

Shemaroo Entertainment

CMP: Rs263

Mcap: Rs 7110m

"Clicks" in New media on a rise

July 17, 2015

Nifty: 8608

 Prabhudas
Lilladher

Management Meet Update

Shemaroo Entertainment over the years has become one of the largest content aggregator houses in India with activities primarily in content acquisition, value addition to content and content distribution. It has converted its huge collection of film titles into a media asset platform that monetizes satellite licensing, digital new media licensing and home video distribution efficiently. It acquires content with either perpetual rights (complete ownership) or aggregated rights (limited ownership i.e., period of usage, geography, platforms etc). It currently has a library of more than 3000 titles which it distributes across broadcasters, mobile, internet and other emerging media platforms.

Traditional Media platform expected to grow @10-12%: This vertical includes Broadcast syndication, Home entertainment and other media platforms like in-flight entertainment, international film festivals etc. This segment contributed Rs 2.8bn, almost 88% to the top-line in FY15

New Media revenue growing @ 30-35% CAGR: Shemaroo syndicated its library in the high growth new media platforms like mobile and internet as early as 2005. It caters to all types of revenue models like pay per transaction, subscription, advertisement supported (free to consumer) etc. This segment contributed Rs 373mn, about 12% to the top-line in FY15. Since most costs are fixed in nature in this segment, margins are already higher than traditional media. Further, operating leverage shall kick in subsequent years based on the strong growth trajectory. Keeping in mind the roll-out of 4G and growing availability of smart phones in the Rs 5000 range, this segment has the potential to contribute almost 25% to the top-line over the next 5 years.

Valuations

Shemaroo has reported strong financial performance over the past 3 yrs with revenues of Rs 3.2bn (20% CAGR), EBITDA margins between 24 ~27% and PAT of Rs 409mn (26% CAGR). It raised Rs 1.2bn (Oct 2014) through an IPO at a price of Rs 170. Shemaroo currently trades at 17.5x FY15 earnings, total debt of ~Rs 1.5bn and an EV of ~Rs 8.6bn. On a rough cut basis we feel that Shemaroo can generate revenue CAGR of ~ 15% and PAT CAGR of 22% over the next 2-3 yrs. We expect strong traction from New Media segment with the imperative launch of Reliance Jio 4G.

Key Financials (Rs m)

Y/e March	FY12	FY13	FY14	FY15
Sales	1820	2147	2646	3235
EBITDA	465	574	648	869
<i>EBITDA Margin (%)</i>	25.6	26.7	24.5	26.9
PAT	207	236	270	409
Adj. EPS	7.6	8.7	10.0	15.0

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INDIA

Media & Entertainment

Reuters: SHEM.BO

Bloomberg: SHEM IN Equity

Trading/Execution Data

Listing	NSE, BSE
Shares in issue	27.2 m
Avg. Daily Vol.	0.06 m
Free Float	34%
F&O Contract	NO
52W High	295
52W Low	145

Major Inst. Holders (%)

Promoters	65.82
Cophall Mauritius Inv Ltd	08.61
HDFC MF	01.90
Birla Sunlife Asset	01.65
Credit Suisse/Singapore	01.01

Stock Performance (%)

Absolute (%)

1 M	18.4
3 M	42.2
6 M	42.1
12 M	-

Relative (%)

1 M	11.9
3 M	42.1
6 M	40.9
12 M	-

Business Segments:

Shemaroo business model monetizes its assets across 2 platforms, i.e., Traditional media and New media -

