

Shemaroo Entertainment



DIGITAL CONTENT MONETISATION, A NEW HORIZON IN SIGHT

Intentionally Left Blank

Shemaroo Entertainment


 DOLAT CAPITAL

CMP: ₹ 260

Target Price: ₹ 470

BUY

BSE Sensex 27,878

NSE Nifty 8,477

Scrip Details

Equity ₹ 272mn

Face Value ₹ 10/-

Market Cap ₹ 7.1bn

USD 110mn

52 week High/Low ₹ 322 / 145

Avg. Volume (no) 88644

BSE Code 538685

NSE Symbol SHEMAROO

Bloomberg Code SHEM IN

Reuters Code N/A

Shareholding Pattern as on June'15

Promoter 65.82

MF/Banks/FIs 3.84

FII's 8.66

Public / Others 21.68

DIGITAL CONTENT MONETISATION, A NEW HORIZON IN SIGHT

SHEM is a media content aggregator, acquires content from various production houses and monetizes the same over various platforms. The launch of 4G and increased smartphone penetration in India provides a huge opportunity for increased consumption of entertainment content. This will benefit SHEM which has a vast content library of ~3,000 titles across various genres. We initiate coverage on the stock with a BUY recommendation and a TP of ₹470 based on 14x one year forward.

Ample growth drivers for SHEM's new media segment

As per Comscore (an internet analytics company), the number of video viewers on PC has doubled over the last few years to 59mn as on March, 2014 with YouTube being the largest consumer for aggregated content viewing. The number of internet users in India is poised to grow at a CAGR of 20%(CY14-19) to 560mn in CY19. Strong growth in the mobile data revenue (~88%YoY) and increased traction in the MVAS (mobile value added services) segment of telecom operators will drive growth for the new media segment. Digital advertising is poised to grow at CAGR of 30% (CY14-19) to Rs 163bn.

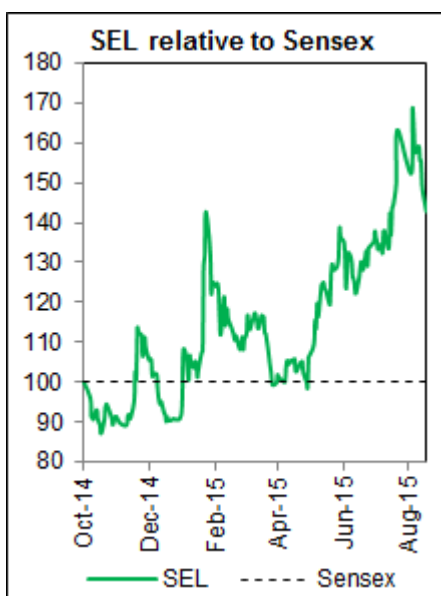
Higher operating leverage led by growth in new media

SHEM's contribution from new media has grown 400bps from 8% in FY12 to 12% in FY15 which has impacted EBITDA margin. It has grown 150bps from 25.5% to 27% over the last 3 years. New media platforms (YouTube/MVAS) have shorter payment cycles, leading to a sharp drop in receivable days to 143 in FY15 as compared to 194 in FY14. Growth in new media will also lead to a positive CFO led by capital efficiency.

Growth in line with industry for the traditional media segment

The traditional media segment contributes 89% of revenue as on FY15. We believe that the traditional segment and the industry revenue is poised to grow at a CAGR of 13%(CY14-17E). SHEM provides its content to some of the largest media houses in the country like Star, ZEE and Viacom which have reported double digit revenue CAGR (FY11-14) led by healthy advertisement revenue growth

SHEM is poised to report revenue/earnings CAGR (FY15-18) of 18%/29% in line with large peers like Zee and Eros who also have a content library. We initiate coverage on the stock with a BUY recommendation and a Sep'16 target price of ₹ 470 based on 14x one year fwd.



Financials

| Year | Net Sales | growth(%) | EBIT | OPM(%) | PAT | PAT Mg | EPS(₹) | growth(%) | PER(x) | ROANW(%) | ROACE(%) |
|-------|-----------|-----------|-------|--------|-----|--------|--------|-----------|--------|----------|----------|
| FY14 | 2,646 | 23.2 | 644 | 24.3 | 277 | 10.5 | 13.7 | 15.2 | 19.3 | 17.2 | 35.3 |
| FY15 | 3,235 | 22.2 | 869 | 26.9 | 415 | 12.8 | 17.4 | 26.8 | 15.2 | 16.9 | 32.1 |
| FY16E | 3,794 | 17.3 | 1,006 | 26.5 | 514 | 13.6 | 21.5 | 24.1 | 12.3 | 15.1 | 27.0 |
| FY17E | 4,528 | 19.3 | 1,297 | 28.7 | 684 | 15.1 | 28.7 | 33.2 | 9.2 | 17.1 | 29.5 |
| FY18E | 5,386 | 19.0 | 1,611 | 29.9 | 912 | 16.9 | 38.3 | 33.6 | 6.9 | 19.0 | 30.2 |

Figures in ₹ mn

Sr. Analyst: Karan Taurani

Tel : +9122 4096 9754

E-mail: karant@dolatcapital.com

Associate: Abhishek Lodhiya

Tel : +9122 4096 9753

E-mail: abhishekl@dolatcapital.com

August 18, 2015

VIDEO CONTENT ENHANCES GROWTH IN DIGITAL INDUSTRY

Increased video viewership in India

As per Comscore(an internet analytics company), the number of video viewers on PC has doubled over the last few years to 59mn as on March, 2014. This is led by 3.7bn videos present online where Youtube is one of the largest aggregators and video providers. Video content continues to have a strong demand in India which will benefit content owners to monetize their videos in the long run.

Exhibit 1: Number of video viewers

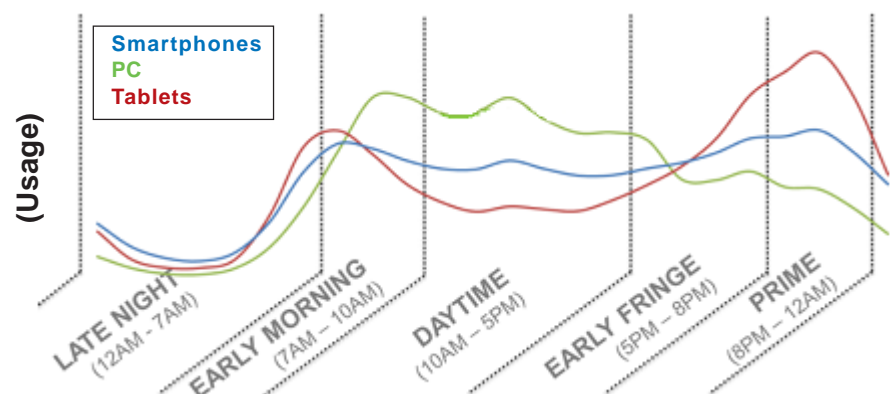


Source: Comscore, Dolat Research

Multiscreen viewership consumption enhances usage of video

As per Comscore, viewers in India today have moved towards usage of multi-screens throughout a day which will enhance their usage of viewing videos on multiple devices. Larger screen sizes of smartphones are a key trigger for video viewing which can be used throughout the day. This will be supported by devices like the PC/tablet which are also used for a long amount of time.

Exhibit 2: Viewership of content throughout the day

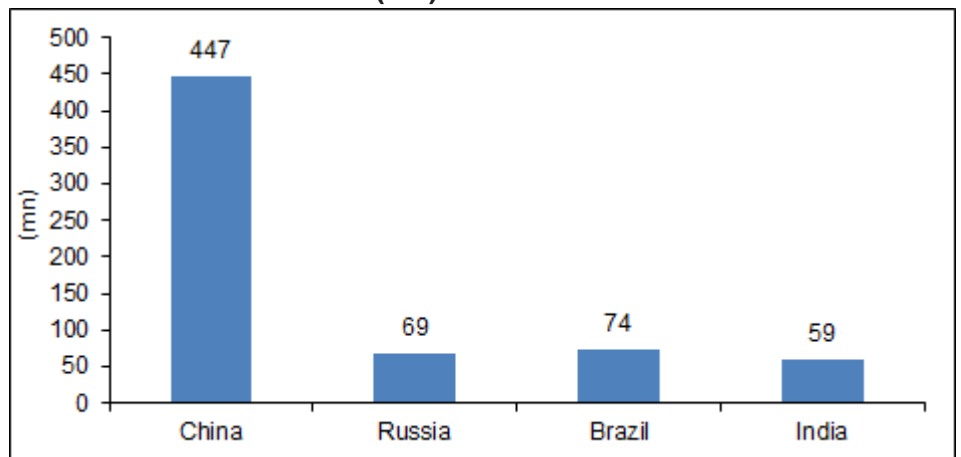


Source: Comscore, Dolat Research

Improved penetration among video viewers

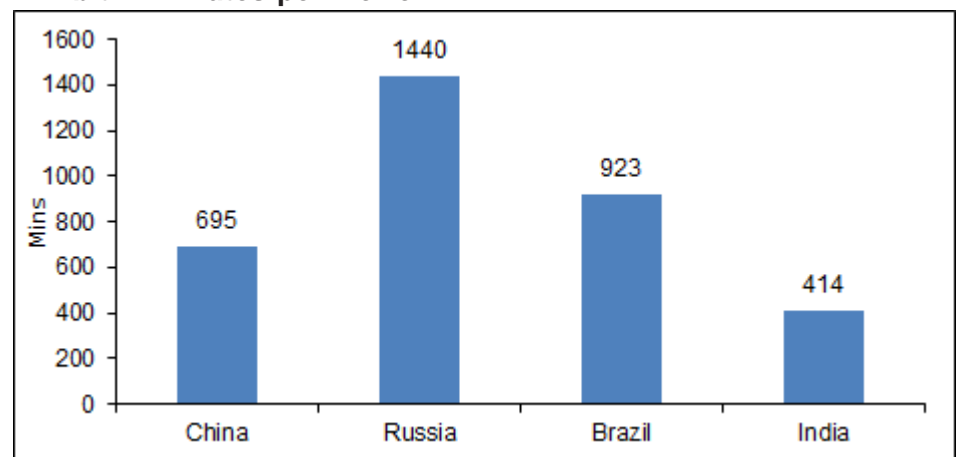
India offers a large video viewing audience of 59mn whereas China leads among BRIC nations with 447mn viewers. With India's large population and easy availability of improved handsets and 4G internet, we expect a strong uptick in the number of viewers in India. The minutes per viewer for India is also the lowest among BRIC nations at 414 mins per month which is expected to increase with higher viewership. This will benefit entertainment content companies like Shemaroo who provide quality content on mobile and internet platforms.

