

26 March 2024

Tips Industries Ltd – BUY

CMP : Rs. 476
Target Price : Rs. 605
Upside : 27%+
Stop Loss : Rs. 420 (Closing basis)

Investment Thesis

- In FY23, Tips Industries Ltd (TIPS) released 896 new songs, generating a music revenue of Rs. 186.78 Cr compared to Rs. 135.59 Cr in the previous year, marking a 37.76% increase. Q3FY24 saw the release of 165 new songs, comprising 82 film songs and 83 non-film songs.
- The top 5 albums collectively achieved an impressive milestone, surpassing 1 billion streams. Leading the pack was "Ponniyin Selvan-1" with 498 million streams, followed by "Freddy" with 157 million streams, "Saunkan Saunkne" with 142 million streams, "Moh" with 132 million streams, and "Bajre Da Sitta" with 94 million streams. Additionally, "Yai Re" recreations amassed 43 million streams, while "Dil Laga Liya Maine" and "Jeene Laga Hoon" LoFi Mixes recorded over 76 million and 46 million streams, respectively.
- TIPS is increasingly prioritizing the creation and distribution of content in regional languages like Punjabi, Bhojpuri, and Gujarati.
- The company aims to acquire 10 to 15 films next year and is actively involved in creating and acquiring new intellectual property. Fiscal year 2024 is expected to witness a higher number of film and non-film music releases from the TIPS label.
- Streaming services have been actively embracing the subscription-based approach. As an example, Spotify currently has about 40% of its users as premium subscribers, making up roughly 90% of its total revenue. In contrast, the remaining 60% of free subscribers contribute only 10% to its revenue. The increasing popularity of premium subscription services implies that music labels have the potential to earn significantly more than the standard rate of INR 0.1 per stream.
- TIPS executed the demerger by divesting a 6% stake (Rs. 265 Cr) of its film division on 20th Dec'23, establishing a distinct entity known as Tips Films Ltd. This strategic move aimed to provide both entities with a sharper focus on their respective strengths.
- In 2022, Indian consumers increased their weekly music listening time to 25.7 hours (compared to 21.9 hours in 2021), surpassing the global average of 20.1 hours (18.4 hours in 2021). The shift towards paid audio streaming saw an increase from 3.3 hours in 2021 to 4.3 hours in 2022.

Financials

- Tips Industries Limited reported a 38% growth in revenues and a 19% growth in PAT for FY23.

Particulars	FY20	FY21	FY22	FY23	FY24E
Revenue (Rs in Crs)	91	91	136	187	247
EBITDA (Rs in Crs)	16	60	89	107	133
Adj. PAT (Rs in Crs)	11	43	65	77	94
Adj. EPS (Rs.)	0.79	3.35	4.98	5.96	9.67
PE Multiple (x)	603x	142x	96x	80x	50x
RoE (%)	17%	49%	72%	62%	48%

Stock Data

Market Cap (Rs. Crs)	6,105
Market Cap (\$ Mn)	732.5
Shares O/S (in Mn)	128
Avg. Volume (3 month)	6,95,410
52-Week Range (Rs.)	540 / 143

Shareholding Pattern

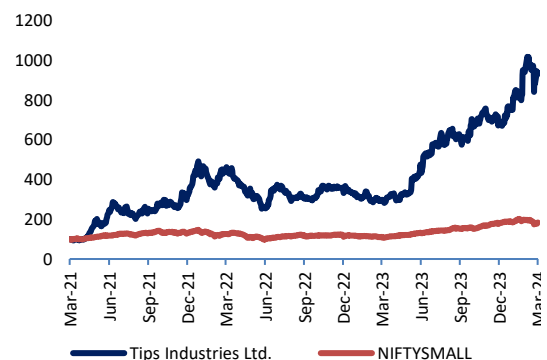
Promoters	68.92 %
FII's	0.85 %
Institutions	0.91 %
Others (incl. body corporate)	29.32 %

Key Ratios

Div Yield	1.26%
TTM PE	50.6x
ROE	64.0%
TTM EPS (Rs.)	9.33/-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	(2.4%)	54.1%	217.7%
NIFTYSMALLCAP	(6.6%)	20.7%	65.2%



- Q3FY24 Revenue grew by 27% YoY to Rs. 64.8 Cr, Operating EBITDA for the quarter grew by 67% and PAT grew by 72%. Content cost for the quarter was INR14.7 crores, compared to INR18.7 crores in the previous year.
- Total number of new songs released this quarter is 165, 82 film songs and 83 non-film songs. YouTube still accounts for 45% to 50% of the company's total business.

