

CMP: INR 770

Rating: Accumulate

Target Price: INR 890

Stock Info

BSE 532375

NSE TIPSINDLTD

Bloomberg TPS:IN

Reuters TIPS.BO

Sector Media & Entertainment

Face Value (INR) 1

Mkt Cap (INR Mn) 98,889

52 week H/L (INR) 877/320

Avg. Yearly Volume (in ,000) 38,556

Shareholding Pattern %

(As on Sept,2024)

Promoters 64.15

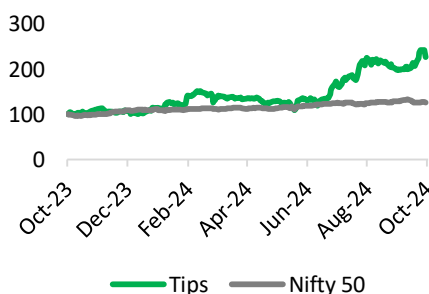
Public & Others 35.85

Stock Performance (%) 1m 3m 12m

Tips 13.9 31.5 126.1

Nifty 50 -1.6 1.5 26.0

Tips Vs Nifty 50



Tips Industries Q2FY25 revenue stood at INR 806 Mn, (+32.4% YoY, +9.1% QoQ) in line with our estimate of INR 805 Mn. EBITDA for Q2FY25 was INR 595 Mn, marking a 19.4% YoY increase and a 9.4% QoQ increase, BELOW our estimate of INR 601 Mn. EBITDA margin down by 808 bps YoY and up by 22 bps QoQ to 73.8% in Q2FY25, below our estimate of 74.7%. PAT for Q2FY25 was INR 482 Mn, representing a 21.5% increase YoY and a 10.6% increase QoQ, in line with our estimate of INR 470 Mn. PAT margin down by 539 bps YoY and increased by 81 bps QoQ to 59.7% in Q2FY25, above our estimate of 58.5%. The content cost for the quarter stood at INR 138 Mn compared to INR 47 Mn in Q2FY24, reflecting an increase of 194% compared to the previous year's quarter. In Q2FY25 the company launched a total of 125 new songs. Out of which, 39 were New Film songs and 86 non-film songs. The interim dividend for Q2FY25 was INR 2 per share, totalling INR 255.6 Mn. The total payout to shareholders, including dividends and buybacks, has reached INR 977.4 Mn in FY25 so far.

Investment Rationale

Strong revenue growth led by warner deal: Warner deal is seen as a key contributor for the company to maintain its 30% growth guidance in revenue. The deal helps Tips Music's content is available on all major OTT platforms worldwide, including global platforms like Apple Music, Spotify, and regional players. The deal operates on a minimum guarantee (MG) basis, meaning Tips is secured a certain level of revenue, regardless of platform-specific fluctuations. Plus, there is potential for additional upside (overflow) beyond the MG if platform performance exceeds expectations. We expects the Warner deal to significantly boost revenue over time, particularly through expanding their catalog's reach on platforms like Meta (Facebook and Instagram), where Tips content was recently added. Meta's growing ad ecosystem is expected to enhance monetization opportunities for their music content.

Enhance in company's growth led by premium subscribers: Paid subscribers on platforms like YouTube, Apple Music, and others are growing at a rapid pace. Management estimates the industry's paid subscriber base to grow by 40%-50%, contributing significantly to revenue growth.

YouTube shorts monetization led to margin improvement: YouTube Shorts has grown in importance as a platform, although views have been cyclical. Tips Music has a lump-sum deal with YouTube for Shorts, ensuring MG revenue. This secures income even during periods of viewership fluctuation. If YouTube moves further towards a paid model for Shorts, Tips stands to gain additional revenue beyond the MG.

Film and non-film music focus: Non-film music has contributed significantly to the company's revenue in H1FY25. Going forward, management expects to increase focus on film music, with multiple new film projects slated for next year. The plan is to release 5-6 films annually starting FY26.

