

June 16, 2008

Rating	Outperformer
Price	Rs101
Target Price	Rs186
Implied Upside	84.2%
Sensex	15,190

(Prices as on June 13, 2008)

Trading Data

Market Cap. (Rs bn)	1.5
Shares o/s (m)	14.7
Free Float	46.9%
3M Avg. Daily Vol ('000)	21.9
3M Avg. Daily Value (Rs m)	2.7

Major Shareholders

Promoters	53.1%
Foreign	12.6%
Domestic Inst.	0.9%
Public & Others	33.4%

Stock Performance

(%)	1M	6M	12M
Absolute	(16.4)	(66.6)	(62.9)
Relative	(5.5)	(44.2)	(72.6)

Price Performance (RIC: SARE.BO, BB: GCOI IN)



Source: Bloomberg

■ **Results:** Saregama India (SIL) reported subdued Q4FY08 results with consolidated revenue of Rs393m, growing by 37.1% YoY. Despite higher contribution from non-physical music sales, losses in the movie segment resulted in subdued EBITDA margin of a meagre 4.9% for the quarter. Consequently, net profits declined by 26.4% YoY to Rs32m.

Consolidated revenue for FY08 stood flat at Rs1,423m (0.6% YoY decline). Op. margin contracted by 417bps YoY to 5.2%. Contribution from the high margin non-physical music business increased from 29% in FY07 to 41% in FY08. However, new initiatives like the movie business has proved to be loss making (Rs54m loss) and responsible for dragging the overall company margins. Consequently, PAT in FY08 declined by 41% to Rs85m.

■ **Music releases:** SIL didn't have any major music (film) releases; rather it had only one non-film music release - *Classically Mild* by Sonu Nigam.

■ **New business ventures drag margins:** For the quarter under review, the music segment reported EBIT margin of 23%; however, the new business ventures (films/TV serials) reported an op. loss of Rs24m. Consequently, operating profit margin for the quarter stood at a meagre 4.9%.

■ **Outlook & valuation:** SIL's has seen an increase in contribution from digital mode of content; however, declining physical sales and piracy issues continue to be worrying factors. Again, some of the new initiatives - films and TV serials - have failed to deliver to their true potential, and has been a drag to the overall profitability of the company. Over the past quarter the scrip has considerably underperformed market returns; at the current market cap we see immense strategic value for its repertoire of 300,000 songs. At the CMP of Rs101, SIL trades at 12.1x FY09E and 8.1x FY10E earning estimates. We maintain Outperformer rating on the stock.

Key financials (Y/e March)	FY07	FY08	FY09E	FY10E
Revenue (Rs m)	1,415	1,423	1,607	2,327
Growth (%)	11.8	0.5	17.6	44.8
EBITDA (Rs m)	133	74	144	275
PAT (Rs m)	134	82	122	182
EPS (Rs)	9.1	5.6	8.3	12.4
Growth (%)	(57.7)	111.9	(38.6)	49.0
Net DPS (Rs)	—	—	—	—

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08	FY09E	FY10E
EBITDA margin (%)	9.4	5.2	8.9	11.8
RoE (%)	16.3	8.9	11.9	15.4
RoCE (%)	15.8	9.7	11.4	14.6
EV / sales (x)	0.7	0.8	0.7	0.4
EV / EBITDA (x)	6.9	15.1	7.6	3.4
PE (x)	11.1	18.0	12.1	8.1
P / BV (x)	1.7	1.5	1.4	1.2
Net dividend yield (%)	—	—	—	—

Source: Company Data; PL Research

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Q4FY08 result overview

(Rs m)

Y/e March	Q4FY08	Q4FY07	YoY gr. (%)	Q3FY08	FY07	FY08	YoY gr. (%)
Net sales	393	286	37.1	290	1,415	1,423	0.5
Expenditure							
Direct costs	109	56	94.4	87	328	371	13.1
<i>% of sales</i>	27.6	19.5		30.5	23	26.0	
Personnel costs	59	61	(3.6)	58	203	235	15.7
<i>% of sales</i>	15.0	21.4		20.3	14	16.5	
Other expenses	206	146	41.0	129	751	743	(1.1)
<i>% of sales</i>	52.4	51.0		45.0	53	52.2	
Total expenditure	373	263	41.9	274	1,283	1,349	5.2
<i>% of Sales</i>	95.1	91.9		95.8	91	94.8	
Operating profit	19	23	(17.2)	16	133	74	(44.1)
<i>% of sales</i>	4.9	8.1		5.5	9	5.2	
Depreciation	8	8	7.8	8	42	40	(4.7)
Other income	32	35	(9.5)	13	72	85	18.8
PBIT	43	50	(15.7)	21	162	119	(26.6)
Interest	7	1	371.4	6	6	20	235.0
PBT	36	49	(26.7)	15	156	99	(36.6)
Tax	4	6	(29.5)	2	23	14	(36.4)
<i>ETR (%)</i>	11.4	11.9		10.0	14	14.4	
PAT before MI	32	43	(26.4)	14	134	85	(36.6)
Minority interest	-	-		-	-	3	
PAT after MI	32	43	(26.4)	14	134	82	(38.6)



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PL's Recommendation Nomenclature

BUY	: > 15% Outperformance to BSE Sensex	Outperformer (OP)	: 5 to 15% Outperformance to Sensex
Market Performer (MP)	: -5 to 5% of Sensex Movement	Underperformer (UP)	: -5 to -15% of Underperformance to Sensex
Sell	: <-15% Relative to Sensex		
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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