Exhibit 3: Video audience (mn)



Source: Comscore, Dolat Research

Exhibit 4: Minutes per viewer

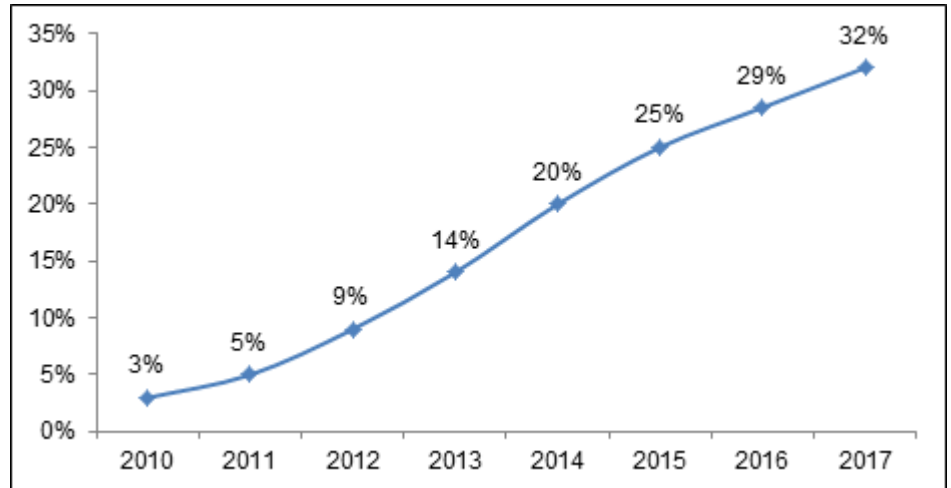


Source: Comscore, Dolat Research

Higher internet penetration led by use of smartphones

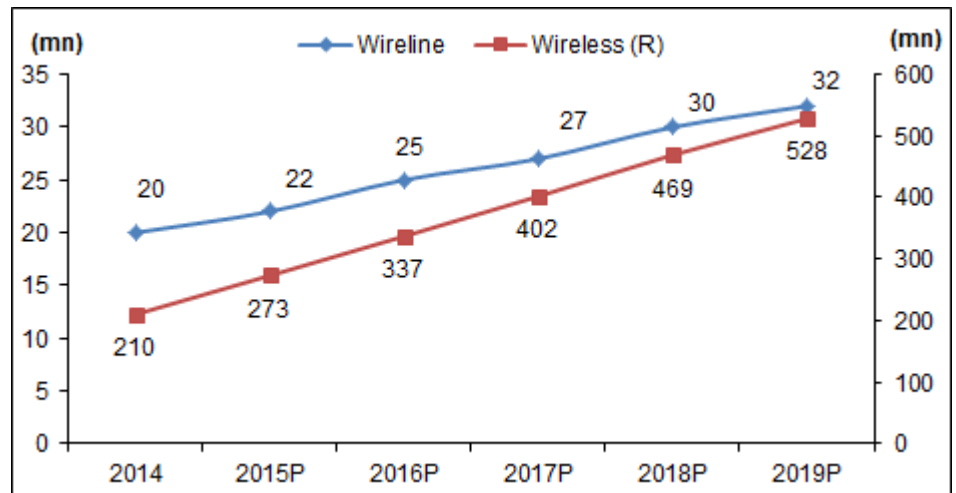
The number of internet users is poised to grow at a CAGR (of 20% (CY14-19) to 560mn in CY19. Among internet users, wireless internet subscribers will outperform with a CAGR of 20% (CY14-19) led by availability of affordable smartphones and faster internet access. Internet penetration for India is significantly lower (19%) as compared to emerging nations like China (46%), Brazil (53%) and Russia (60%). Smartphone penetration in India which currently stands at 20% is poised to grow to 32% by the end of 2017 which will also push growth for internet users in India.

Exhibit 5: Smartphone penetration - India



Source: IDC

Exhibit 6: Internet users– India



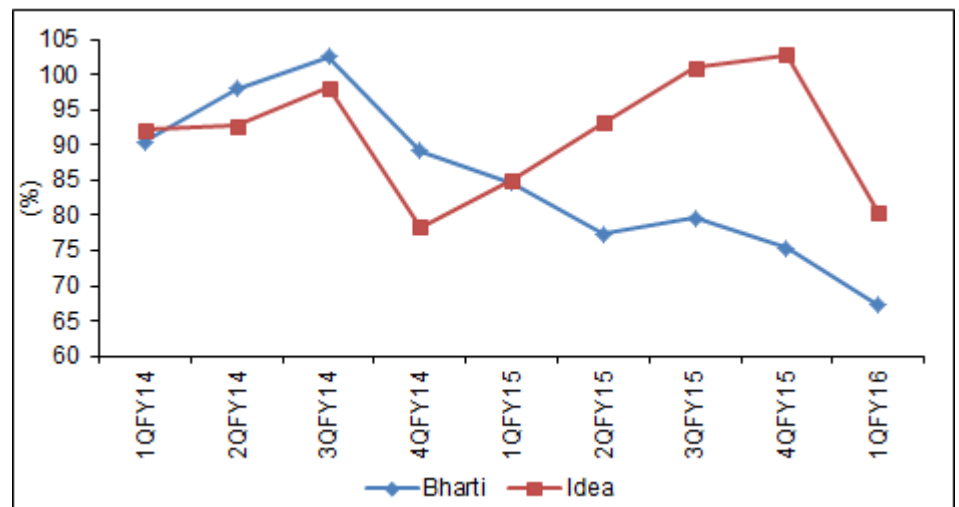
Source: FICCI KPMG Report 2015, Dolat Research

GROWTH DRIVERS FOR NEW MEDIA SEGMENT

Strong growth in the data/MVAS segment of telecom operators

Indian telecom service providers have reported a strong growth in their data revenues led by strong demand for 3G internet services. The the launch of 4G services will further enhance the data traffic. In turn this will have a positive impact on data revenues for these telecom companies. Data revenue for Bharti and Idea have grown at an average of 88% YoY over the last 2 years led by a strong growth in data traffic.

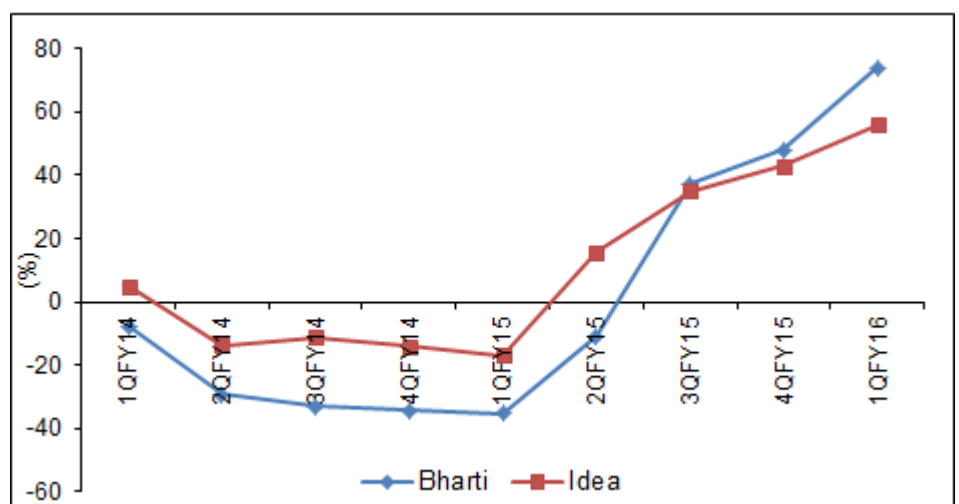
Exhibit 7: Data revenue growth (YoY)



Source: Company, Dolat Research

MVAS – mobile value added services whose large contributor was SMS has now been showing traction in the recent quarters led by the increased downloads of video/audio content sold by content providers. SHEM derives ~50% of its revenue from the mobile MVAS segment which will continue to see strong traction led by the demand for buying content through the telecom operators.

Exhibit 8: MVAS revenue growth (YoY)

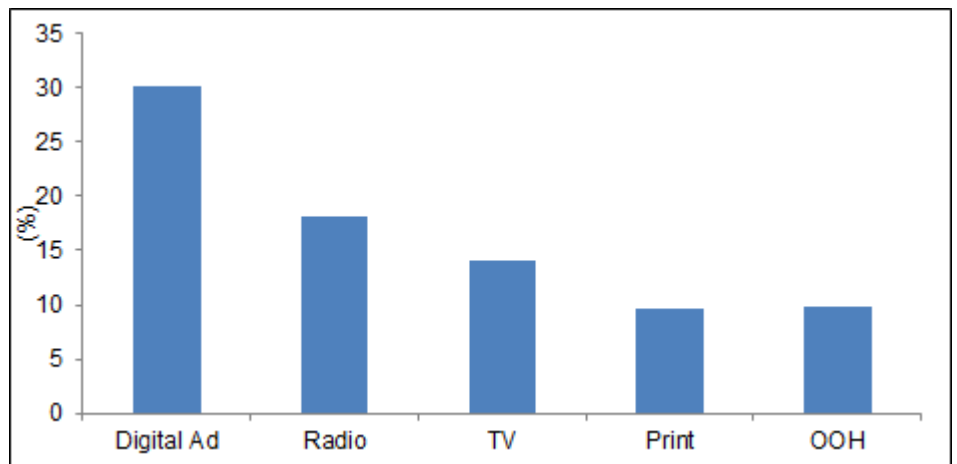


Source: Company, Dolat Research

Digital advertising platform to outperform

Revenue from the digital advertising platform is expected to outperform other segments due to its high reach and visibility. Advertising revenue from the digital medium is poised to grow at CAGR of 30% (CY14-19) to Rs 163bn as compared to other large segments like TV/Radio which are expected to report a CAGR of 18%/14% (CY14-19). Strong growth in digital advertising will lead to more advertising on content platforms like youtube which in turn will push the growth for the new media segment of Shemaroo.

