

Shemaroo Entertainment

Buy

CMP	₹ 330
Target / Upside	₹ 460/39%
BSE Sensex	27,714
NSE Nifty	8,551

Script Details

Equity / FV	₹ 272mn/₹ 10/-
Market Cap	₹ 9bn
	USD 134mn
52 week High/Low	₹ 375/202
Avg. Volume (no)	60,395
NSE Symbol	SHEMAROO
Bloomberg Code	SHEM IN

Shareholding Pattern Jun'16(%)

Promoters	65.8
MF/Banks/FIs	2.7
FIIs	12.4
Public / Others	19.1

SHEM Relative to Sensex

**Strong growth in the traditional segment drives outperformance**

SHEM reported a healthy Q1FY17 with revenue growth of 23.5%YoY (DCMe: 14.3%). EBITDA margin remained flat YoY to 31.1% largely in line with our estimates. Traditional media segment reported healthy growth of 17%YoY helped by the launch of Miniplex and other channels for DTH providers. New media segment grew 50%YoY helped by increased consumption of content on digital platforms; We believe this segment will continue to grow at a robust CAGR of 43% (FY16-19E) and help drive profitability. We maintain our BUY reco. and roll-over to Jun'17 target price of ₹ 460 (₹ 440 earlier) based on 14x one yr. fwd. PER.

Better than expected revenue growth; margin remains stable

SHEM reported revenue growth of 23.5%YoY to ₹ 959mn (DCMe: ₹887mn) above our estimate helped by healthy growth in the traditional media segment. EBITDA margin remained flat YoY at 31.1% (DCMe: 31.6%), despite an improvement in gross margin (+60bpsYoY). PAT grew 20.1%YoY to ₹140mn (DCMe: ₹134mn) led by strong revenue growth and stable margin. EPS was at ₹ 5.17.

New media segment reports yet another strong performance

Revenue from new media segment surged 50%YoY to ₹ 201mn and it now contributes 21% of revenue as on Q1FY17. YouTube views for SHEM grew 64%YoY to 125mn views per month in Jun'16 driven by increased consumption of content on digital platforms.

Positive surprise in the traditional segment

Revenue from traditional segment grew 17%YoY in Q1FY17 to ₹ 750mn led by a seasonally strong quarter. Higher growth in this segment is largely driven by Miniplex and other channel launches (Sadabaha Hits, Comedy channel and showcase of devotional content) on DTH platforms of Airtel, Dish TV, Tata Sky and Videocon.

View

We believe the traditional media segment is capable of reporting more positive surprises in FY17 led by better subs addition in the DTH platforms for Miniplex. New media segment will continue to grow at a healthy CAGR of 43% (FY16-19E) which will drive earnings growth of 26% (FY16-19E). We largely maintain our estimates and roll over to a Jun'17 target price of Rs ₹460 (₹ 440 earlier) based on 14x one yr.fwd. PER.

FINANCIALS (₹ Mn)

Particulars	FY15	FY16	FY17E	FY18E	FY19E
Net Sales	3,235	3,749	4,366	5,157	6,111
Growth (%)	22.2	15.9	16.4	18.1	18.5
EBITDA	869	1,098	1,301	1,572	1,906
EBITDA Margin (%)	26.9	29.3	29.8	30.5	31.2
PAT	409	521	667	847	1,045
Growth (%)	50.3	27.5	28.0	26.9	23.4
EPS (₹)	15.1	22.1	24.6	31.3	38.6
Growth (%)	50.3	46.8	11.4	26.9	23.4
PER(x)	21.9	14.9	13.4	10.6	8.6
ROANW (%)	16.6	15.3	16.8	18.0	18.5
ROACE (%)	32.1	29.5	29.0	29.1	29.3

