

## Shemaroo Entertainment (SHEM IN)

### SC Net: Large Player In A Niche Segment

TMT

1 Aug 2017

## Not Rated

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CFO

**Visit Rationale:** Sector Coverage

#### Basic Share Information

Market cap	Rs9.85b / US\$0.15b
Daily volume (3mth)	US\$0.16m
Shares outstanding	27.18m
Free float	34%
Net debt-to-equity	64%
1 yr high	Rs430.4
1 yr low	Rs295.4
Foreign Hldg.	16%
Visit Date	26 Jul 17

Note: Shares price and market value as of 31 July 2017 close

### What Is The Business Story For This Stock?

Shemaroo Entertainment is an aggregator of films, which operates in niche segment between the film production houses and large broadcasters. With a catalog of 3,432 titles of predominantly Hindi movies (as of FY3/16), it provides content for almost all broadcasters in India. Shemaroo acquires the rights to films in their second and subsequent cycles (i.e., five years after the film's release), which helps mitigate the risk of non-performance following their release. The company has an internal rate of return (IRR) target of 18%, which is the key criterion for its content acquisition. Over the past five years, Shemaroo increased its films' copyrights by 36% in anticipation of increased demand and to shore up its position in its niche segment. During this period, the company used both debt and equity capital (including its IPO in FY3/15) to fund this expansion which caused free cash flow (FCF) to become negative. Management has indicated that its rapid expansion phase is coming to an end with future investments likely to be funded using internal accruals. The company also has a new media business that supplies content for the rapidly growing online media space, to platforms such as YouTube (unlisted) and Hooq (unlisted), and for the mobile value-added services provided by telecom operators. The new media segment accounted for 22% of the company's FY3/17 top line and management aims to lift this sales contribution to 50% over the next six years. The shares trade on a FY3/17 trailing PER of 16x, which is at a premium to Eros International (EROS IN), a production house, which trades at 8.2x.

### How Does The Value Chain Look?

Shemaroo acts as an intermediary between film production houses and broadcasting agencies. The company usually acquires film copyrights in bulk from film producers on a short-term basis (5–25 years) or on a perpetual basis. It then bundles these films in its portfolio and enters into exclusive agreements to provide content to broadcasters for a specified period (typically five years). The company also monetizes clips from its films online.

Segment	Market Share	Fundamentals	Major Clients	Major Suppliers	Competitors
New Media	NA	Strong	YouTube, Hooq, Mobile service providers	There are a large number of producers who transact with Shemaroo	NA
Traditional Media	NA	Medium	No significant contribution by a single broadcaster	There are a large number of producers who transact with Shemaroo	Ultra (Not Listed), many fragmented players

Source: Company data

### Who Currently Owns This Stock?

Shemaroo's founder holds a 65.82% stake in the firm. Other significant shareholders include New Horizon Opportunities Master Fund (unlisted) with 9.62% and Fidelity Investments (unlisted) with a total of 4.37% spread across different funds.

### How Does It Fit Into Our SCNet Index

Shemaroo is not a constituent of Haitong International's (HTI's) SCNet Index at present. Its stock price has dropped 8.76% over the past three months, underperforming the country's small cap index by 12.86ppts. Shemaroo's PBR, PER, ROE, and EPS growth are in the middle of the range for HTI's SCNet stock universe, while its OPM and net gearing ratio are at the high end of the range.

	Significant Shareholdings
Founder	65.82%
Management	NA
Employees	0.05%
Industry	NA

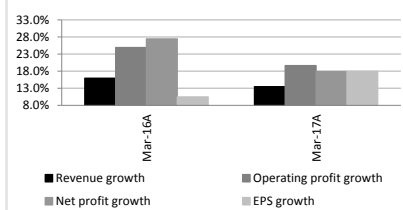

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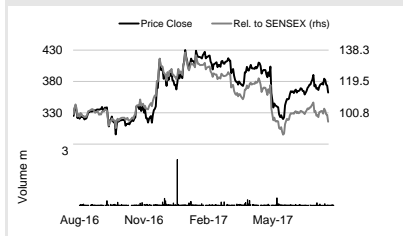
**S-C Net**


### Earnings Trends



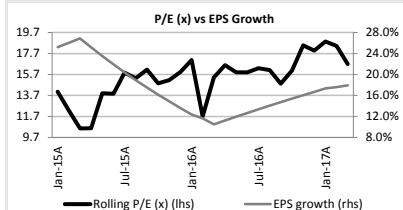
Source: Company data, Bloomberg

### Price / Volume



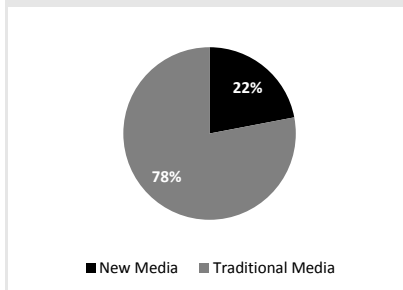
Source: Bloomberg

### Valuation



Source: Company data, Bloomberg

### FY3/17 Sales Breakdown



Source: Company data

## Key Investment Metrics

### Revenue Growth

Low 5-yr avg High

The company posted FY3/17 sales growth of 13% YoY, lower than its 5-year average of 19%. Further, management expects traditional media sales to grow in the mid-teen range for the next two years and new media segment sales to grow 40% for the next two years.