Exhibit 9: Advertising revenue CAGR (CY14-19)

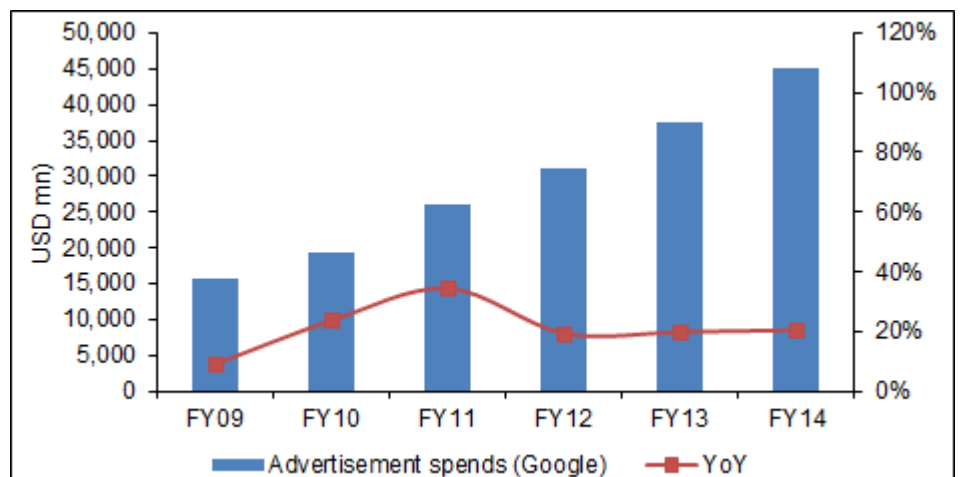


Source: FICCI KPMG Report 2015, Dolat Research

Higher ad spend growth by Google instills confidence

Ad spend by Google websites have grown at a strong CAGR of 24%(FY09-14) to USD 45bn. This has been significantly higher than the Google network website that has reported a CAGR of 14% (FY09-14). Youtube is one of the contributors among the Google websites which indicates advertisement revenue will continue to grow in double digit going ahead. We expect content players like SHEM to benefit from this higher advertisement spend in Youtube. Higher advertisement spends will also attract higher CPM's (cost per 1,000 likes of an ad on youtube) in the long run.

Exhibit 10: Ad spends by Google

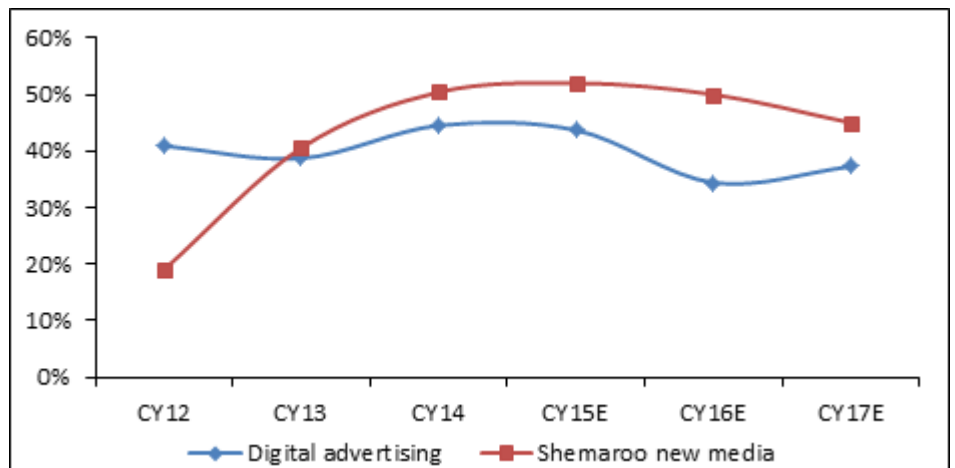


Source: Company, Dolat Research

SHEM outperforms digital industry’s growth rate

SHEM’s new media segment has consistently outperformed the digital advertising industry growth rate and we expect this to continue going ahead as revenues are poised to grow at a CAGR of 40% (FY12-18E). The contribution from the new media segment is expected to grow from 11% currently to 23% in FY18 led by increased mobile internet penetration, larger screen sizes on smartphones which enable easy viewing of videos, SHEM’s large content library and acceptability over various internet platforms.

Exhibit 11: India digital advertising revenue vs SHEM new media revenue (YoY)



Source: FICCI KPMG Report 2015, Dolat Research

STRONG COMPETITIVE ADVANTAGE ACROSS SEGMENTS

Large subscriber base on the YouTube page to trigger growth in new media

SHEM provides 51 channels on its YouTube page which is relatively higher than its peers due to its extensive library of over 2900 titles. SHEM has a wide variety of regional content in various languages like Punjabi, Bangla, Gujarati and Marathi. Some of the content on Gujarati channel have such strong demand that the time spent on its channel is much higher than the global average time spent of YouTube's website. The company has a total of 4.5mn subscribers across its various pages; T-series is the highest in terms of number of subscribers. SHEM thus maintains a strong competitive position among its peers in all parameters which will further enhance its growth in the digital segment.

Exhibit 12: Youtube channels across competitors

| | Channels | Videos | Views (bn) | Subscribers across channels (mn) |
|-------------|----------|--------|------------|----------------------------------|
| Shemaroo | 51 | 52,752 | 2.2 | 4.5 |
| Ultra Hindi | 21 | 25,240 | 1.1 | 1.6 |
| Eros Now | 13 | 14,856 | 2.9 | 3.9 |
| T-Series | 37 | 66,086 | 6.1 | 10 |
| YRF | 40 | 5,095 | 1.8 | 3.5 |

Largest library of perpetual rights

SHEM has perpetual rights of 526 hindi movies across all forms which is larger than any other production house in the industry. Leading production houses like EROS/UTV/YRF have a library of 91/106/102 films whose size is not expected to surpass the size of SHEM's library given the number of movies produced by them . Apart from the library of perpetual rights, SHEM has a large library of ~2900 titles across genres and forms which provide it with an advantage to monetize content over various platforms.

Exhibit 13: Movie library across competitors

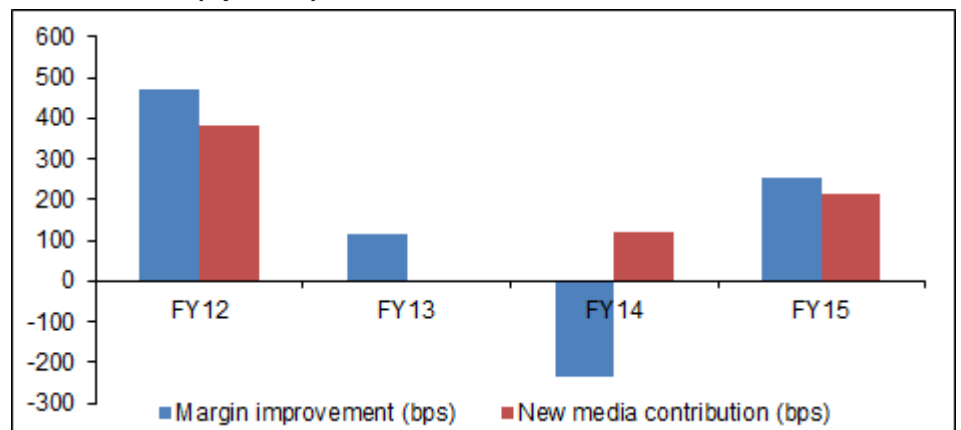
| | |
|---------------------|-----|
| Shemaroo | 526 |
| UTV motion Pictures | 106 |
| YRF | 102 |
| Eros | 91 |
| Mukta Arts | 62 |
| Bhuttproduction | 58 |
| Dharma Production | 41 |
| Balaji telefilms | 39 |
| RK | 20 |
| Nadiawala | 17 |

IMPROVED OPERATING LEVERAGE

Expansion in new media drives margin improvement

There is a very strong correlation between the contribution from new media segment and improvement in EBITDA margin as the distribution of content over the new media platform is margin accretive for the company. SHEM's contribution from new media has grown 400bps from 8% in FY12 to 12% in FY15. This has also impacted its EBITDA margin as they have grown 150 bps from 25.5% to 27% over the last 3 years. We believe as the new media segment continues to outperform industry growth and there is further scope for a sharp improvement in the margin trajectory going ahead. We expect the EBITDA to grow in line with the growth of revenue from the new media segment.

Exhibit 14: SHEM's EBITDA margin vs new media revenue contribution (bpsYoY)

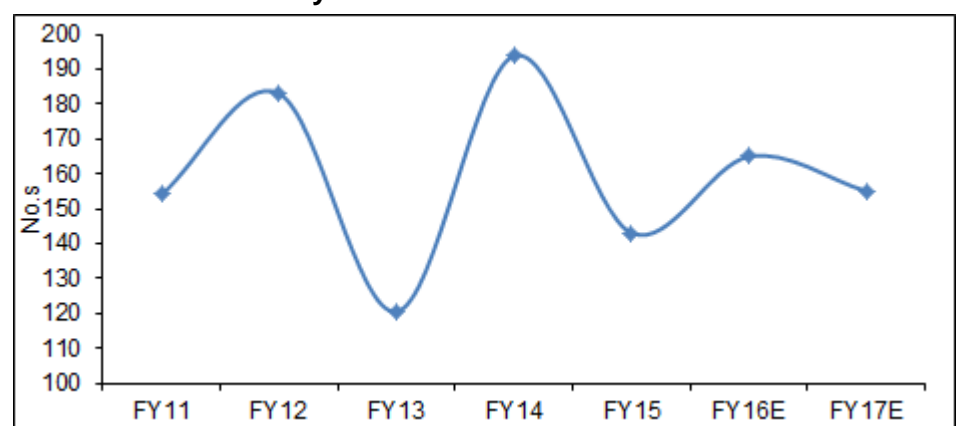


Source: Company, Dolat Research

Improved credit profile

SHEM has high exposure to the traditional media segment where payment cycles are elongated due to delayed settlement of dues by TV broadcasters. In contrast, new media platforms (YouTube/MVAS) have shorter payment cycles, leading to a sharp drop in receivable days to 143 in FY15 as compared to 194 in FY14. With the strong growth and increased contribution in the new media segment, receivable days are expected to stabilize now and fall in the longer term.