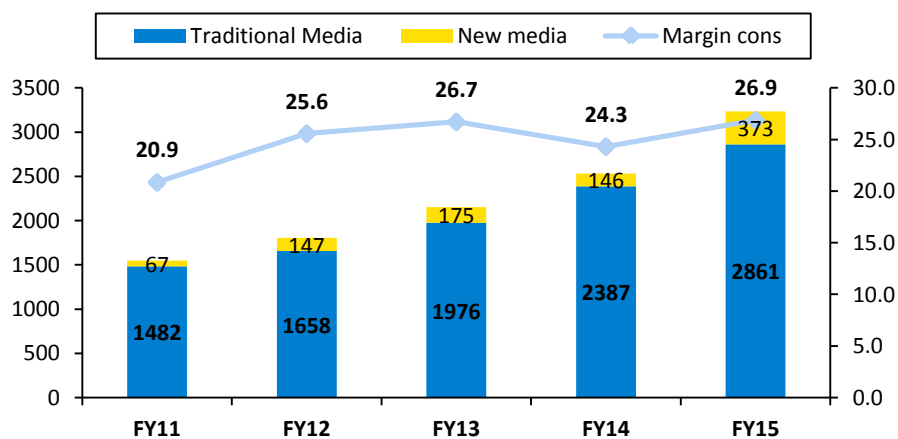
1. Traditional media

- **Broadcast Syndication:** Shemaroo has a diverse content library which it syndicates to various broadcasting channels like UTV movies, Star Gold, Sony Max etc. It has distributed over 1000 films for broadcasting & contributes almost 50% of its revenues.
- **Home Entertainment:** Shemaroo has a product presence of ~1300 titles across over 2000 retail stores (Planet M, Music World, Crossword, Landmark, Reliance Retail etc) across over 75 towns and cities in India.
- **Other Media:** Shemaroo distributes its contents to other media platforms like Airborne rights for in-flight entertainment, international film festivals and overseas markets which includes USA,UK, Singapore, Fiji, UAE, Australia, East Europe and North Africa.

2. New media

- **Internet:** Shemaroo has agreements with various internet video platforms like You-tube, Daily motion, Yahoo India, Spuul etc. It gets around 45-60mn views a month or around 1.5-2mn hits per day on YouTube. It is the most viewed channel partner for YouTube in India with 32 channels of its own. It receives the revenue share (50% plus) from the ad-revenue that YouTube makes from Shemaroo channels.
- **Mobile value added services (MVAS):** Shemaroo distributes caller ringback tones, ringtones, videos, games, full songs, celebrity chats etc under MVAS. It has business tie-ups with most telcos here.
- **Other New Media Platforms:** Shemaroo also distributes its content through other platforms like DTH, Interactive Services, IPTV etc

Revenue Split Segment wise and Consolidated EBITDA Margin



Shemaroo's role in a movie lifecycle: Theatrical, Television and overseas release generate 90 to 95% of the revenues in the first cycle of movie launch, where Shemaroo is not present. Shemaroo typically participates in the second and subsequent cycles of film monetization where risk is lower due to visibility of film performance during first cycle of launch. It decides on the content cost using its proprietary tools and various factors such as viewership rating, Box office collections, Cast, Production house track records etc. Then it purchases the forward rights targeting an IRR of 18% at the portfolio level.

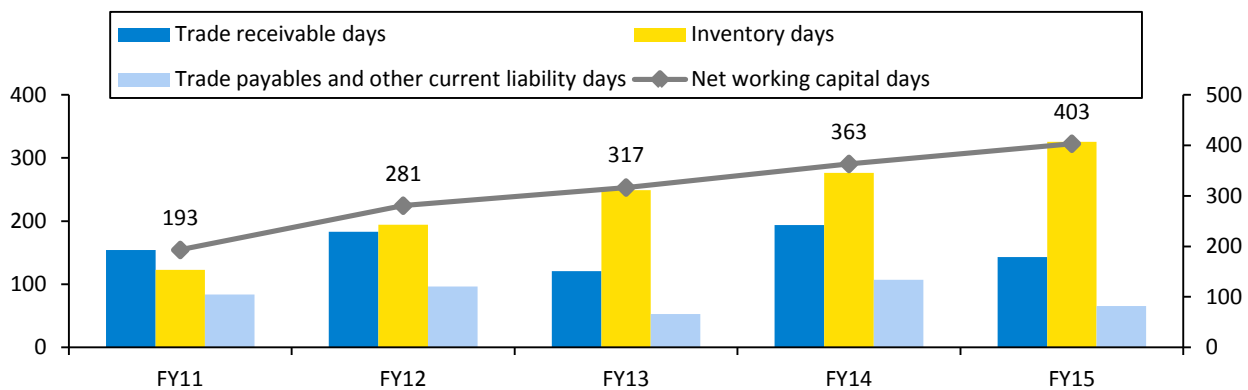
Strong content library of ~3000 titles, looking to add 80-100 titles a year

Shemaroo holds more than 3000 titles with ~ 25% contribution from perpetual titles. It is being viewed as the largest consolidator in India with titles from almost all production houses.