Outlook and Valuation: The company has reiterated their guidance of 30% YoY growth in both top line and bottom line for FY25. The Warner deal is anticipated to amplify revenues in the coming years. Management is also optimistic about the growing subscription model in audio OTT platforms. Content cost for FY25 expected to be around 22-23% of revenue, with plans to increase it to 30% in FY26. With steady revenue anticipated from both traditional YouTube videos and the growing YouTube Shorts platform, Tips appears well-positioned for sustained growth in the evolving digital music landscape. **We expect Tips industries' revenue, EBITDA, and PAT to grow at a CAGR of 34.85%, 35.83%, and 35.26%, respectively, over FY25-27E. We revise our rating to 'Accumulate' at a TP of INR 890 per share based on DCF; an upside of 15.5%.**

Exhibit 1: Financial Performance

Year-end March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin (%)	EV/EBITDA	P/E (x)
FY23	1,868	1,019	766	6.0	54.6%	96.1	129.2
FY24	2,416	1,585	1,272	9.9	65.6%	61.6	77.7
FY25E	3,213	2,362	1,881	14.7	73.5%	41.5	52.33
FY26E	4,305	3,184	2,510	19.6	74.0%	30.7	39.22
FY27E	5,842	4,357	3,441	26.9	74.6%	22.3	28.60

Source: Arihant Research, Company Filings

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Exhibit 2: Q2FY25 Quarterly Performance (Consolidated)

Quarterly Results					
Consolidated (INR Mn)	Q2FY25	Q1FY25	Q2FY24	QoQ%	YoY%
Net sales	806.1	739.2	608.7	9.1%	32.4%
Content Charge	138.4	126.8	46.7	9.2%	196.4%
Employees benefits expense	27.9	28.0	21.4	-0.5%	30.2%
Other expenses	45.1	40.7	42.3	11.0%	6.6%
EBITDA	594.7	543.7	498.3	9.4%	19.4%
EBITDA Margin (%)	73.8%	73.6%	81.9%	22.03	-808.18
Depreciation and amortisation expense	5.5	5.5	4.5	0.5%	21.1%
EBIT	589.2	538.2	493.7	9.5%	19.3%
EBIT margin (%)	73.1%	72.8%	81.1%	27.85	-801.78
Other Income	55.9	45.9	36.0	21.7%	55.4%
Finance Cost	0.8	0.9	0.7	-10.0%	7.8%
PBT	644.3	583.2	529.0	10.5%	21.8%
Tax	162.7	147.6	132.5	10.2%	22.8%
Reported PAT	481.6	435.6	396.5	10.6%	21.5%
PAT margin (%)	59.7%	58.9%	65.1%	80.87	-538.76
EPS	3.8	3.4	3.1	10.6%	22.0%
	Q2FY25	Q1FY25	Q2FY24	QoQ(bps)	YoY(bps)
Employee exp/Sales	3.69%	3.79%	3.52%	-10.00	17.30
Other exp/Sales	5.60%	5.50%	6.96%	9.74	-135.92

Source: Arian Research, Company Filings

Accounting highlights

- The Warner deal advances are split between non-current and current liabilities based on the expected timeline for revenue recognition.
- Current liabilities represent the portion of the advance that is expected to be recognized as revenue within the next 12 months. Non-current liabilities represent revenue expected beyond 12 months. The allocation between current and non-current depends on the company's estimation of when Warner's payments will be realized.
- The non-current portion includes expected future revenue from deals with other platforms as well.
- The revenue from these advances, especially from Warner, is booked over time based on platform performance and user consumption of Tips Music's content.
- The balance in non-current liabilities reflects the revenue yet to be recognized over a longer period, which provides visibility into future earnings.
- The management emphasized that the division between current and non-current liabilities is a function of expected timing for revenue realization, primarily driven by long-term deals like Warner's.