Exhibit 15: Debtor days

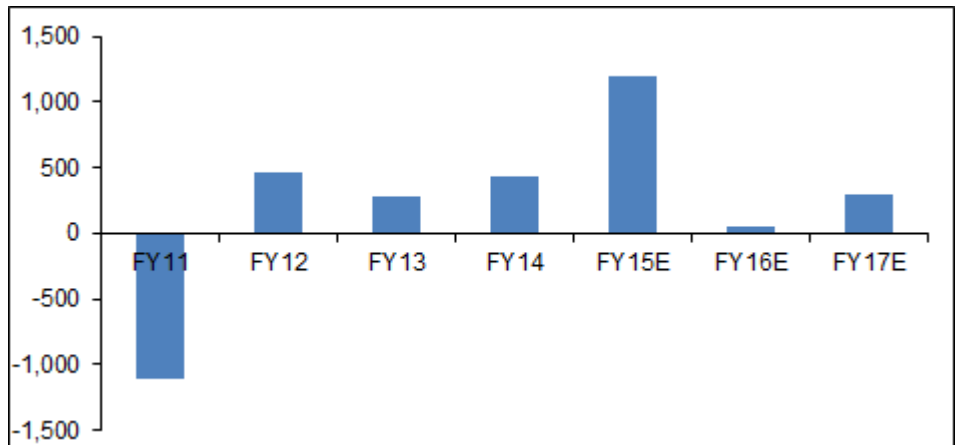


Source: Company, Dolat Research

Working capital requirement to remain stable

SHEM’s has a large library of 3,000 titles. They have been making investments over the years and have transformed a large chunk of the content to its digital platform. Hence, the need for working capital is expected to remain stable in the near term. Lower debtor days together with reduced short term borrowings are expected to reduce its requirement for working capital in the days to come.

Exhibit 16: Change in working capital (₹ mn)

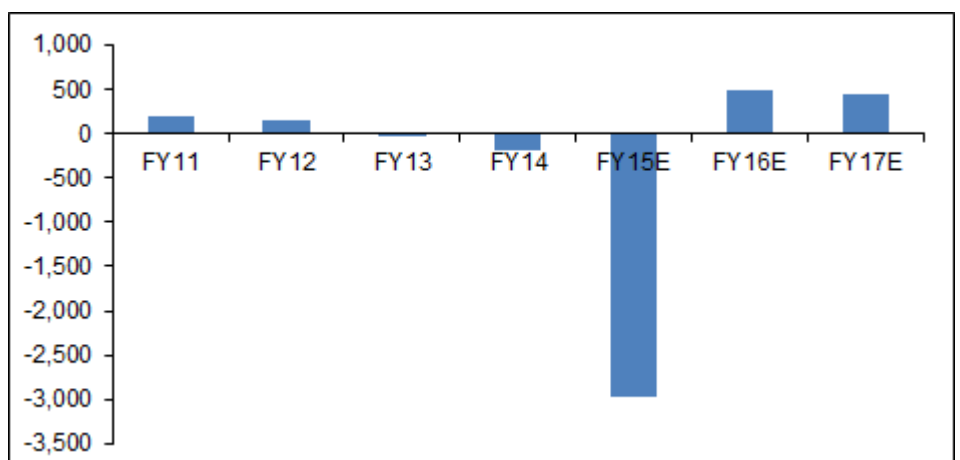


Source: Company, Dolat Research

Higher operating cash flow

Lower working capital and improved profitability are the two key triggers for improved operating cash flow in FY16. The operating cash flow in FY15 was negative (₹ 2.9bn) as on FY15. We expect this to turn positive as the new media segment continues to improve the capital efficiency of the company driven by its strong revenue CAGR of 48% (FY15-18E)

Exhibit 16: Cash flow from operations (₹ mn)



Source: Company, Dolat Research

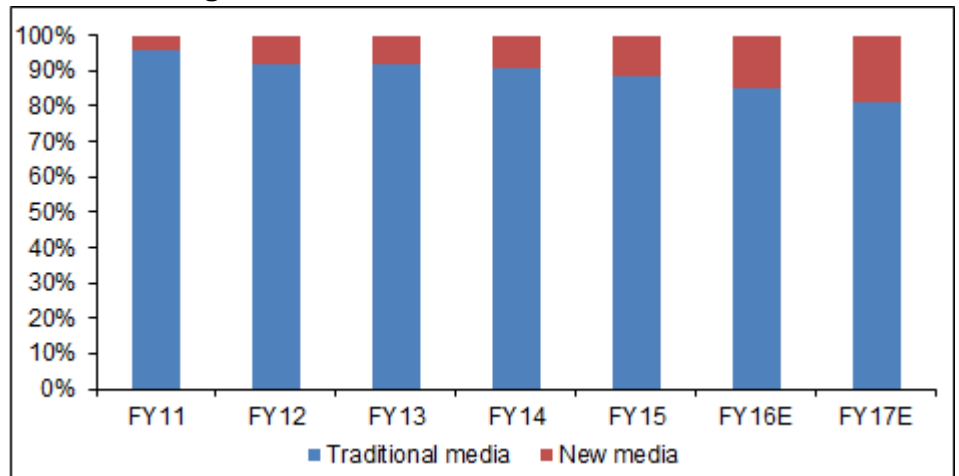


TRADITIONAL MEDIA CONTINUES TO GROW IN DOUBLE DIGIT

Traditional media- A veritable cash cow

Despite a fall in contribution over the over the last 5 years, traditional media remains the key revenue contributor for SHEM. The traditional media segment currently contributes a substantial 89% of revenue as on FY15 and this is expected to fall to 81% due to stronger growth rates in the new media segment. As the company’s focus shifts towards new media, it is very important for the company to maintain its stable growth in the traditional segment. We believe that this segment will continue to report double digit growth in line with industry.

Exhibit 17: Segment contribution

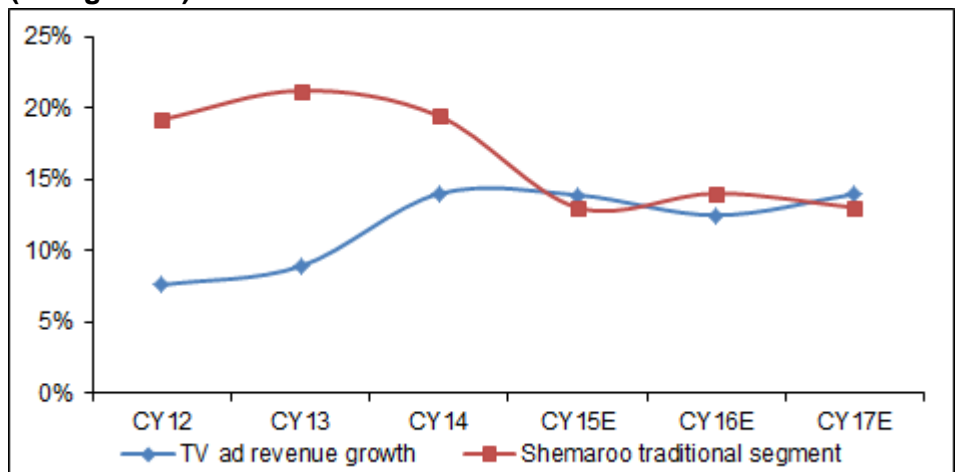


Source: Company, Dolat Research

Growth for traditional segment remains strictly in line with industry

Revenue for the traditional media segment has outperformed TV advertisement revenue growth rate historically from CY12 to CY15. However, we believe the traditional segment and industry revenue is poised to grow at a CAGR of 13%(CY14-17E). This growth will primarily be driven by e-commerce and FMCG verticals which are expected to do heavy TV advertising.

Exhibit 18: TV ad revenue vs SHEM traditional segment revenue (YoY growth)

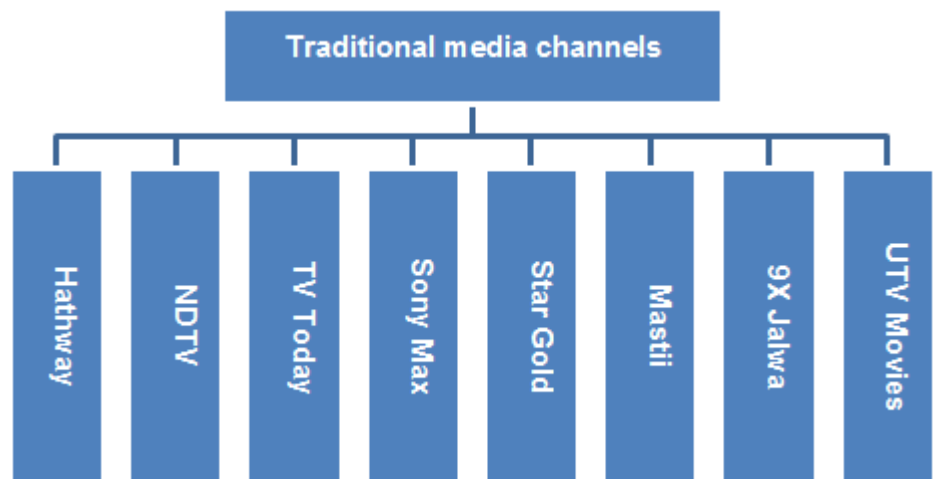


Source: Company, Dolat Research

Content monetization through some of the large TV channels

SHEM provides its content to some of the large TV channel groups like Sony, Star, UTV and other leading channels in India. These channels typically have contracts of 5 years with SHEM for showcasing the movies of its library which is as large as 2900 titles. It has currently distributed over 1,000 movies for broadcasting across these TV channels. A very small share of revenue within the traditional media segment comes from distribution of content in flight, overseas and for international film festivals.