### Profit Margins

Low 5-yr avg High

EBITDA margin in FY3/17 was 30%, which is higher than its 5-year average of 27%.

### Shareholder Returns

Low 5-yr avg High

Shemaroo's FY3/17 ROE was 15.6%, which is lower than its 5-year average of 16.3%.

### Balance Sheet Risks

High 5-yr avg Low

The company had a FY3/17 debt-to-equity of 0.65x, which is higher than 0.49x in FY3/16 and its 5-year average of 0.62x. The company has not turned free cash flow positive since FY3/13.

## Barriers to Entry

Low Medium High

The barriers to entry are low in this industry.

## International Exposure/Breakdown

High Medium Low

Shemaroo generates about 10% of its revenue from foreign countries.

## FX Exposure

High Medium Low

The company does not hedge its forex exposure though they have a low lead-time in realizing foreign exchange.

## Corporate Governance

Low Medium High

Half of the company's board of directors are independent, while in the nomination and the remuneration committee, two of three members are independent. All the members in the audit committee are independent.

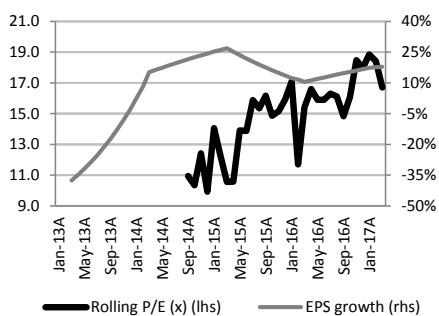
## Company Snapshot and Industry Context

Shemaroo is an aggregator between the film producers and the broadcasting channels. It acquires film titles in the second life or subsequent life cycle (i.e., 5–7 years after the initial release of the film) which it markets to broadcasters. Usually the company buys many titles at a time and later bundles them and sells them to broadcasters. The company acquires the titles on a short-term basis or it obtains outright ownership. Shemaroo also provides content for online streaming platforms like Netflix (NFLX US), Hooq and YouTube where it uploads segments of movies on its own channels. The company's YouTube channel has had 2bn views since inception. Shemaroo also provides content for the mobile value-added service platforms of major telecom operators.

	Mar-13A	Mar-14A	Mar-15A	Mar-16A	Mar-17A	Trend
Total turnover (Rsm)	2,147	2,646	3,235	3,751	4,255	▬ ▬ ▬ ▬ ▬
Operating profit (Rsm)	557	627	845	1,055	1,263	▬ ▬ ▬ ▬ ▬
Pre-tax profit (Rsm)	374.2	434.9	632.8	826.9	939.2	▬ ▬ ▬ ▬ ▬
Net income to ord equity (Rsm)	235.5	271.6	409.2	521.5	614.8	▬ ▬ ▬ ▬ ▬
Net profit growth	13.9%	15.3%	50.7%	27.4%	17.9%	▬ ▬ ▬ ▬ ▬
P/E (x)	30.52	26.48	20.87	18.89	16.02	▬ ▬ ▬ ▬ ▬
P/B (x)	4.84	4.12	2.69	2.71	2.33	▬ ▬ ▬ ▬ ▬
ROE	17.2%	16.8%	16.6%	15.3%	15.6%	▬ ▬ ▬ ▬ ▬
Dividend yield	0.0%	0.0%	0.3%	0.4%	0.0%	▬ ▬ ▬ ▬ ▬
EPS (Rs)	11.87	13.68	17.36	19.18	22.62	▬ ▬ ▬ ▬ ▬