Tips Industries Q2FY25 Concall highlights

- **Content Cost** increased by 194% YoY, reaching INR 138 Mn. **Operating EBITDA margin** at 73.8%. A second interim dividend of INR 2 per share was declared.
- Tips Music recently initiated brand partnerships, including a synchronization deal with Motorola for their song 'Rangeela Re'. More deals are in the pipeline.
- In Q2FY25, the company released 125 songs (39 film songs, 86 non-film songs). They also released two musical short films, *Tedi Medi* and *Beinteha*.
- Aims to increase its market share from the current 8%-9% to double digits (10%-11%) over the next few years.
- Though the company targets spending 30% of its top line on content acquisition, this year's figure may be around 22%-23%. The company plans to increase content investments in FY26.
- New songs contributed 10%-14% of the overall revenue in the last three years, with the rest coming from the older music catalog. Paid subscriptions, currently at 2-3%, could increase to 10-15%.
- Despite Wynk's shutdown, management expects minimal impact, as users are likely to migrate to other platforms such as YouTube, Spotify, and Jio Saavn. The company is secured because of the Warner deal.
- The company maintains its guidance of 30% growth in both top-line and bottom-line figures for FY25.
- The co. has confidence in Warner achieving the expected performance targets. The partnership covers platforms globally and has already made Tips catalog available on Meta platforms (Facebook and Instagram).
- Catalog music is growing at a rate of around 25%. 80-85% of revenue comes from its repertoire, with 15-20% from new releases. The 90s music repertoire is performing exceptionally well.
- Regional music contributes about 10%-15%. The focus remains on Hindi content, although they continue exploring regional opportunities.
- The management is contemplating entering the event-based business (live music events) but is still evaluating the market.
- Continues to maintain strong cash reserves. These funds would be utilized for future opportunities, including potential inorganic growth or dividend payouts.
- Tips Music works exclusively with Warner for global digital distribution, ensuring broad reach across OTT platforms. The company is also working with Sony Music Publishing for international publishing rights.
- Details regarding brand deals will be shared in the next quarter.
- Regarding the Warner deal, a portion is allocated to non-current liabilities, while the current liability is considered as an advance from customers. Non-current liabilities represent the company's estimate of how the advance will be utilized throughout the year.
- The company operates under two models: 1) Minimum guarantee and 2) Advertising revenue share. As Youtube Shorts increase in length, advertising revenues are expected to rise.
- The timeline for material contributions from YouTube Shorts is unclear but could emerge within the next three years.

Story in charts (INR Mn)