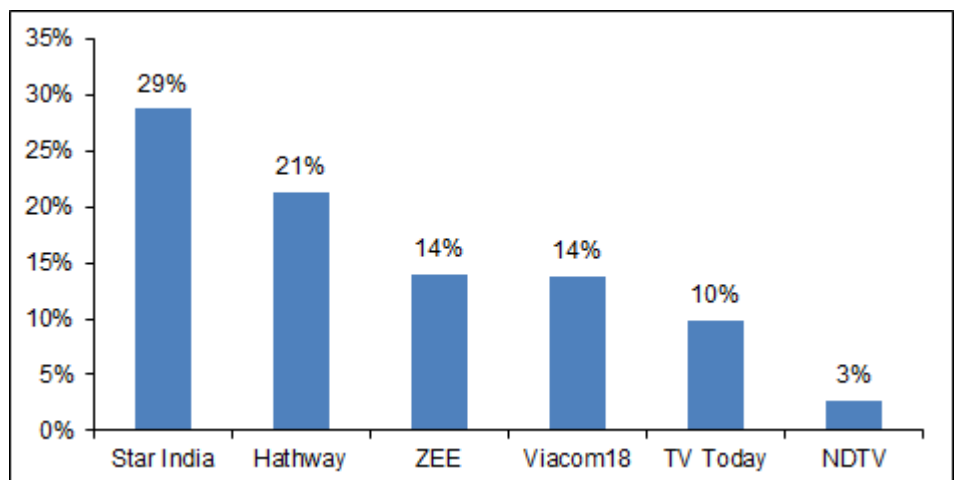
Exhibit 19: TV channels across which SHEM provides content



TV channels report double digit revenue growth

Some of the largest media houses like Star, ZEE and Viacom have reported double digit revenue CAGR (FY11-14) led by healthy advertisement revenue growth. SHEM provides content to most of the large TV channels in India; sustainable double digit advertisement revenue growth for the latter will support growth in its traditional media segment.

Exhibit 20: TV channels in India (Revenue CAGR – FY11-14)



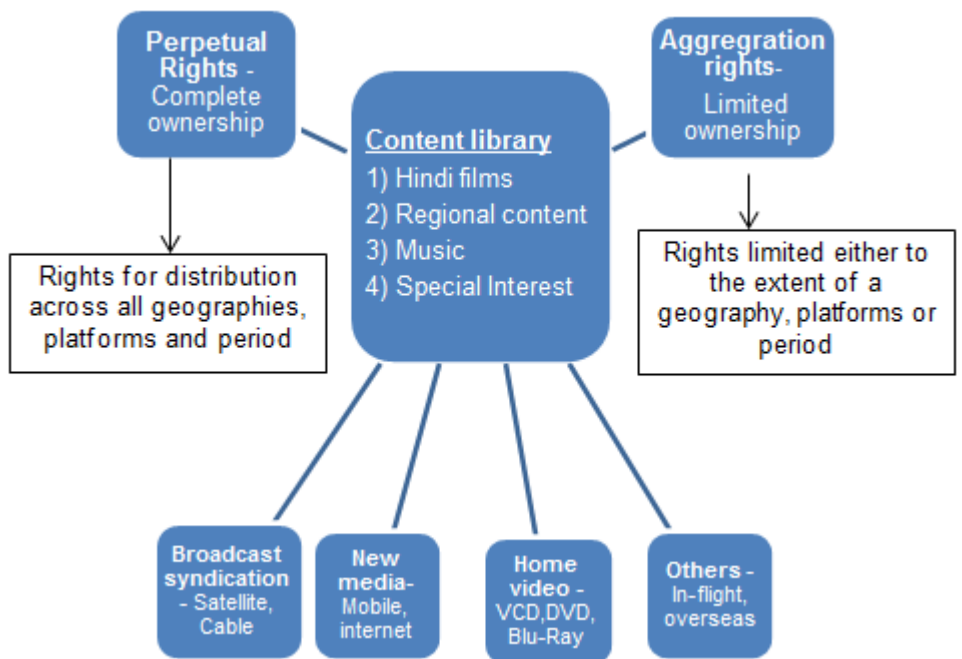
Source: Company, Dolat Research

BUSINESS OVERVIEW

Library monetization across various platforms

SHEM is a media content aggregator and has ~3,000 titles across genres including regional, music and general interest. The company's core business is to acquire content from various production houses and monetize the same over various platforms. The two platforms are traditional (distributing to broadcasters) and new media (distribution of content over internet/mobile).

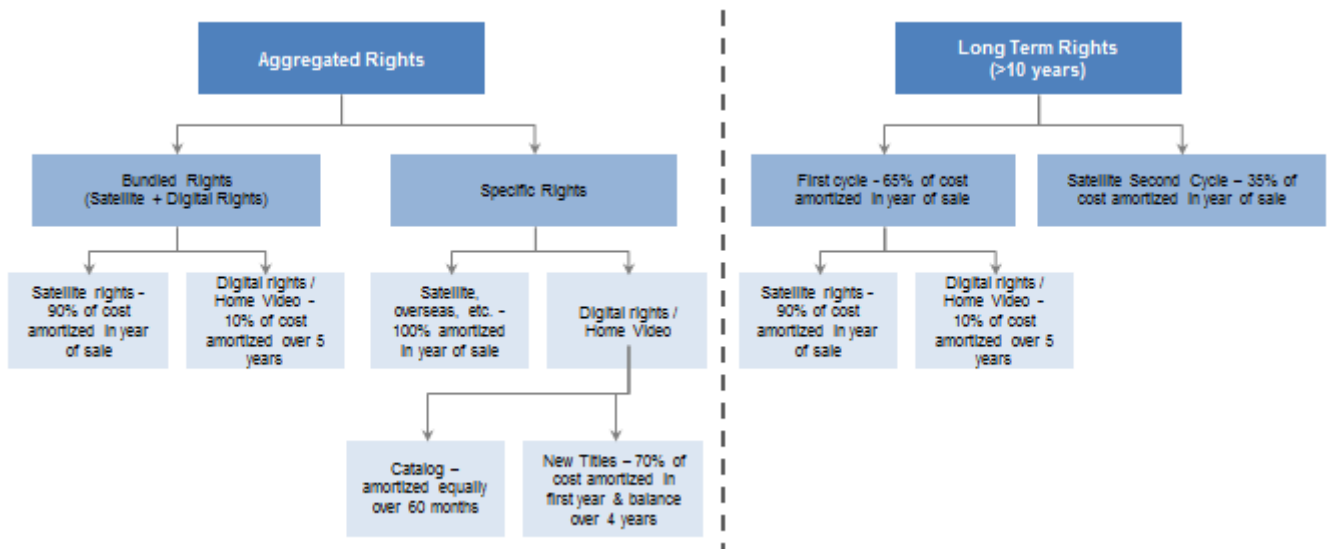
Exhibit 21: Library structure



Differentiated accounting policy

SHEM has a different rights accounting policy for aggregated/long term rights.

Exhibit 22: Amortisation policy

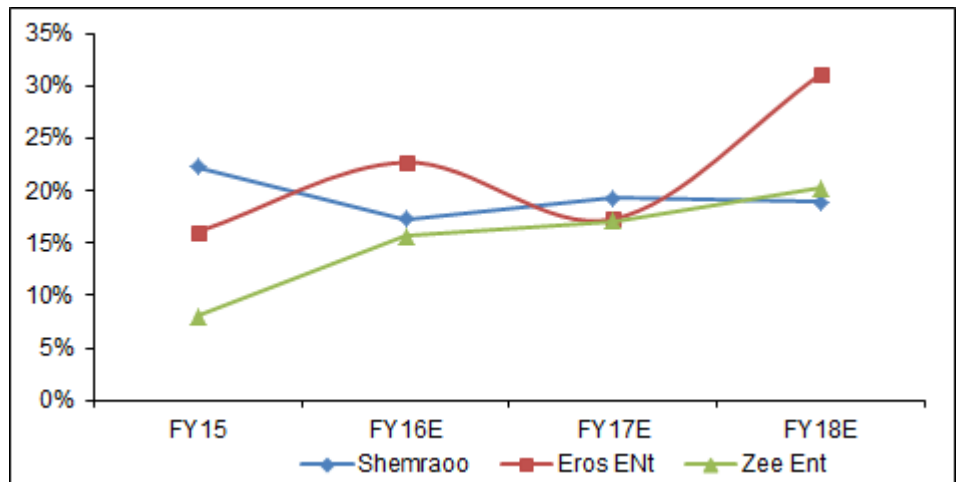


VALUATION

Growth in line with large peers

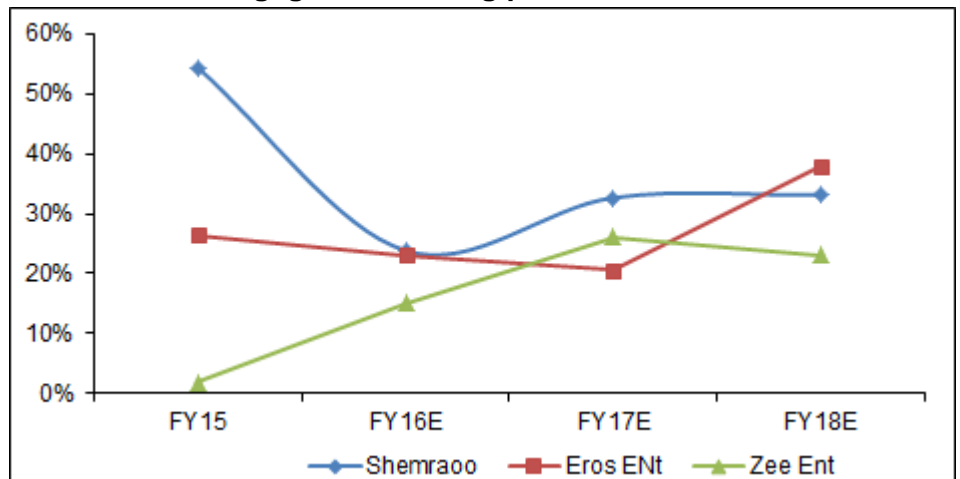
SHEM is poised to report revenue/earnings CAGR (FY15-18) of 18%/29% in line with large peers like Zee and Eros who also have a well stocked content library. ZEE/EROS have also undertaken initiatives towards the growth in the digital segment by establishing their platforms Ditto TV/Eros Now. We believe expansion towards new media segment for all these companies will help report strong revenue growth with margin expansion in the near term.