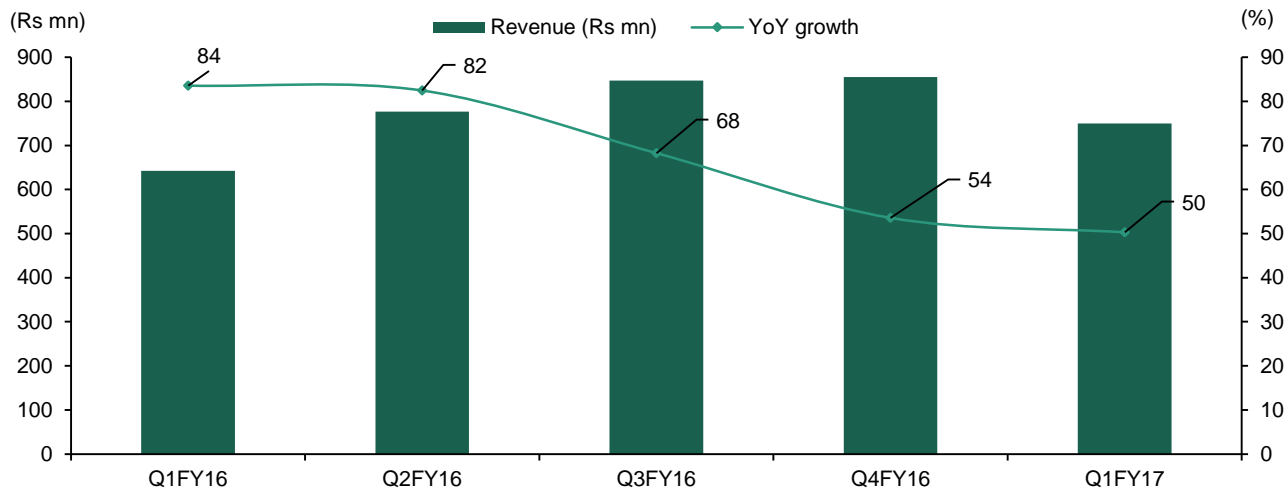
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Exhibit 1: Q1FY17 Performance

(₹ mn)	Q1FY17	DCMe	Diff (%)	Q4FY16	QoQ(%)	Q1FY16	YoY(%)
Revenue	959	887	8.1	1,029	(6.8)	776	23.5
EBIT	287	271	6.1	329	(12.8)	231	24.3
EBITDA	298	280	6.4	339	(12.2)	240	24.0
Pre Tax Profit	223	206	8.2	257	(13.2)	183	21.7
Net Profit	140	134	4.8	165	(14.8)	117	20.1
Margins (%)							
EBIT Margin	30.0	30.6		32.0		29.8	
EBITDA Margin	31.1	31.6		33.0		30.9	
Net Margin	14.6	15.1		16.0		15.1	
Segment revenue							
Traditional	750	700	7.1	855	(12.4)	642	16.7
New Media	201	187	7.7	177	14.0	134	50.3

Source: Dolat Research

Exhibit 2: New media segment- revenue and YoY growth


Source: Dolat Research, Company

Exhibit 3: Revision of estimates

(₹ mn)	New		Old		Change (%)	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Revenue	4,366	5,157	4,365	5,156	0.0	0.0
EBITDA	1,301	1,572	1,296	1,557	0.4	0.9
Pre Tax Profit	1,026	1,303	1,022	1,258	0.4	3.6
Net Profit	667	847	674	830	(1.0)	2.0
EPS (₹)	24.6	31.3	24.9	30.6	(1.1)	2.1
Margins (%)						
EBITDA Margin	29.8	30.5	29.7	30.2		
Net margin	15.3	16.4	15.4	16.1		

Source: Dolat Research, Company

Income Statement

Particulars	Mar16	Mar17E	Mar18E	Mar19E
Net Sales	3,749	4,366	5,157	6,111
Total Expenditure	2,651	3,065	3,585	4,205
Raw Material	2,234	2,585	3,030	3,557
Employee Expenses	233	268	310	361
Other Expenses	184	212	246	287
EBIDTA	1,098	1,301	1,572	1,906
Net Interest Expense	211	239	230	256
Gross Profit	1,515	1,780	2,127	2,554
Depreciation	37	36	38	41
PBT & EO Items	850	1,026	1,303	1,608
Profit Before Tax	850	1,026	1,303	1,608
Tax	307	359	456	563
Net Profit	543	667	847	1,045
Minority Interest	22	0	0	0
Net Profit	521	667	847	1,045

Balance Sheet

Particulars	Mar16	Mar17E	Mar18E	Mar19E
Sources of Funds				
Equity Capital	272	272	272	272
Other Reserves	3,376	4,028	4,858	5,886
Net Worth	3,648	4,300	5,130	6,158
Loan Funds	303	473	642	818
Total Capital Employed	3,951	4,773	5,772	6,976