Exhibit 3 : Continuous and expanding revenue growth

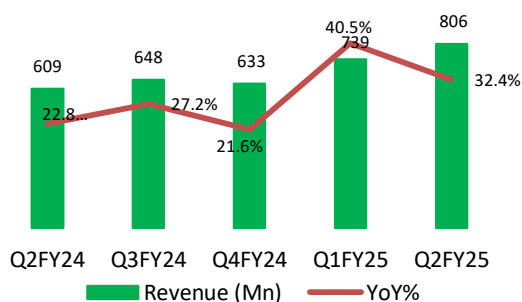


Exhibit 4 : Improvement in EBITDA margin

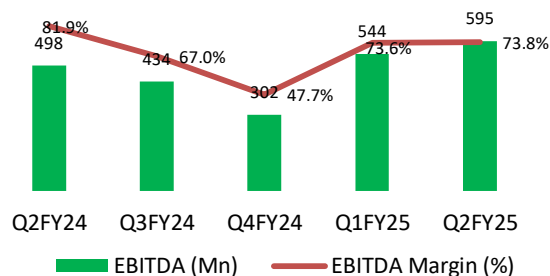


Exhibit 5: Consistent and steady growth in net profit

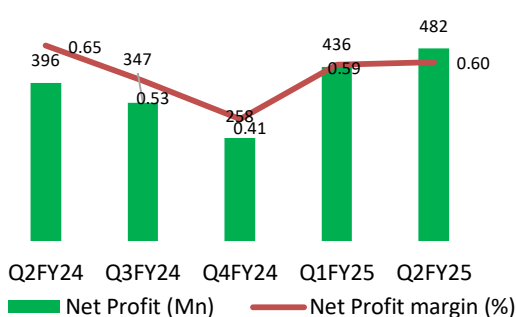


Exhibit 6: Healthy momentum of EPS

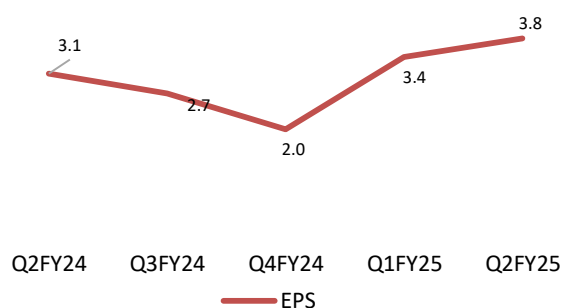


Exhibit 7: Interest Cost, Dividend, Buyback

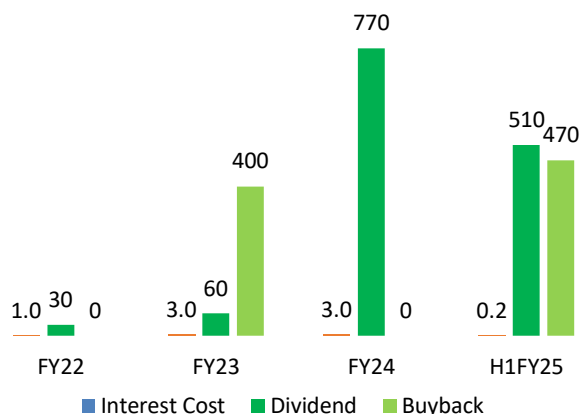


Exhibit 8: Lower content costs improved margins

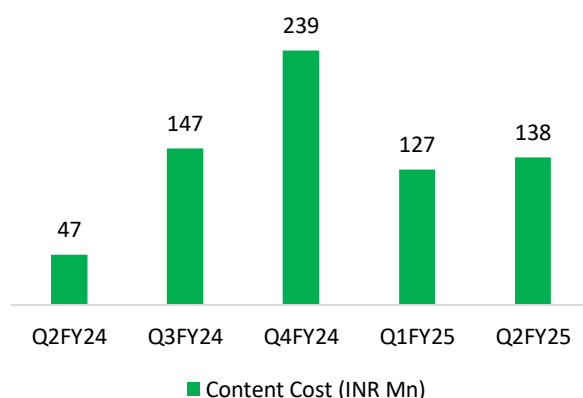


Exhibit 9: YouTube Views (Bn) per quarter

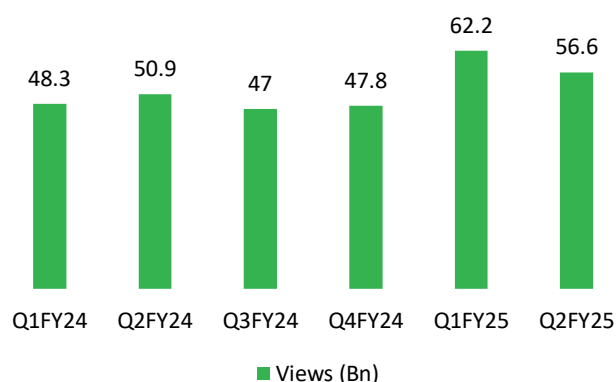
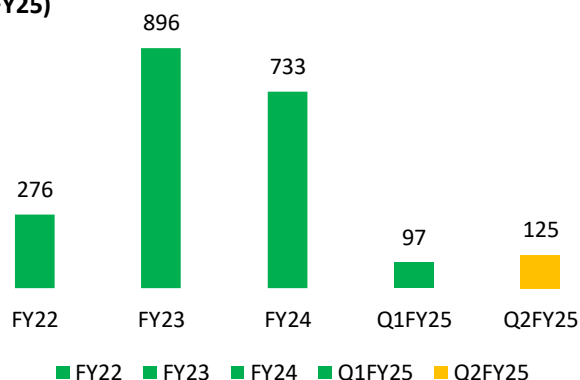


Exhibit 10: New Songs Added (125 New releases in Q2FY25)



Source: Company, Arianth Research

DCF Valuation

Valuation Assumptions

g (World Economic Growth)	4%
Rf	7%
Rm	13%
Beta (2 Yr)	0.8
CMP (INR)	770

WACC

We	99.9%
Wd	0.1%
Ke	11.7%
Kd	7.9%
WACC	11.74%

Valuation Data

Total Debt (long term borrowings) (2024)	50
Cash & Cash Equivalents (2024)	1,312
Number of Diluted Shares (2024)	128
Tax Rate (2024)	25%
Interest Expense Rate (2024)	11%

