

**BUY**

TP: INR 400.00  
▲ 60.0%

# Shemaroo Entertainment

SHEM IN

## HOOQ partnership: Stronger content monetisation

**HOOQ, an over-the-top (OTT) video-on-demand platform, has signed a deal with SHEM for access to over 1,000 of the latter's movie titles. HOOQ has recently entered India with its internet TV platform and is building its local content library. We believe an improving device and network ecosystem will continue to drive OTT platforms into India who will then need to buy local content. SHEM is already seeing 50%+ growth in the new media space, and new platforms such as these will enhance content monetisation opportunities. Reiterate BUY.**

- ➔ **Substantial investments in delivery platforms:** Several players are investing in content delivery platforms, including broadcasters (Zee, Star), studios (EROS), telecom companies (Airtel) and internet players (Hungama, HOOQ, BoxTV, Google). With India's smartphone penetration expected to improve from 29% to 54% by FY20, video content (short and long format) is likely to emerge as a key consumption category. Further, global entrants like HOOQ and potentially Netflix will require local content, thereby opening up monetisation opportunities for players with an existing library.
- ➔ **About HOOQ:** HOOQ, launched by Singtel, Sony Pictures and Warner Bros, is a premium video-on-demand (VoD) service with over 30,000 hours of content library. Services are priced at Rs 199/month and keeping Indian bandwidth considerations in mind, HOOQ will offer a download feature that allows up to five movies to be viewed offline. While a VoD price model is still emerging (subscription, micro transaction, advertising), we believe this space would post strong growth over the next 3-5 years.
- ➔ **Valuations and View:** We believe that content owners with scope for IP monetisation remain one of the better plays in the communication supply chain. SHEM's new media contribution is already at 17% of revenue (Q1FY16) and we expect the company to deliver 24.5% EPS growth over the next two years. Valuations are reasonable at 12.5x FY16E P/E. We maintain BUY with a Sep'16 TP of Rs 400.

### Financial Highlights

Y/E 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue (INR mln)	2,646	3,235	3,800	4,439	5,082
EBITDA (INR mln)	644	869	1,011	1,208	1,306
Adjusted net profit (INR mln)	282	421	512	650	735
Adjusted EPS (INR)	13.7	17.4	21.1	26.9	30.4
Adjusted EPS growth (%)	15.2	26.8	21.8	27.3	13.1
DPS (INR)	0.5	1.2	1.5	1.5	1.5
ROIC (%)	13.4	14.8	15.3	16.7	16.4
Adjusted ROAE (%)	17.5	17.1	15.0	16.3	15.8
Adjusted P/E (x)	18.3	14.4	11.8	9.3	8.2
EV/EBITDA (x)	9.7	7.7	6.1	4.9	4.5
P/BV (x)	3.4	1.9	1.6	1.4	1.2

Source: Company, Bloomberg, RCML Research

27 August 2015



### REPORT AUTHORS

**Rumit Dugar**  
+91 22 6766 3444  
rumit.dugar@religare.com

**Saumya Shrivastava**  
+91 22 6766 3445  
saumya.shrivastava@religare.com

PRICE CLOSE (26 Aug 15)  
INR 249.95

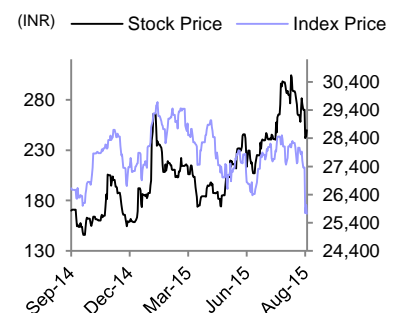
MARKET CAP  
INR 6.8 bln  
USD 102.7 mln

SHARES O/S  
20.6 mln

FREE FLOAT  
33.0%

3M AVG DAILY VOLUME/VALUE  
0.1 mln / USD 0.2 mln

52 WK HIGH                      52 WK LOW  
INR 321.85                      INR 144.00



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Company Update

INDIA  
MEDIA

**Fig 1 - India – Dedicated TV platforms**

Player	Application	Content	Revenue Model
Google	YouTube	User, Movies, TV, Music	Advertising
Star India	HotStar	Star TV content and Movies	Advertising
Zee Entertainment	Ditto TV	TV content and Movies	Subscription
Eros International	Eros Now	TV and Movies (Own + Third Parties)	Subscription
Hungama	Hungama	Music and Movies	Subscription / Micro transaction
Singtel, Sony Pictures Television and Warner Bros	HOOQ	TV and Movies	Subscription