Table: Split of titles content wise (as on July 2014)

TYPE OF CONTENT	NUMBER OF PERPETUAL TITLES	NUMBER OF AGGREGATED TITLES	TOTAL NUMBER OF TITLES	Share in Revenue (%)
Hindi Films	355	1289	1644	~85-90
Regional Films	364	728	1092	~10-15%
Special Interest Content	40	142	182	
	759	2159	2918	

Business model involves significant working capital requirement: Cash conversion in the Traditional media segment takes more than a year. This generally is accounted into the inventories and debtors. As of end FY15, inventories and receivables accounted for Rs 4.1bn.



Income Statement (Rs m)

Y/e March	2012	2013	2014	2015
Net Revenue	1820	2147	2646	3235
Direct Operational Exp	1493	1767	2223	2911
Changes in inventories	(438)	(495)	(540)	(882)
Employee Cost	148	165	185	185
Other Expenses	152	137	130	152
EBITDA	465	574	648	869
Depr. & Amortization	29	30	30	37
Net Interest	193	183	192	212
Other Income	51	14	7	13
Profit before Tax	294	374	434	633
Exceptional Items	-	-	-	-
Total Tax	80	128	165	222
Profit after Tax	214	247	269	410
Ex-Od items / Min. Int.	-7	-11	1	-1
Adj. PAT	207	236	270	409
Avg. Shares O/S (mn)	19.8	19.8	19.9	27.2
Adj.EPS (Rs.)	7.6	8.7	10	15

Cash Flow Abstract (Rs m)

Y/e March	2011	2012	2013	2014
C/F from Operations	207	146	(11)	(194)
C/F from Investing	(78)	(61)	(10)	(13)
C/F from Financing	(244)	(89)	(33)	204
Net Cash Flow for year	(116)	(4)	(54)	(2)
Opening Cash	186	69	65	11
Closing Cash	69	65	11	9

Key Financial Metrics

Y/e December	2012	2013	2014	2015
Growth				
Revenue (%)	15.0	18.0	23.2	22.2
EBITDA (%)	41.0	23.0	13.0	34.0
PAT (%)	56.0	15.0	9.0	52.0
EPS (%)	51.0	14.0	15.0	51.0
Profitability				
EBITDA Margin (%)	26.0	27.0	25.0	27.0
PAT Margin (%)	11	11	10	13
RoCE (%)	15.3	14.7	12.8	14.1
RoE (%)	19.8	18.0	16.7	16.7

Balance Sheet

Net Debt : Equity	0.68	0.73	0.86	0.33
Net Wrkng Cap. (days)	281	317	363	403

Valuation

PER (x)	34.6	30.4	26.4	17.5
P / B (x)	4.1	3.5	3.0	2.3
EV / EBITDA (x)	13.1	11.0	10.4	9.4
EV / Sales (x)	3.3	2.9	2.5	2.5

Earnings Quality

Eff. Tax Rate	27.3	34.1	37.9	35.1
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Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2012	2013	2014	2015
Net Worth	1,261	1,485	1,745	3,174
Total Debt	928	1,101	1,512	1,057
Other Liabilities	53	55	91	74
Current Liabilities				
Trade Payables	228	90	307	165
Other Current Liabilities	242	179	380	339
Short Term Provisions	12	43	89	77
Total Liabilities	2,724	2,953	4,124	4,885
Net Fixed Assets	362	352	341	295
Investments	99	88	89	168
Other Assets	75	43	62	72
Current Assets				
Inventories	969	1,465	2,005	2,887
Trade Receivables	913	709	1,406	1,268
Cash And Cash Equiv.	65	11	9	25
Short Loans & Advances	229	270	190	170
Other Current Assets	13	15	22	-
Total Assets	2,724	2,953	4,124	4,885

Quarterly Financials (Rs m)

Y/e March	Jun-14	Sep-14	Dec-14	Mar-15
Net Revenue	645	850	873	868
EBITDA	194	209	199	265
% of revenue	30.1	24.6	22.7	30.5
Depr. & Amortization	8	9	11	9
Net Interest	63	63	34	52
Profit before Tax	126	141	158	209
Total Tax	34	52	56	81
Profit after Tax	92	89	102	128
Ex-Od items / Min. Int.	-	-	-	-
Adj. PAT	96	86	100	128

Source: Company Data, PL Research.

Disclaimer and Disclosure

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