
Other Current Liab & Provisions	105	167	185	241	248	286	338
Total Current Liabilities	**163**	**223**	**249**	**312**	**329**	**380**	**447**
Net Current Assets	155	183	452	702	725	761	850
Total Application of Funds	**457**	**561**	**1438**	**1393**	**1530**	**1704**	**1933**

Cash Flow Statement

Particulars (in Rs Cr)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT	60	152	216	248	262	310	385
Non-operating & EO items	-9	-27	-43	-70	3	-24	-30
Interest Expenses	7	3	5	6	5	4	4
Depreciation	5	6	13	21	31	35	41
Working Capital Change	39	69	-39	-45	56	-76	-102
Tax Paid	-22	-14	-57	-67	-66	-79	-98
OPERATING CASH FLOW (a)	**79**	**190**	**94**	**93**	**290**	**171**	**200**
Capex	-8	-22	-73	-103	-70	-100	-100
Free Cash Flow	71	168	22	-10	220	71	100
Investments	0	-123	-571	-59	-75	-50	-50
Non-operating income	3	9	14	14	0	0	0
INVESTING CASH FLOW (b)	**-5**	**-136**	**-630**	**-148**	**-145**	**-150**	**-150**
Debt Issuance / (Repaid)	-55	-10	0	0	0	0	0
Interest Expenses	-3	-1	-1	-1	-5	-4	-4
FCFE	16	43	-537	-55	141	17	46
Share Capital Issuance	0	0	733	0	0	0	0
Dividend	-6	-37	-58	-58	-58	-58	-58
Others	-8	-2	3	-17	0	0	0
FINANCING CASH FLOW (c)	**-72**	**-49**	**677**	**-75**	**-62**	**-62**	**-62**
NET CASH FLOW (a+b+c)	**2**	**4**	**141**	**-130**	**83**	**-41**	**-12**

Key Ratios

Particulars	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profitability Ratios (%)							
EBITDA Margin	11.6	29.4	34.5	30.0	32.0	31.6	31.8
EBIT Margin	12.9	35.2	38.3	34.5	36.0	35.1	35.1
APAT Margin	8.3	25.5	26.5	25.2	26.4	25.8	25.9
RoE	10.5	24.9	16.2	13.6	13.9	14.8	16.2
RoCE	14.9	33.9	23.4	18.6	18.9	20.1	22.0
Solvency Ratio (x)							
Net Debt/EBITDA	0.0	-0.1	-0.8	-0.1	-0.4	-0.2	-0.1
Net D/E	0.0	0.0	-0.1	0.0	-0.1	0.0	0.0
PER SHARE DATA (Rs)							
EPS	2.5	6.5	8.4	9.6	10.2	12.0	14.9
CEPS	2.8	6.8	9.1	10.7	11.8	13.9	17.0
BV	22.9	29.2	76.1	69.7	76.9	85.9	97.8
Dividend	0.0	2.0	3.0	3.0	3.0	3.0	3.0
Turnover Ratios (days)							
Debtor days	76	81	62	63	73	67	66
Inventory days	66	67	55	67	83	75	70
Creditors days	40	47	38	33	37	36	33
Valuation (X)							
P/E	162.3	62.4	48.2	42.1	39.9	33.8	27.2
P/BV	17.7	13.9	5.3	5.8	5.3	4.7	4.1
EV/EBITDA	129.2	59.8	35.8	34.2	31.2	26.1	20.8
EV / Revenues	15.0	17.6	12.4	10.3	10.0	8.3	6.6

(Source: Company, HDFC sec)

One-year Share Price Chart

DARSHIL HEMANTBHAI SHAH

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HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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