Exhibit 23: Revenue growth among peers



Source: Company, Dolat Research

Exhibit 24: Earnings growth among peers

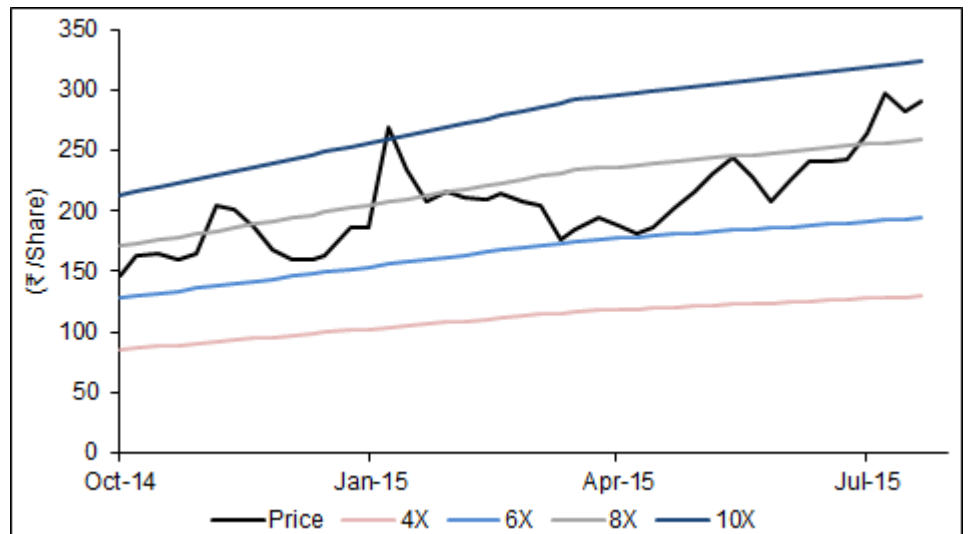


Source: Company, Dolat Research

Valuations low despite strong growth

Since its listing in 2014, SHEM has traded at an average one year forward PE of 7.5x. The Valuation of the stock is considerably cheap given its healthy double digit revenue and earnings growth. The stock is currently trading at 9x one year fwd and we expect a further re-rating in the PE multiple led by increased revenue contribution from the new media segment (17% as on Q1FY16). We initiate coverage on the stock with a Sep'16 target price of ₹470 based on 14x one year fwd.

Exhibit 25: One yrfwd PER band

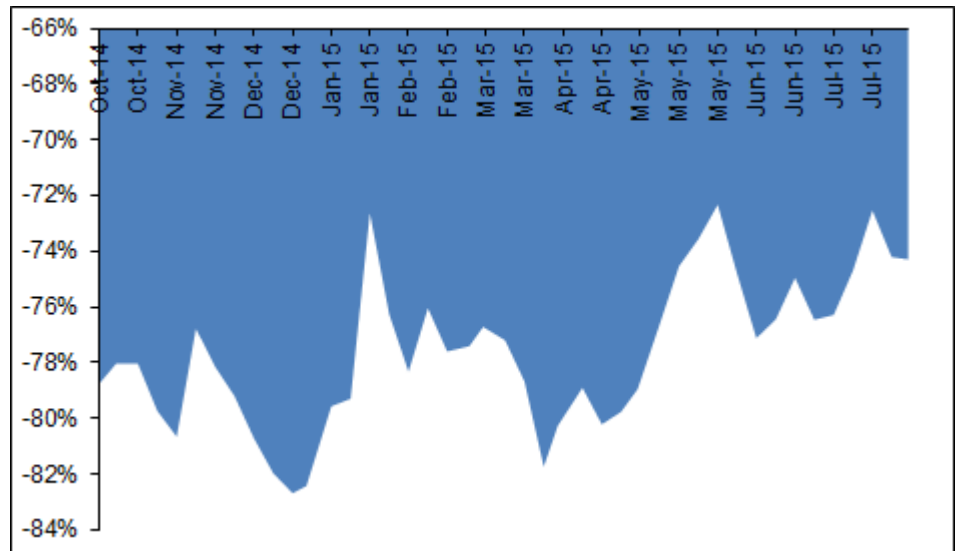


Source: Company, Dolat Research

Discount to media veteran ZEE continues to dip

SHEM's one yrfwd PE is currently trading at a 74% discount to ZEE as compared to 80% in Nov'14 when it got listed. We expect the discount to narrow down further driven by a healthy growth outlook for the new media segment.

Exhibit 26: One yrfwd PER discount to ZEE Entertainment



Source: Company, Dolat Research

FINANCIAL ANALYSIS

Exhibit 26: Revenue & Growth (FY12-18E)

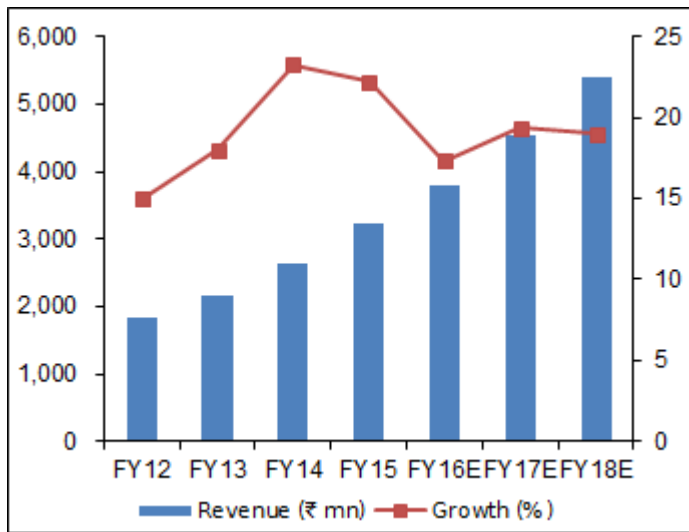


Exhibit 27: EBITDA (FY12-FY18E)

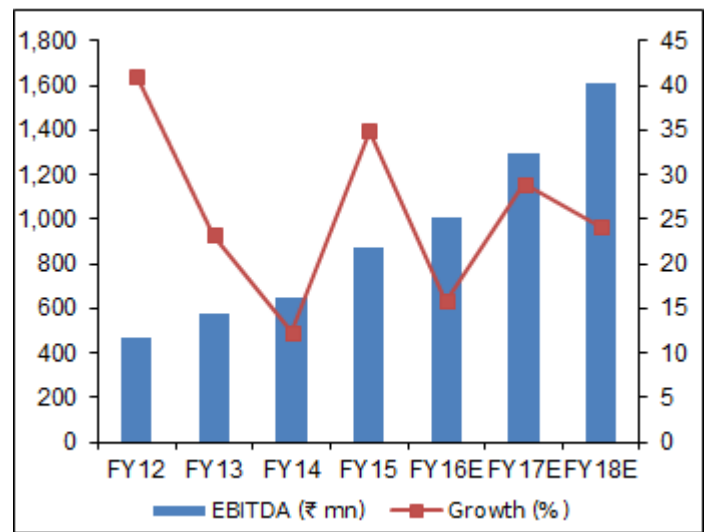


Exhibit 28: EBITDA Margin (FY12-FY18E)

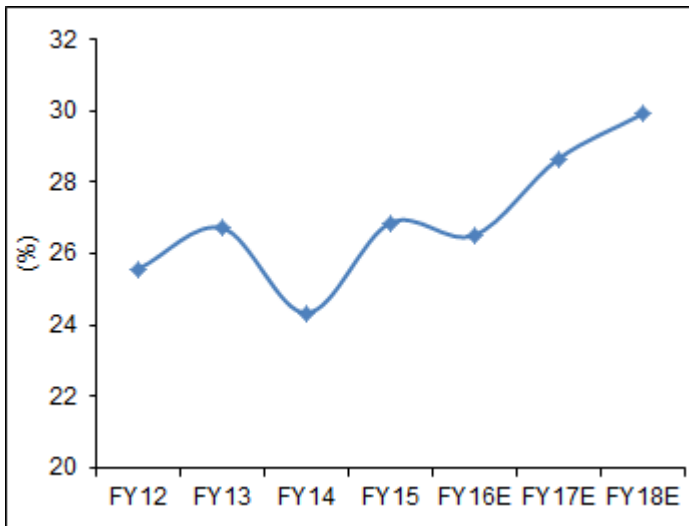


Exhibit 29: PAT & Growth (FY12-FY18E)

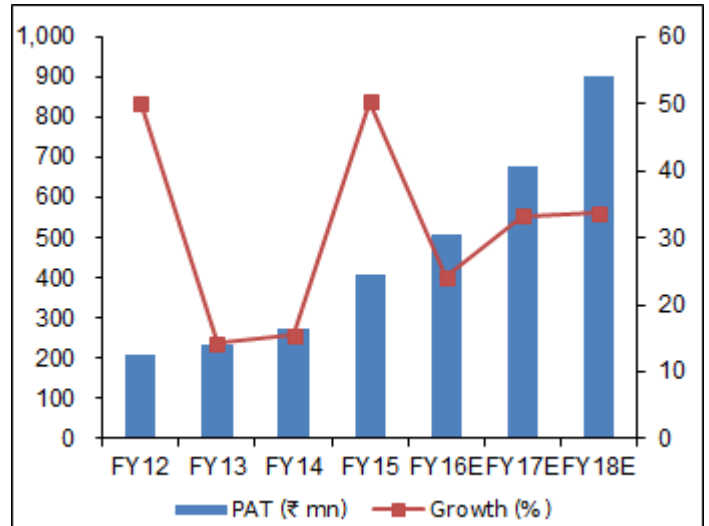


Exhibit 30: ROCE & ROE (FY13-18E)

