From : 01-12-2014
To : 16-07-2015
Performance : 172%
Recommendation : CLOSED

Background & Business

Saregama India Ltd, a RP Sanjiv Goenka Group company, is India's oldest music label, youngest film studio and a multi-langauge TV content producer. Formerly known as The Gramophone Company of India Ltd. and more popularly as HMV (His Master's Voice), Saregama was established as the first Indian branch of Electrical and Musical Industries Limited (EMI), London. In 1902, Saregama released India's first ever studio recorded song. In the years that followed, the company continued to expand its catalogue to become the largest in-perpetuity global owner of both sound recording and publishing copyrights of Indian music across 14 different languages. Steadily, the company expanded its portfolio to include intellectual property rights of over 4100 hours of TV content produced for channels in Hindi, Tamil, Telugu, Kannada, Malayalam and Bengali. Over the last few decades, the company forayed into retailing music through physical and digital mediums such as CDs, iOS & Android based apps and usb based thematic music cards. Saregama's head office is located in Kolkata, with other offices in Mumbai, Delhi and Chennai.

Exit Rationale

While we continue to remain positive on company's strong business model, indomitable presence in the Indian Music Industry, healthy Balance sheet and strong Management pedigree, due to significant increase in its price, the stock has become expensive. The stock price has risen by ~150% in past 2 months ie from May 2015 – July 2015. Accordingly, Saregama's present valuations (Price dated 16th July 2015) which are at PE of more than 100xs on FY15 EPS, looks expensive and fully capture its investment story. As our target price is almost achieved and we don't see much upside remaining in near term, we recommend exit on this company and advise our clients to book profit.

Outlook as on EXIT Date

As explained above, we are of the opinion that the current (Dated 16th July 2015) valuations look very expensive as company is trading at more than 100xs its FY15 EPS of Rs. 3.8. As per our valuations, not much upside is left for the company as it has already given handsome price gains in last few months. Hence, we have recommended exiting this stock and move to some other compelling opportunities.

However, we will continue to monitor all the developments in the company and would take a re-look at owning the stock as and when the valuations look inexpensive.