MV of Equity 98,431

Total Debt 50

Total Capital 98,481

FCFF & Target Price												
FCFF & Target Price		Explicit Forecast Period						Linear Decline Phase				Terminal Yr
		2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Year												
EBIT * (1-Tax Rate)		1,751	2,360	3,229	4,293	5,539	6,930	8,400	9,853	11,172	12,230	12,911
Dep		27	38	52	68	88	111	134	157	178	195	206
Purchase of Assets		64	86	117	157	202	252	306	358	406	445	470
Changes in Working Capital		-791	-954	-1,222	-1,767	-2,205	-2,744	-3,376	-3,928	-4,456	-4,890	-5,153
FCFF		2,505	3,265	4,386	5,971	7,631	9,533	11,604	13,579	15,399	16,870	17,801
% Growth in Post Tax EBIT			34.8%	36.8%	32.9%	29.0%	25.1%	21.2%	17.3%	13.4%	9.5%	5.6%
As % of Post Tax EBIT												
Dep		1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%
Purchase of Assets		3.7%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%
Changes in Working Capital		-45.2%	-40.4%	-37.8%	-41.2%	-39.8%	-39.6%	-40.2%	-39.9%	-39.9%	-40.0%	-39.9%
FCFF		2,505	3,265	4,386	5,971	7,631	9,533	11,604	13,579	15,399	16,870	17,801
Terminal Value												2,23,734
Total Cash Flow		2,505	3,265	4,386	5,971	7,631	9,533	11,604	13,579	15,399	16,870	17,801

Enterprise Value (EV)	1,12,470
Less: Debt	50
Add: Cash	1,312
Equity Value	1,13,732

Equity Value per share (INR) 890

% Returns 15.5%

Rating Accumulate

WACC (%)

	Terminal Growth (%)							
	2.25%	2.50%	2.75%	3.50%	3.25%	3.50%	3.75%	4.00%
889.7	10.99%	883	904	926	1000	974	1000	1028
11.24%	853	872	892	961	936	961	987	1014
11.49%	823	841	860	924	902	924	948	973
11.74%	796	813	830	890	869	890	912	935
11.99%	770	786	802	858	838	858	878	900
12.24%	745	760	776	827	809	827	846	867
12.49%	722	736	751	799	782	799	817	835
12.74%	700	713	727	772	756	772	789	806

Industry trends

Exhibit 11: Sustainably increasing market share:
Revenues surged 1.8x over the last two years

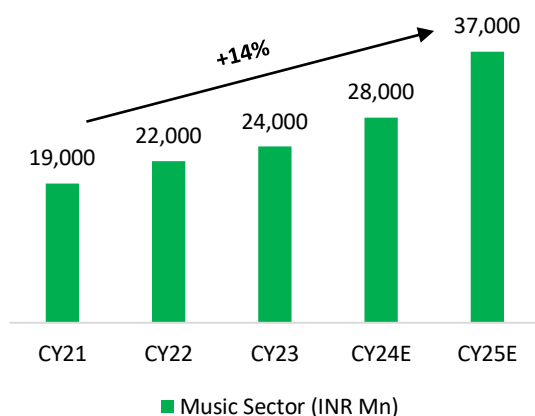


Exhibit 12: Tips Industries outperformed sector growth by 2.8x over the past four years.