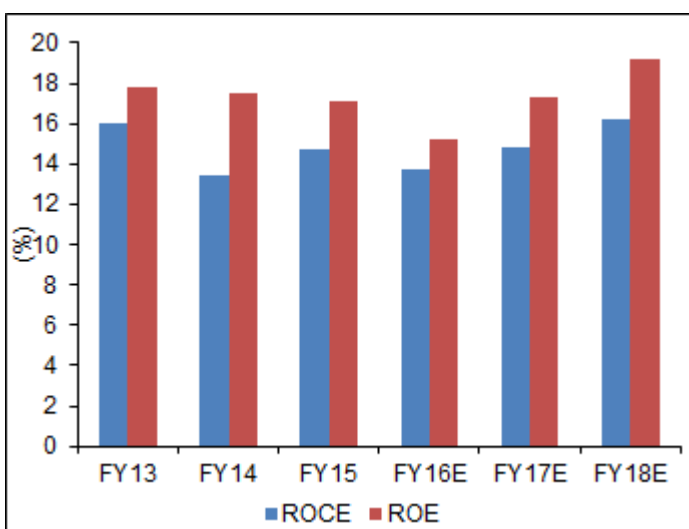
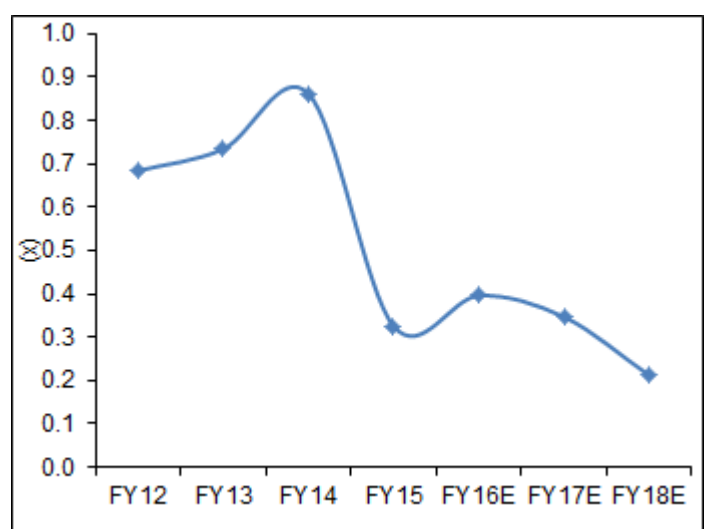
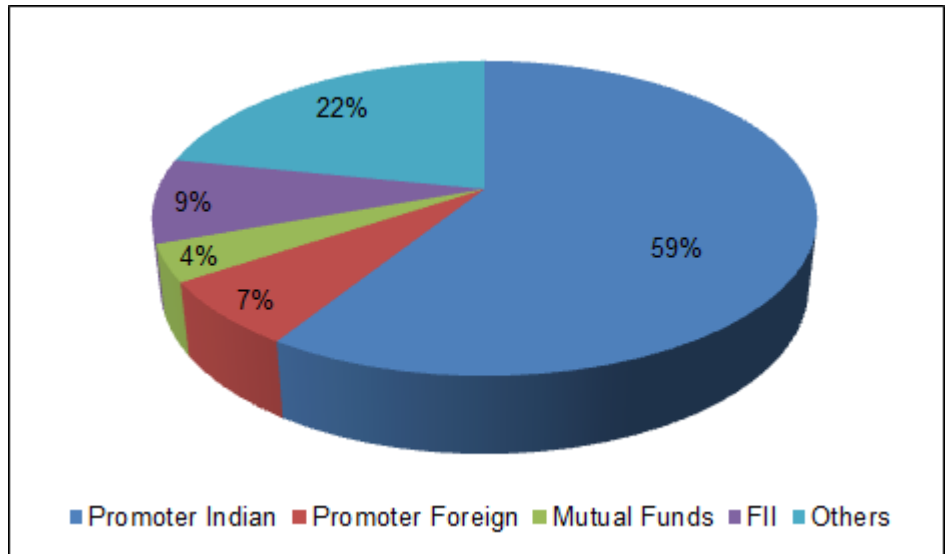


Exhibit 31: Net Debt/Equity Forecast (FY12-18E)



Source: Company, Dolat Research

SHAREHOLDING PATTERN



| Key shareholders | (% stake) |
|---------------------------|-----------|
| Copthall Mauritius | 8% |
| HDFC MF | 2% |
| Birla MF | 2% |
| TATA Investment Corp | 1% |
| Credit Suisse (Singapore) | 1% |

MANAGEMENT PROFILE

- **Mr. Buddhichand Maroo, Chairman**, is also the co-founder of the Group and has been associated with SHEM since 1962. He has 52 years of business experience, of which he has been associated with the media and entertainment industry for over 30 years. He has been involved in various aspects of the business over the last several years. Currently, he has retired from active business.
- **Mr. Raman Maroo, Managing Director**, has been associated with the Group since 1974 and has been instrumental in the Group's expansion into television rights syndication as well as transformation of SHEM into a content house. He is a Director on the Board of several companies.
- **Mr. Atul Maru, Joint Managing Director**, has been associated with the Group since 1979 and has 34 years of experience in the media and entertainment industry. He has been actively involved in the operations of the company and has spearheaded various initiatives including the home video division.
- **Mr. Hiren Gada**, Whole Time Director and Chief Financial Officer, has been associated with the Group since 2003 and the company since 2008. He has helped set up some of the newer business areas, and handles the Strategy and Finance functions.
- **Mr. Jai Maroo, Non-executive Director**, has been associated with the Group since 2002 and has been active on the technology side. He is spearheading the company's digital distribution activities, mainly on mobile and internet amongst others. He has been a speaker on several national and international forums on technology and media-related topics.

| INCOME STATEMENT | | | | | | ₹ mn |
|------------------------------|--------------|--------------|--------------|--------------|--------------|------|
| Particulars | Mar14 | Mar15 | Mar16E | Mar17E | Mar18E | |
| Net Sales | 2,646 | 3,235 | 3,794 | 4,528 | 5,386 | |
| Total Income | 2,646 | 3,235 | 3,794 | 4,528 | 5,386 | |
| Total Expenditure | 2,002 | 2,366 | 2,788 | 3,231 | 3,776 | |
| Raw Material | 1,662 | 2,029 | 2,424 | 2,812 | 3,290 | |
| Employee Expenses | 185 | 185 | 200 | 230 | 267 | |
| Other Expenses | 155 | 152 | 164 | 189 | 219 | |
| EBIDTA (Excl. OI) | 644 | 869 | 1,006 | 1,297 | 1,611 | |
| EBIDTA (Incl. OI) | 644 | 869 | 1,006 | 1,297 | 1,611 | |
| Interest | 179 | 200 | 174 | 177 | 108 | |
| Gross Profit | 465 | 669 | 832 | 1,120 | 1,503 | |
| Depreciation | 30 | 37 | 64 | 96 | 135 | |
| Profit Before Tax & EO Items | 436 | 633 | 769 | 1,024 | 1,368 | |
| Extra Ordinary Exps/(Income) | (5) | (6) | (7) | (8) | (9) | |
| Profit Before Tax | 441 | 639 | 776 | 1,032 | 1,377 | |
| Tax | 165 | 222 | 261 | 348 | 465 | |
| Net Profit | 276 | 416 | 514 | 684 | 912 | |
| Minority Interest | (1) | 1 | 0 | 0 | 0 | |
| Net Profit | 277 | 415 | 514 | 684 | 912 | |

| BALANCE SHEET | | | | | |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| Particulars | Mar14 | Mar15 | Mar16E | Mar17E | Mar18E |
| Sources of Funds | | | | | |
| Equity Capital | 198 | 272 | 272 | 272 | 272 |
| Other Reserves | 1,546 | 2,902 | 3,388 | 4,067 | 4,998 |
| Net Worth | 1,744 | 3,174 | 3,659 | 4,339 | 5,270 |
| Secured Loans | 192 | 77 | 77 | 77 | 77 |
| Loan Funds | 192 | 77 | 77 | 77 | 77 |
| Total Capital Employed | 1,936 | 3,250 | 3,736 | 4,416 | 5,347 |

| | | | | | |
|--|--------------|--------------|--------------|--------------|--------------|
| Applications of Funds | | | | | |
| Net Block | 341 | 295 | 636 | 962 | 1,350 |
| Other LT Assets (+) | 0 | 72 | 72 | 72 | 72 |
| Investments | 98 | 168 | 168 | 168 | 168 |
| Current Assets, Loans & Advances | | | | | |
| Inventories | 2,005 | 2,887 | 3,378 | 3,722 | 3,689 |
| Sundry Debtors | 1,405 | 1,268 | 1,715 | 1,923 | 2,287 |
| Cash and Bank Balance | 9 | 25 | 114 | 174 | 290 |
| Loans and Advances | 264 | 170 | 199 | 248 | 295 |
| Other Current Assets | 0 | 0 | | | |
| <i>sub total</i> | 3,683 | 4,350 | 5,407 | 6,067 | 6,562 |
| Less : Current Liabilities & Provisions | | | | | |
| Current Liabilities | 2,187 | 1,634 | 2,547 | 2,853 | 2,804 |
| Provisions | 0 | 0 | 0 | 0 | 1 |
| <i>sub total</i> | 2,187 | 1,634 | 2,547 | 2,853 | 2,805 |
| Net Current Assets | 1,496 | 2,715 | 2,860 | 3,213 | 3,757 |
| Total Assets | 1,936 | 3,250 | 3,736 | 4,416 | 5,347 |
| E-estimates | | | | | |

| CASH FLOW | | | | | |
|-------------------------------------|--------------|----------------|--------------|--------------|--------------|
| Particulars | Mar14 | Mar15 | Mar16E | Mar17E | Mar18E |
| Profit before tax | 435 | 633 | 769 | 1,024 | 1,368 |
| Depreciation & w.o. | 30 | 37 | 64 | 96 | 135 |
| Other Non-Cash Adjustments | 187 | (2,216) | (23) | (33) | (40) |
| Direct taxes paid | (85) | (222) | (261) | (348) | (465) |
| Change in Working Capital | (760) | (1,204) | (56) | (293) | (429) |
| (A) CF from Opt. Activities | (193) | (2,972) | 493 | 446 | 569 |
| Capex | (19) | (30) | (379) | (362) | (431) |
| Free Cash Flow | (212) | (3,002) | 113 | 84 | 138 |
| Other | 7 | (896) | 0 | 0 | 0 |
| (B) CF from Invt. Activities | (13) | (926) | (379) | (362) | (431) |
| Issue of Equity/ Preference | 0 | 1,200 | 0 | 0 | 0 |
| Chg. in Short-Term Borrowings | 317 | 0 | 0 | 0 | 0 |
| Chg. in Long-Term Borrowings | 98 | 0 | 0 | 0 | 0 |
| Dividend Paid (Incl. Tax) | (12) | (28) | (24) | (24) | (24) |
| Finance expense | (192) | 0 | 0 | 0 | 0 |
| Other | (7) | 0 | 0 | 0 | 0 |
| (C) CF from Financing | 204 | 3,916 | (24) | (24) | (24) |
| Net Change in Cash | (2) | 18 | 90 | 60 | 115 |
| Opening Cash balances | 11 | 9 | 25 | 114 | 174 |
| Closing Cash balances | 9 | 25 | 114 | 174 | 290 |

