



# JOINDRE CAPITAL SERVICES LTD.

SEBI REGN NO. INH000002061 / INZ 000174034

## RESEARCH REPORT

11<sup>TH</sup> Sept 2018

### SHEMAROO ENTERTAINMENT LIMITED

BSE : SHEMAROO

Sector: MEDIA & ENTERTAINMENT

BSE: 538685

#### View - BUY

CMP : Rs. 488

Target Price: Rs 640 (In next 12 to 18 mths)

#### BUSINESS BACKGROUND

Incorporated in 1962, Shemaroo Entertainment Ltd, a content aggregator, is an established Film Entertainment "Content House" in India. The content Library of the company consists of more than 3500 titles spanning Hindi films and titles in various other regional languages like Marathi, Gujarati, etc. as well as non-film content e.g. devotional, animation, spiritual

Shemaroo has grown multi-fold over the years by developing excellent relationships with producers and also the broadcasting networks, thereby becoming the largest organized player in a historically fragmented industry

#### INVESTMENT HIGHLIGHTS

##### Strong Financial Performance for Q1 FY19 –

Shemaroo reported a strong set of FY18 numbers with net sales at Rs 488.60 crs as compared to a revenue of Rs 425 crs last year, with EBIDTA placed at Rs 142 crs from Rs 133 crs last year with the PAT placed at Rs 71.2 crs from Rs 61 crs up by 17% YoY. SEL has declared a dividend of 15.5% for FY18.

For Shemaroo Q1FY19 was noteworthy with Sales up by 19% at Rs 123.40 crs with EBIDTA up by 16% at Rs 38.90 crs with PAT at Rs 19.5. crs up by 23%. EBIDTA margins in Q1FY19 stood at 30.4% from 31% in Q1 last year.

##### Shemaroo's Biggest Asset is its Content Library –

Shemaroo 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 Shemaroo's library given the number of movies produced by them

Apart from the library of perpetual rights, the company has a large library of 3500 titles across genres and forms which provides it an advantage to monetize content over various platforms.

Traditional media remains the key revenue contributor for shemaroo which currently contributes around 68% of revenue as on Q1FY19 with the balance accounted by new media initiatives. Going ahead we believe that the new media segment will continue to report stronger growth & also enhance profit margins since here costs are low and working capital cycle is also lower which benefits the company more in terms of profit margins and cashflow.

#### KEY DATA

FACE VALUE	Rs	10.00
DIVD YIELD %		0.30
52 WK HI/LOW		595/344
NSE CODE		SHEMAROO
BSE CODE		SHEMAROO
MARKET CAP		RS 1332 CRS

#### SHAREHOLDING PATTERN

PROMOTERS	-	66%
BANKS, MFs & DIs	-	%
FIs	-	17%
PUBLIC	-	17%

#### KEY FUNDAMENTALS

YE	FY19	FY20	FY21
Rev Gr%	18	19	17
EBIDTA Gr%	23	20	18
PAT Gr%	21	25	26
EPS Gr%	21	25	26
EPS (Rs)	31.68	39.44	50.04
ROE %	14	15	16
ROCE %	21	22	24
P/E(x)		12	10

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## Shemaroo has a well established business model –

The company distributes its content through various mediums such as (i) television - satellite, terrestrial and cable television; (ii) new media platforms consisting of mobile, internet, direct to home (DTH) and other applications; (iii) home entertainment; and (iv) Others - in flight, overseas.

## Role In Movie Lifecycle –

Revenue generations from movie is segregated into different lifecycles. The first cycle consists of Theatrical, Television and Overseas release. About 90-95% of the revenues are generated in the first cycle of launch, where Shemaroo is not present. Shemaroo is present in the ancillary revenue streams like New Media and Home Video movie distribution, which contribute the remaining 5% to 10% of the revenues. This is the second and subsequent cycle of film monetization.

These subsequent cycles of film monetization have been typically growing due to factors like increasing advertisement spends, digitization and others. There is a lower risk in these cycles due to visibility of performance of movie during first cycle of launch.

Shemaroo decides on the cost of the content after it is confident of achieving the desired return on investment at a portfolio level, normally 18% IRR. Shemaroo then distributes this content over different platforms like Broadcasting channels, New Media platforms like YouTube and others

Over the years, Shemaroo has built a vast library of hindi films, regional titles and other special interest content and distributes the same over various media platforms including Television (satellite, terrestrial and cable television), New Media (such as mobile, internet and OTT) and Home entertainment

Shemaroo's business in one line is about acquiring content and then monetizing the same by distributing over various platforms.