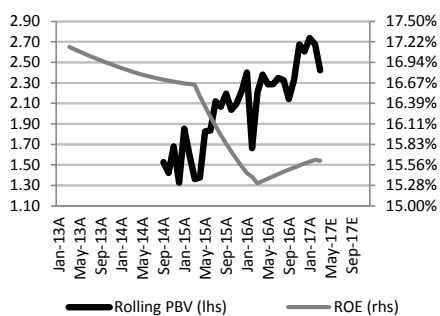
Source: Company data, Bloomberg

**P/E (x) vs EPS Growth**



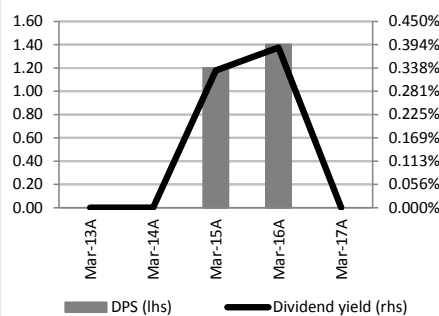
Source: Bloomberg

**P/B (x) vs ROE**



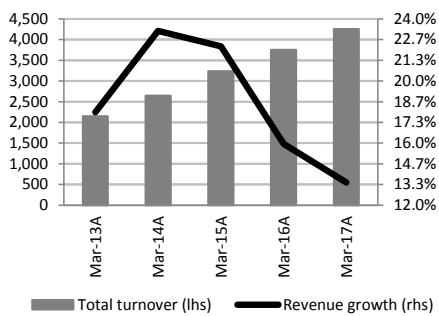
Source: Bloomberg

**Dividend Payout and Yield**



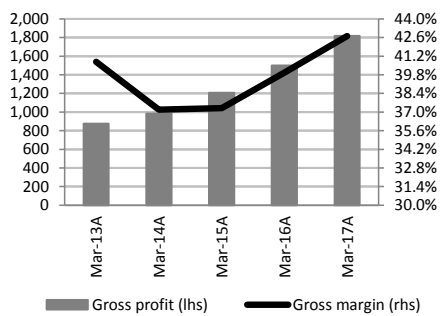
Source: Bloomberg

**Turnover and Growth (INRm)**



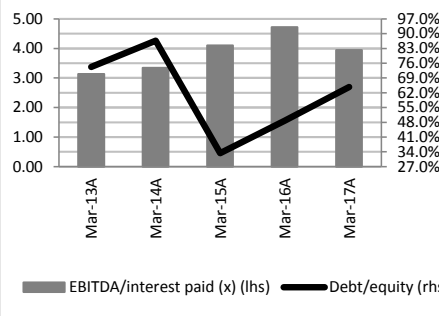
Source: Bloomberg

**Gross Profit and Margin (INRm)**



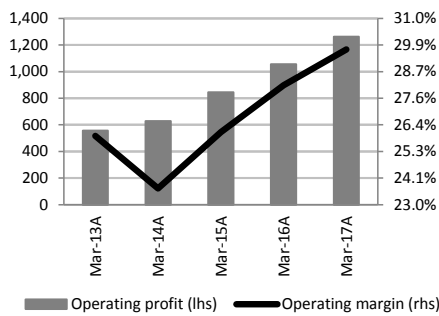
Source: Bloomberg

**Net Debt To Equity and Interest Cover**



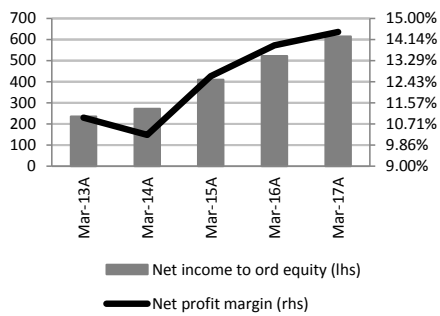
Source: Bloomberg

**Operating Profit and Margin (INRm)**



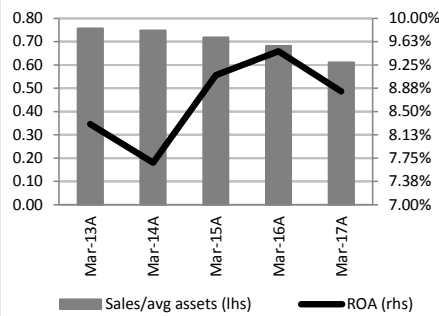
Source: Bloomberg

**Net Profit and Margin (INRm)**



Source: Bloomberg

**ROA and Asset Turnover**



Source: Bloomberg

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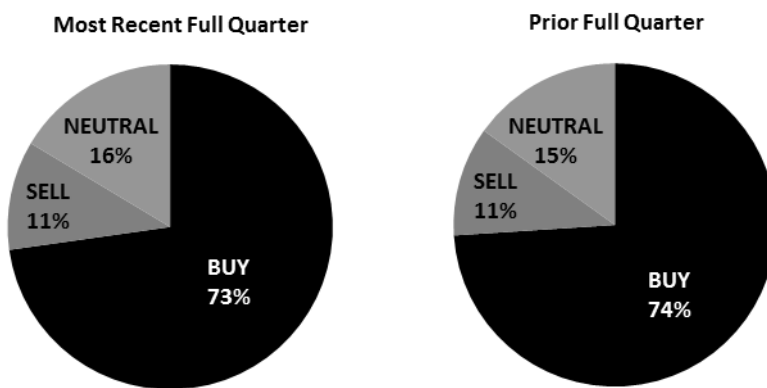
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**Recommendation Chart**



Date	Recommendation	Target (Rs)	Price (Rs)
2017-08-01			

Source: Company data Bloomberg, HTI estimates

**Definitions for Key Investment Metrics**

**Business Growth**

This is the metric which matches the top line in our report.

**Business profit**

This is the metric which best represents operating profit in our report

**Shareholder Returns**

Return on Equity

**Balance Sheet Risk**

Net Debt to Equity