Applications of Funds

Net Block	307	326	349	376
Other LT Assets (+)	66	66	66	66
Investments	66	66	66	66

Current Assets, Loans & Advances

Inventories	3,846	4,724	5,651	6,731
Sundry Debtors	1,066	1,674	1,978	2,344
Cash and Bank Balance	13	32	62	70
Loans and Advances	768	239	283	335
<i>sub total</i>	5,692	6,670	7,974	9,480

Less: Current Liabilities & Provisions

Current Liabilities	2,179	2,354	2,682	3,011
<i>sub total</i>	2,179	2,354	2,682	3,011
Net Current Assets	3,514	4,315	5,291	6,469
Total Assets	3,951	4,773	5,772	6,976

E – Estimates

Cash Flow

Particulars	Mar16	Mar17E	Mar18E	Mar19E
Profit before tax	850	1,026	1,303	1,608
Depreciation & w.o.	37	36	38	41
Other Non-Cash Adj.	(18)	(12)	(15)	(23)
Direct taxes paid	(341)	(359)	(456)	(563)
Change in Working Capital	(239)	(783)	(946)	(1,169)
(A) CF from Opt. Activities	289	(92)	(75)	(105)
Capex	(262)	(22)	(26)	(31)
(B) CF from Invt. Activities	(262)	(22)	(26)	(31)
Chg. in Long-Term Borrow	0	170	172	177
Dividend Paid (Incl. Tax)	(38)	(38)	(38)	(38)
(C) CF from Financing	(38)	132	131	144
Net Change in Cash	(11)	18	30	9
Opening Cash balances	24	13	32	62
Closing Cash balances	13	32	62	70

Important Ratios

Particulars	Mar16	Mar17E	Mar18E	Mar19E
(A) Measures of Performance (%)				
EBIDTA Margin	29.3	29.8	30.5	31.2
Interest / Sales	5.6	5.5	4.5	4.2
Gross Profit Margin	40.4	40.8	41.2	41.8
Tax/PBT	36.1	35.0	35.0	35.0
Net Profit Margin	13.9	15.3	16.4	17.1
(B) As Percentage of Net Sales				
Cost of Goods	59.6	59.2	58.8	58.2
Employee Expenses	6.2	6.1	6.0	5.9
Other Expenses	4.9	4.9	4.8	4.7
(C) Measures of Financial Status				
Debtors Period (days)	104	140	140	140
Closing stock (days)	374	395	400	402
Inventory Turn Ratio (x)	1.0	0.9	0.9	0.9
Fixed Assets Turnover (x)	12.2	13.4	14.8	16.2
WC Turnover (x)	1.1	1.0	1.0	0.9
Non Cash WV (₹ Mn)	3,501	4,284	5,230	6,399
(D) Measures of Investment				
EPS (₹) (excl EO)	22.1	24.6	31.3	38.6
EPS (₹)	22.1	24.6	31.3	38.6
CEPS (₹)	20.6	25.9	32.7	40.1
DPS (₹)	1.4	1.4	1.4	1.4
Dividend Payout (%)	6.3	5.7	4.5	3.6
Profit Ploughback (%)	93.7	94.3	95.5	96.4
Book Value (₹)	134.6	158.7	189.3	227.3
RoANW (%)	15.3	16.8	18.0	18.5
RoACE (%)	29.5	29.0	29.1	29.3
RoAIC (%)	29.6	29.2	29.3	29.6
(E) Valuation Ratios				
CMP (₹)	330	330	330	330
P/E (x)	14.9	13.4	10.6	8.6
Market Cap. (₹ Mn.)	8,982	8,982	8,982	8,982
MCap/ Sales (x)	2.4	2.1	1.7	1.5
EV (₹ Mn.)	9,271	9,423	9,562	9,729
EV/Sales (x)	2.5	2.2	1.9	1.6
EV/EBDITA (x)	8.4	7.2	6.1	5.1
P/BV (x)	2.5	2.1	1.7	1.5
Dividend Yield (%)	0.4	0.4	0.4	0.4

E – Estimates

Stock price return objective (12 Months)

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

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