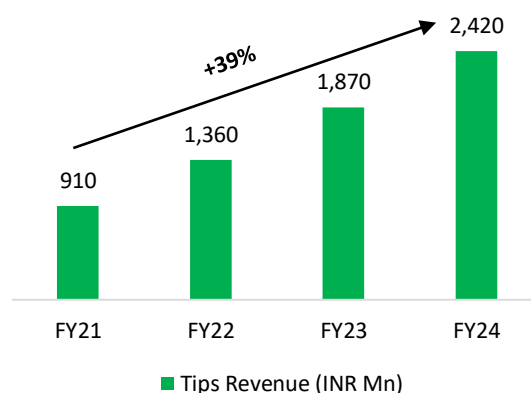


Exhibit 13: Global Music Revenue Sources

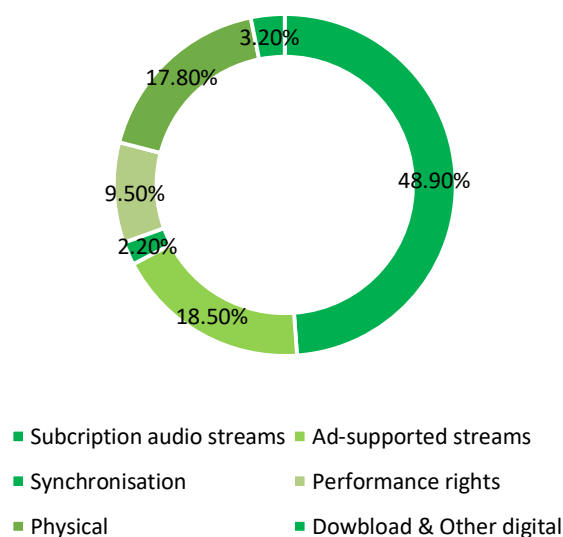


Exhibit 14: Digital Advertising – Key Driver of Indian Music Industry

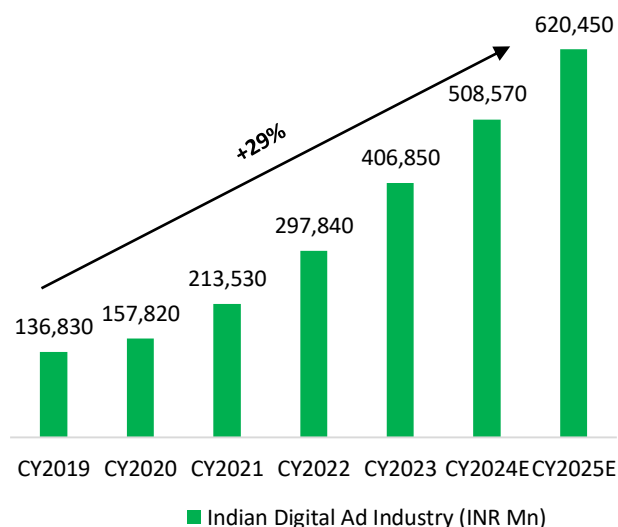


Exhibit 15: Peer Analysis

Particular (INR Mn)	CMP	Market Cap	Sales	EBITDA	ROE	PE(X)	EV/EBITDA (X)
Tips Industries	770	98,889	2,416	1,585	70.8%	77.8	61.6
Saregama India	547	1,05,466	8,030	2,466	13.4%	53.4	40.6
Zee Entertainment Enterprise Ltd	126	12,102	86,372	9,110	3.1%	28.9	9.63
Shemaroo Entertainmnet Ltd	179	4,880	7,072	-3	-6.8%	-	-

Source: Arianth Research, Company Filings

Key Financials

Income statement (INR Mn)					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Gross Sales	1,868	2,416	3,213	4,305	5,842
Net Sales	1,868	2,416	3,213	4,305	5,842
YoY (%)	37.8%	29.3%	33.0%	34.0%	35.7%
Content Charge	624	556	550	737	1000
Employee benefit expenses	73	109	116	155	205
<i>Manufacturing & Other Expenses</i>	<i>151</i>	<i>166</i>	<i>186</i>	<i>230</i>	<i>281</i>
Total Expenditure	848	831	851	1,122	1,485
YoY (%)	18.23%	55.45%	49.03%	34.81%	36.85%
EBITDA	1,019	1,585	2,362	3,184	4,357
YoY (%)	18.23%	55.45%	49.03%	34.81%	36.85%
EBITDA Margin (%)	54.58%	65.60%	73.50%	73.95%	74.58%
Depreciation	13	20	27	38	52
% of Gross Block	10.42%	11.42%	11.86%	12.16%	12.37%
EBIT	1,006	1,565	2,334	3,146	4,305
EBIT Margin (%)	53.87%	64.78%	72.65%	73.07%	73.69%
Interest Expenses	3	3	4	4	3
Non-operating/ Other income	54	144	191	257	348
PBT	1,057	1,705	2,522	3,399	4,650
Tax-Total	291	434	641	890	1,209
Net Profit After Tax	766	1,272	1,881	2,510	3,441
PAT Margin	40.99%	52.65%	58.54%	58.29%	58.90%
Shares o/s/ paid up equity sh capital	128	128	128	128	128
Adj EPS	6	10	15	20	27
Dividend per share	26	835	1,023	1,023	1,023
Dividend payout (%)	3.39%	65.63%	54.37%	40.75%	29.72%
Buyback amount	0	0	466	0	0
Retained earnings	740	437	858	1,487	2,418