E-estimates

IMPORTANT RATIOS

| Particulars | Mar14 | Mar15 | Mar16E | Mar17E | Mar18E |
|--|-------|-------|--------|--------|--------|
| (A) Measures of Performance (%) | | | | | |
| Contribution Margin | | | | | |
| EBIDTA Margin (excl. O.I.) | 24.3 | 26.9 | 26.5 | 28.7 | 29.9 |
| EBIDTA Margin (incl. O.I.) | 24.3 | 26.9 | 26.5 | 28.7 | 29.9 |
| Interest / Sales | 6.8 | 6.2 | 4.6 | 3.9 | 2.0 |
| Gross Profit Margin | 17.6 | 20.7 | 21.9 | 24.7 | 27.9 |
| Tax/PBT | 37.3 | 34.8 | 33.7 | 33.7 | 33.8 |
| Net Profit Margin | 10.5 | 12.8 | 13.6 | 15.1 | 16.9 |

(B) As Percentage of Net Sales

| | | | | | |
|-------------------|------|------|------|------|------|
| Raw Material | 62.8 | 62.7 | 63.9 | 62.1 | 61.1 |
| Employee Expenses | 7.0 | 5.7 | 5.3 | 5.1 | 4.9 |
| Other Expenses | 5.8 | 4.7 | 4.3 | 4.2 | 4.1 |

(C) Measures of Financial Status

| | | | | | |
|---------------------------------|-------|-------|-------|-------|-------|
| Interest Coverage (x) | 3.6 | 4.4 | 5.8 | 7.3 | 15.0 |
| Average Cost Of Debt (%) | 144 | 149 | 226 | 230 | 140 |
| Debtors Period (days) | 194 | 143 | 165 | 155 | 155 |
| Closing stock (days) | 277 | 326 | 325 | 300 | 250 |
| Inventory Turnover Ratio (x) | 1.3 | 1.1 | 1.1 | 1.2 | 1.5 |
| Fixed Assets Turnover (x) | 7.8 | 11.0 | 6.0 | 4.7 | 4.0 |
| Working Capital Turnover (x) | 1.8 | 1.2 | 1.3 | 1.4 | 1.4 |
| Non Cash Working Capital (₹ Mn) | 1,487 | 2,691 | 2,746 | 3,039 | 3,467 |

(D) Measures of Investment

| | | | | | |
|---------------------------------|-------|-------|-------|-------|-------|
| EPS (₹) | 13.7 | 17.4 | 21.5 | 28.7 | 38.3 |
| CEPS (₹) | 12.8 | 18.9 | 24.2 | 32.8 | 44.0 |
| DPS (₹) | 0.0 | 1.2 | 1.0 | 1.0 | 1.0 |
| Dividend Payout (%) | 0.0 | 6.9 | 4.6 | 3.5 | 2.6 |
| Profit Ploughback (%) | 100.0 | 93.1 | 95.4 | 96.5 | 97.4 |
| Book Value (₹) | 74.0 | 134.6 | 155.2 | 184.0 | 223.6 |
| RoANW (%) | 17.2 | 16.9 | 15.1 | 17.1 | 19.0 |
| RoACE (%) | 35.3 | 32.1 | 27.0 | 29.5 | 30.2 |
| RoAIC (%) (Excl Cash & Invest.) | 35.5 | 32.3 | 27.5 | 30.5 | 31.7 |

(E) Valuation Ratios

| | | | | | |
|---------------------|-------|-------|-------|-------|-------|
| CMP (₹) | 260 | 260 | 260 | 260 | 260 |
| P/E (x) | 19.0 | 15.0 | 12.1 | 9.1 | 6.8 |
| Market Cap. (₹ Mn.) | 5,158 | 7,067 | 7,067 | 7,067 | 7,067 |
| MCap/ Sales (x) | 1.9 | 2.2 | 1.9 | 1.6 | 1.3 |
| EV (₹ Mn.) | 5,341 | 7,119 | 7,030 | 6,970 | 6,854 |
| EV/Sales (x) | 2.0 | 2.2 | 1.9 | 1.5 | 1.3 |
| EV/EBDITA (x) | 8.3 | 8.2 | 7.0 | 5.4 | 4.3 |
| P/BV (x) | 3.5 | 1.9 | 1.7 | 1.4 | 1.2 |
| Dividend Yield (%) | 0.0 | 0.5 | 0.4 | 0.4 | 0.4 |

E-estimates



Intentionally Left Blank

Stock price return objective (12 Months)

| | |
|-------------------|------------|
| Buy | > 15% |
| Accumulate | 5 to 15% |
| Reduce | (-5) to 5% |
| Sell | < -5% |

| Analyst | Sector/Industry/Coverage | E-mail | Tel.+91-22-4096 9700 |
|----------------------|---|------------------------------|----------------------|
| Amit Khurana, CFA | Head of Equities and Head of Research | amit@dolatcapital.com | +91-22-40969745 |
| Afshan Sayyad | Agrochemicals | afshans@dolatcapital.com | +91-22-40969726 |
| Amit Purohit | Consumer & Midcaps | amitp@dolatcapital.com | +91-22-40969724 |
| Karan Taurani | IT Services & Media | karant@dolatcapital.com | +91-22-40969754 |
| Manish Raj | Cement | manishr@dolatcapital.com | +91-22-40969725 |
| Priyank Chandra | Energy, Lubricant & Polymers | priyank@dolatcapital.com | +91-22-40969737 |
| Niraj Shah | Metals & Minings | nirajs@dolatcapital.com | +91-22-40969731 |
| Associates | Sector/Industry/Coverage | E-mail | Tel.+91-22-4096 9700 |
| Abhishek Lodhiya | IT Services & Media | abhishekl@dolatcapital.com | +91-22-40969753 |
| Avinash Kumar | Capital Goods | avinashk@dolatcapital.com | +91-22-40969764 |
| Devanshi Dhruva | Consumer & Midcaps | devanshid@dolatcapital.com | +91-22-40969756 |
| Pranav Joshi | Financials | pranavj@dolatcapital.com | +91-22-40969706 |
| Nidhi Doshi | Energy, Lubricant & Polymers | nidhid@dolatcapital.com | +91-22-40969795 |
| Sanket Shinde | Economy | sankets@dolatcapital.com | +91-22-40969740 |
| Equity Sales/Trading | Designation | E-mail | Tel.+91-22-4096 9797 |
| Purvag Shah | Principal | purvag@dolatcapital.com | +91-22-40969747 |
| Kishor Bagri, CFA | VP- Equity Sales | kishorb@dolatcapital.com | +91-22-40969746 |
| Akshata Deshmukh | VP- Equity Sales & Derivatives Strategist | akshatad@dolatcapital.com | +91-22-40969705 |
| Kapil Yadav | AVP - Institutional Sales | kapil@dolatcapital.com | +91-22-40969735 |
| P. Sridhar | Head Sales Trading | sridhar@dolatcapital.com | +91-22-40969728 |
| Chandrakant Ware | AVP - Equity Sales Trading | chandrakant@dolatcapital.com | +91-22-40969707 |
| Jatin Padharia | Head of Sales Trading - Derivatives | jatin@dolatcapital.com | +91-22-40969703 |
| Shirish Thakkar | Sales Trader - Derivatives | shirisht@dolatcapital.com | +91-22-40969702 |

Dolat Capital Market Pvt. Ltd.

Corporate Identity Number: U65990MH1993PTC075189

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031 & INF230710031

Registered office: "**DOLAT**" Plot 60B, East West Road No. 2, JVPD Scheme, Vile Parle (West), Mumbai-400 049.

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com

Analyst(s) Certification

The research analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

I. Analyst(s) holding in the Stock(s): (Nil)

II. Disclosures:

This research report has been prepared by Dolat Capital Market Pvt. Limited to provide information about the company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies) solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of Dolat Capital Market Pvt. Limited. This report has been prepared independent of the companies covered herein. Dolat Capital Market Pvt. Limited and its affiliated companies are part of a multi-service, integrated investment banking, brokerage and financing group. Dolat Capital Market Pvt. Limited and/or its affiliated company(ies) might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, financing or any other advisory services to the company(ies) covered herein. Dolat Capital Market Pvt. Limited and/or its affiliated company(ies) might have received or may receive compensation from the company(ies) mentioned in this report for rendering any of the above services. Research analysts and sales persons of Dolat Capital Market Pvt. Limited may provide important inputs to its affiliated company(ies) associated with it. While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and Dolat Capital Market Pvt. Limited does not warrant its accuracy or completeness. Dolat Capital Market Pvt. Limited may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and Dolat Capital Market Pvt. Limited reserves the right to make modifications and alterations to this statement as they may deem fit from time to time. Dolat Capital Market Pvt. Limited and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction. This report is not directed or intended for distribution to, or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Dolat Capital Market Pvt. Limited and/or its affiliated company(ies) to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.