Key Business Highlights

- TIPS, one of India's leading entertainment companies, has been engaged in the business of creation and acquisition of audio-visual content for music and exploitation of audio-visual content library digitally in India and overseas through licensing on various distribution platforms.
- Its large and diversified music library has a collection of over 30,000 songs across all genres and major languages.
- The company has a widespread presence across leading global digital platforms such as YouTube, Spotify, Jio Saavn, Resso, and Apple Music. Amazon Prime, etc.
- As of March 2023, on YouTube, Tips Music has more than 82 mn subscribers across its channels and received 112.7 billion views.
- The company has produced and released around 40 Hindi films in the past 20 years and also sells theatrical, satellite, and various other rights to distributors, broadcasters, etc.
- The company earns 100% of its revenue from License fees. 75% of the revenue is from digital platforms, wherein 45-50% is through YouTube, and the remaining 25-30% is through other digital platforms. The remaining 25% is generated through TV and public performances.
- TIPS owns 2 factories that use internationally recognized, state-of-the-art machines specially imported from Italy and Denmark, such as Otari, Lyrec, and Tapematics. These factories incorporate digital bin mastering facilities, work on just-in-time inventory management systems and use in-house logistics facilities to deliver more than 1,50,000 cassettes per day to the Indian market. The company also has offices located in the United States, Dubai, and England where it operates via its licenses.
- The team of distributors of the company serves more than 1,000 wholesalers across the length and breadth of the country who, in turn, serve more than 4,00,000 retailers.

Valuation

TIPS currently trades at a PE of 51x as compared to the industry PE of 53.9x indicating that the company is fairly valued. The company has shown an exponential EPS growth of 96% in the last 3 years. The ROE / ROCE levels remain stellar at 64% / 89% respectively. We estimate the Revenue / EBITDA / PAT to grow at a CAGR of 32% / 29% / 29% respectively.

We are ascribing a **BUY** rating for Tips Industries with a **Target Price of Rs. 605**, translating into an **upside of 27%**.

Risk & Concern

- Piracy has been eating into the profitability of the media and entertainment industry.
- Copyright infringement remains a challenge for the music ecosystem. An estimated 27% of those surveyed used unlicensed methods to listen or obtain music in the past month, while 23% used illegal stream ripping services.
- Reduction of cinema screens is an ongoing trend. Since 2018 the number of cinema screens has reduced from 9,601 to 9,382 in 2022. This reduces the initial footprint achieved by film music upon release of new films.

Graphs & Charts

Figure 1: Net Sales Trend (Rs. In Cr)

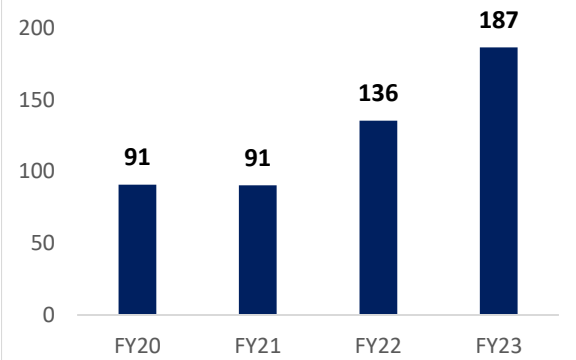


Figure 2: EBITDA & EBITDA Margin Trend

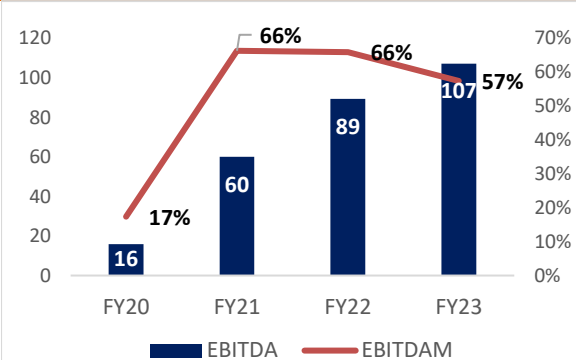


Figure 3: ROE & ROCE Trend

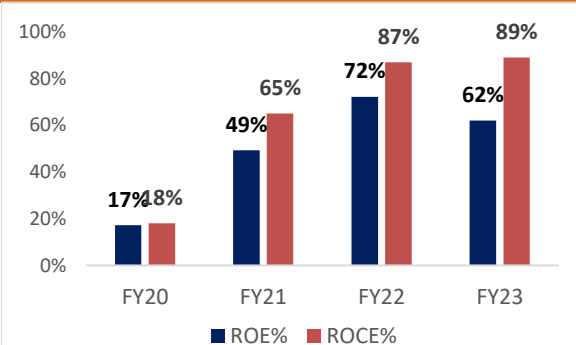
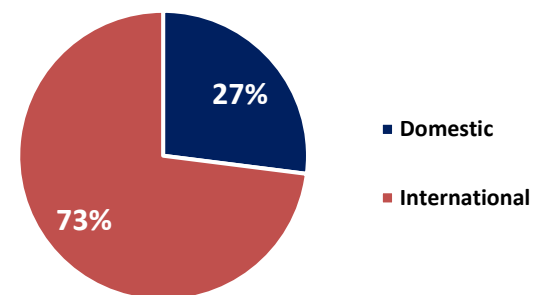


Figure 4: Revenue Split Geographically



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