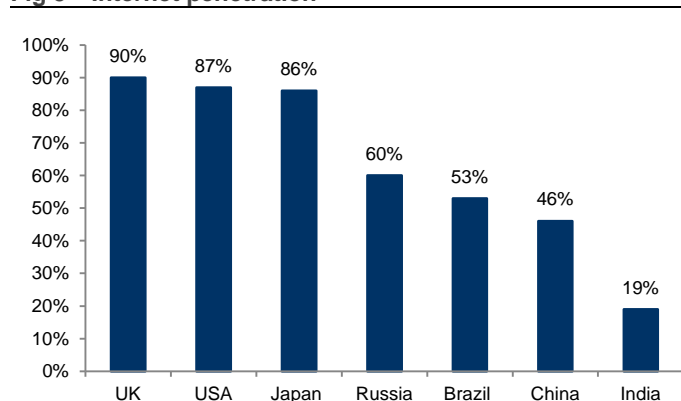
Source: RCML Research, Company

**Fig 2 - India – Video on Demand**

Service	Content	Pricing
ErosNow	Movies, TV	TV Rs 249/month
HooQ	Movies, TV	TV Rs 199/month
Spuul	Movies, TV	TV Rs 300/month
BoxTV	Movies, TV	TV Rs 49-199/month
Bigflix	Movies, TV	TV Rs 49/movie
Hotstar	Movies, TV	TV Free
Ditto TV	Movies, TV	TV Subscription

Source: RCML Research, Company

**Fig 3 - Internet penetration**



Source: RCML Research, Company

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Company Update

INDIA  
MEDIA**Per Share Data**

Y/E 31 Mar (INR)	FY14A	FY15A	FY16E	FY17E	FY18E
Reported EPS	13.7	17.4	21.1	26.9	30.4
Adjusted EPS	13.7	17.4	21.1	26.9	30.4
DPS	0.5	1.2	1.5	1.5	1.5
BVPS	74.0	134.6	155.6	182.6	211.6

**Valuation Ratios**

Y/E 31 Mar (x)	FY14A	FY15A	FY16E	FY17E	FY18E
EV/Sales	2.4	2.1	1.6	1.3	1.2
EV/EBITDA	9.7	7.7	6.1	4.9	4.5
Adjusted P/E	18.3	14.4	11.8	9.3	8.2
P/BV	3.4	1.9	1.6	1.4	1.2

**Financial Ratios**

Y/E 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Profitability &amp; Return Ratios (%)</b>					
EBITDA margin	24.3	26.9	26.6	27.2	25.7
EBIT margin	23.2	25.7	25.8	26.4	25.7
Adjusted profit margin	10.7	13.0	13.5	14.6	14.5
Adjusted ROAE	17.5	17.1	15.0	16.3	15.8
ROCE	13.2	14.5	14.2	14.6	14.0
<b>YoY Growth (%)</b>					
Revenue	23.2	22.2	17.5	16.8	14.5
EBITDA	12.3	34.9	16.4	19.4	8.1
Adjusted EPS	15.2	26.8	21.8	27.3	13.1
Invested capital	29.7	26.9	5.7	13.6	14.2
<b>Working Capital &amp; Liquidity Ratios</b>					
Receivables (days)	146	151	143	148	145
Inventory (days)	381	440	421	381	376
Payables (days)	43	42	27	27	27
Current ratio (x)	1.7	2.7	2.7	2.7	2.7
Quick ratio (x)	0.0	0.0	0.2	0.3	0.4
<b>Turnover &amp; Leverage Ratios (x)</b>					
Gross asset turnover	1.7	1.8	3.8	NA	NA
Total asset turnover	0.7	0.7	0.7	0.7	0.7
Net interest coverage ratio	3.4	4.2	4.4	5.6	5.9
Adjusted debt/equity	0.9	0.3	0.2	0.2	0.1

**DuPont Analysis**

Y/E 31 Mar (%)	FY14A	FY15A	FY16E	FY17E	FY18E
Tax burden (Net income/PBT)	64.1	65.9	67.2	67.1	67.1
Interest burden (PBT/EBIT)	71.7	76.7	77.8	82.7	83.8
EBIT margin (EBIT/Revenue)	23.2	25.7	25.8	26.4	25.7
Asset turnover (Revenue/Avg TA)	74.8	71.8	72.0	72.2	71.3
Leverage (Avg TA/Avg equities)	219.1	183.1	154.2	154.1	153.4
Adjusted ROAE	17.5	17.1	15.0	16.3	15.8

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Company Update

INDIA  
MEDIA**Income Statement**

Y/E 31 Mar (INR mln)	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Total revenue</b>	<b>2,646</b>	<b>3,235</b>	<b>3,800</b>	<b>4,439</b>	<b>5,082</b>
EBITDA	644	869	1,011	1,208	1,306
EBIT	614	832	978	1,171	1,306
Net interest income/(expenses)	(179)	(200)	(224)	(210)	(220)
Other income/(expenses)	0	0	0	0	0
Exceptional items	5	6	7	8	9
EBT	436	633	755	961	1,086
Income taxes	(165)	(222)	(257)	(327)	(369)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	1	(1)	0	0	0
<b>Reported net profit</b>	<b>277</b>	<b>415</b>	<b>505</b>	<b>642</b>	<b>726</b>
Adjustments	5	6	7	8	9
<b>Adjusted net profit</b>	<b>282</b>	<b>421</b>	<b>512</b>	<b>650</b>	<b>735</b>