Balance sheet (INR Mn)					
Year-end March	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds					
Equity Share Capital	128	128	128	128	128
Reserves & Surplus/ Other Equity	1,233	1,667	2,528	4,014	5,968
Networth	1,362	1,795	2,656	4,142	6,096
Unsecured Loans/ Borrowings/ Lease Liabilities	1	7	7	7	7
Other Liabilities	0	0	0	0	1
Total Liabilities	565	1,594	1,514	1,682	1,866
Total Funds Employed	1,927	3,389	4,169	5,824	7,962
Application of Funds					
Net Fixed Assets	51	80	111	152	167
Investments/ Notes/ Fair value measurement	224	547	821	984	1,181
Current assets	1,646	2,756	3,232	4,682	6,608
Debtors	203	263	298	401	546
Days	37	33	34	34	34
Other Current Assets	343	268	437	612	862
Cash and Cash equivalent	969	1,312	928	1,314	1,903
Current Liabilities/Provisions	533	834	901	1,015	1,138
Creditors / Trade Payables	160	147	81	107	129
Days	43	35	35	35	32
Other Liabilities	365	674	805	886	976
Net Current Assets	1,113	1,922	2,331	3,667	5,469
Total Asset	1,927	3,389	4,169	5,824	7,962
Total Capital Employed	814	1,467	1,838	2,157	2,493

Cash Flow Statement (INR Mn)					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Profit after tax	766	1,272	1,881	2,510	3,441
Adjustments: Add					
Depreciation and amortisation	13	20	27	38	52
Interest adjustment	-51	-140	-188	-253	-345
Change in assets and liabilities	754	1,986	3,210	3,317	4,171
Inventories	0	0	0	0	0
Trade receivables	-23	-61	-34	-103	-146
Trade payables	119	-14	-66	26	22
Other Liabilities and provisions	301	308	131	81	89
Other Assets	62	-91	-82	-161	-232
Taxes	-17	-6	-6	-7	-11
Net cash from operating activities	1,158	1,514	2,418	2,363	2,949
Net Sale/(Purchase) of tangible and intangible assets, Capital work in progress	1	-48	-59	-79	-67
Net Sale/(Purchase) of investments	0	0	0	0	0
Others	-59	-179	-82	93	152
Net cash (used) in investing activities	-58	-227	-140	14	85
Interest expense	9	11	-2	5	8
Dividend paid	-26	-835	-1,023	-1,023	-1,023
Buyback amount	0	0	-466	0	0
Other financing activities	-431	-842	-1,024	-1,027	-1,491
Net cash (used) in financing activities	-750	-944	-2,661	-1,991	-2,445
Closing Balance	969	1,312	928	1,314	1,903
FCF	1,158	1,562	2,477	2,442	3,016
Capex	1	42	64	86	117

Key Ratios					
Year-end March	FY23	FY24	FY25E	FY26E	FY27E
Solvency Ratios					
Debt / Equity	0.03	0.028	0.018	0.013	0.010
Net Debt / Equity	-0.71	-0.72	-0.34	-0.31	-0.31
Debt / EBITDA	0.04	0.03	0.02	0.02	0.01
Current Ratio	-0.94	-0.82	-0.39	-0.41	-0.43
DuPont Analysis					
Sales/Assets	0.97	0.71	0.77	0.74	0.73
Assets/Equity	1.41	1.89	1.57	1.41	1.31
RoE	56.2%	70.86%	70.82%	60.59%	56.45%
Per share ratios					
Reported EPS	5.96	9.90	14.71	19.63	26.92
Dividend per share	0.20	6.50	8.00	8.00	8.00
BV per share	10.60	13.98	20.78	32.40	47.69
Cash per Share	2.47	5.83	5.01	6.94	9.78
Revenue per Share	14.54	18.81	25.13	33.68	45.70
Profitability ratios					
Net Profit Margin (PAT/Net sales)	40.99%	52.65%	58.54%	58.29%	58.90%
EBITDA / Net Sales	54.58%	65.60%	73.50%	73.95%	74.58%
EBIT / Net Sales	53.87%	64.78%	72.65%	73.07%	73.69%
ROCE (%)	72.17%	61.26%	71.42%	65.43%	63.09%
Activity ratios					
Inventory Days	0.00	0.00	0.00	0.00	0.00
Debtor Days	37.31	33.49	33.80	33.95	34.11
Creditor Days	43.50	34.76	34.76	34.76	31.74
Leverage ratios					
Interest coverage	351.82	449.07	608.91	863.89	1244.45
Debt / Asset	0.02	0.01	0.01	0.01	0.01
Valuation ratios					
EV / EBITDA	96.06	61.58	41.48	30.65	22.27
PE (x)	129.16	77.75	52.33	39.22	28.60
OCF/EBITD (%)	113.59	95.51	102.39	74.22	67.68

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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