**Balance Sheet**

Y/E 31 Mar (INR mln)	FY14A	FY15A	FY16E	FY17E	FY18E
Accounts payables	306	165	194	226	259
Other current liabilities	469	416	488	570	653
Provisions	0	0	0	0	1
Debt funds	1,512	1,057	1,241	1,450	1,659
Other liabilities	91	74	74	74	74
Equity capital	198	272	272	272	272
Reserves & surplus	1,546	2,902	3,396	4,033	4,715
Shareholders' fund	1,744	3,174	3,668	4,305	4,987
<b>Total liabilities and equities</b>	<b>4,123</b>	<b>4,885</b>	<b>5,665</b>	<b>6,624</b>	<b>7,633</b>
Cash and cash eq.	9	25	471	723	917
Accounts receivables	1,405	1,268	1,718	1,885	2,158
Inventories	2,005	2,887	2,707	3,162	3,620
Other current assets	264	170	200	243	278
Investments	98	168	168	168	168
Net fixed assets	341	295	330	371	419
CWIP	0	0	0	0	1
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	0	72	72	72	72
<b>Total assets</b>	<b>4,123</b>	<b>4,885</b>	<b>5,665</b>	<b>6,624</b>	<b>7,632</b>

**Cash Flow Statement**

Y/E 31 Mar (INR mln)	FY14A	FY15A	FY16E	FY17E	FY18E
Net income + Depreciation	302	446	531	671	717
Interest expenses	0	0	0	0	0
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(760)	(1,204)	(13)	(343)	(441)
Other operating cash flows	187	(2,216)	0	0	0
<b>Cash flow from operations</b>	<b>(271)</b>	<b>(2,973)</b>	<b>518</b>	<b>328</b>	<b>275</b>
Capital expenditures	(19)	(30)	(35)	(41)	(47)
Change in investments	0	0	0	0	0
Other investing cash flows	7	(896)	0	0	0
<b>Cash flow from investing</b>	<b>(13)</b>	<b>(926)</b>	<b>(35)</b>	<b>(41)</b>	<b>(47)</b>
Equities issued	0	1,200	0	0	0
Debt raised/repaid	415	0	0	0	0
Interest expenses	(192)	0	0	0	0
Dividends paid	(12)	(28)	(35)	(35)	(35)
Other financing cash flows	(7)	0	0	0	0
<b>Cash flow from financing</b>	<b>204</b>	<b>1,172</b>	<b>(35)</b>	<b>(35)</b>	<b>(34)</b>
<b>Changes in cash and cash eq</b>	<b>(80)</b>	<b>(2,728)</b>	<b>447</b>	<b>251</b>	<b>194</b>
<b>Closing cash and cash eq</b>	<b>3,981</b>	<b>1,822</b>	<b>3,989</b>	<b>5,249</b>	<b>8,542</b>

# RESEARCH TEAM

ANALYST	SECTOR	EMAIL	TELEPHONE
Mihir Jhaveri	Auto, Auto Ancillaries, Cement, Logistics	mihir.jhaveri@religare.com	+91 22 6766 3459
Siddharth Vora	Auto, Auto Ancillaries, Cement, Logistics	siddharth.vora@religare.com	+91 22 6766 3435
Misal Singh	Capital Goods, Infrastructure, Utilities	misal.singh@religare.com	+91 22 6766 3466
Prashant Tiwari	Capital Goods, Infrastructure	prashant.tiwari@religare.com	+91 22 6766 3485
Gaurang Kakkad	Consumer	gaurang.kakkad@religare.com	+91 22 6766 3470
Premal Kamdar	Consumer	premal.kamdar@religare.com	+91 22 6766 3469
Nitin Tiwari	Energy	nitin.tiwari@religare.com	+91 22 6766 3437
Parag Jariwala	Financials	parag.jariwala@religare.com	+91 22 6766 3442
Vikesh Mehta	Financials	vikesh.mehta@religare.com	+91 22 6766 3474
Rumit Dugar	IT, Telecom, Media	rumit.dugar@religare.com	+91 22 6766 3444
Saumya Shrivastava	IT, Telecom, Media	saumya.shrivastava@religare.com	+91 22 6766 3445
Pritesh Jani	Metals	pritesh.jani@religare.com	+91 22 6766 3467
Arun Baid	Mid-caps	arun.baid@religare.com	+91 22 6766 3446
Praful Bohra	Pharmaceuticals	praful.bohra@religare.com	+91 22 6766 3463
Arun Aggarwal	Real Estate	arun.aggarwal@religare.com	+91 22 6766 3440
Pawan Parakh	Utilities	pawan.parakh@religare.com	+91 22 6766 3438
Jay Shankar	Economics & Strategy	shankar.jay@religare.com	+91 11 3912 5109
Megha Arora	Economics & Strategy	megha.arora@religare.com	+91 22 6766 3433

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