Considering the fact that movies have longer shelf life, Shemaroo primarily focuses on acquiring movie titles from producers. Over the years the company has built a library of 3500+ titles covering around 1800 hindi films, 1400 regional titles and around 280 Special interest (kids, devotional, etc) titles

Sr. No.	Types of Content	Perpetual Titles	Aggregated Titles	Total Number of Titles
1.	Hindi films	443	1,423	1,866
2.	Regional Titles	456	984	1,440
3.	Special Interest content	49	230	279
	<b>TOTAL</b>	<b>948</b>	<b>2,637</b>	<b>3,585</b>

Acquiring movie titles is a risky business, especially pre-release transactions are very risky because the fate of the movie is unknown and even if the movie does well on box office, it may not garner enough eyeballs on TV premiere. However, Shemaroo follows a slightly differentiated approach as it participates in second and subsequent cycles of film monetization.

First cycle of film monetization consists of box-office sales, television and overseas release revenue and is generally for a period of 5 years (5 years largely on account of TV rights and other OTT platforms because box-office life cycle is very small). Shemaroo acquires the movie rights in second and subsequent cycles as complete ownership/perpetual rights or limited ownership/aggregate rights.



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By the time the second cycle starts the acceptability of the movie is already known and thereby slightly easier for the management to decide the cost of the content.

As far as Perpetual and aggregate rights are concerned, they differ in terms of limits on ownership of titles. While in the case of perpetual rights the company gets complete ownership for distribution across all geographies, platforms and perpetual periods, in case of aggregate rights, there's limit to period of usage (generally 5 years), platforms, geography or a combination of the above

In the last few years the focus of the management has been on acquiring perpetual rights because firstly there's no restriction of distribution on any particular platform (especially digital platforms) and secondly while the complete cost of the title is written off over a period of 10 years, the company can continue monetizing the titles even after 10 years.

### **Roll out of 4G has resulted in a strong growth in the new media platform for Shemaroo –**

Recognizing the huge untapped potential, Shemaroo was one of the first media companies to syndicate its content in the high growth new media platforms and where a large content base gives Shemaroo the advantage of re-packing and modifying them to best suit new media platforms.

The various new media platforms where Shemaroo has established a presence are internet, Mobile Value Added services (MVAS) and other digital platforms such as DTH, Interactive Services and IPTV. It earns ~50% of its revenues from the internet platform and nearly 50% from MVAS

Shemaroo has tied up with various online platforms such as YouTube, Daily Motion, Yahoo India and Spuul. It has a prominent presence on YouTube with over 50 channels across varying genres.

The company monetizes its content on YouTube in the following manner:

Shemaroo gets revenue from the advertisements shown on its channel on YouTube, in the following 3 ways

**Banner Ads**

Pre roll ads

Mid roll ads

Shemaroo gets 52.5% of the ad revenue that YouTube makes from channels belonging to Shemaroo

In order to monetize the content the company distributes it over several mediums including Traditional media such as broadcasting channels, cable networks, DTH, VCD, DVD, in-flight, etc and Digital media such as MVAS (mobile value added services), Youtube and other OTT platforms.

As the company acquires the content in later cycles, it doesn't own the latest blockbuster movies, and it is generally believed that there may not be much demand for such movies, be it on any platform; however as far as traditional media goes, the content provided by Shemaroo acts as filler content for a lot of movie channels because in a day around 8 movies are played and not every movie played is the latest or blockbuster. Similarly, while the movie may have performed average or flopped at the box-office, it may get decent audience on the TV. Besides broadcasters, Shemaroo also partners with major DTH and cable operators to launch subscription-based, ad-free content services across various genres such as movies, devotion, comedy and regional.



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In the new media space, again, contrary to the belief, one doesn't necessarily have to watch the entire movie and here Shemaroo has the added advantage of slicing and dicing content and repackage it in different ways like comedy scenes, songs, etc.

On the new media platforms the company caters to all types of revenue models like pay per transaction, subscription, advertisement supported (free to consumer) etc.

As far as growth is concerned, in the traditional media segment the company has recorded ...% + CAGR in sales in the last 5 years with FY 18 recording ..% growth. Demonetization did impact the growth as advertising revenues on TV got impacted however going forward management is hopeful of growth returning back to double digits as revival in ad spends has been good.

The new media segment is expected to be the major growth driver for the company though it has already been growing at a very good pace. Increasing smart phone penetration, increasing data and more specifically video data consumption, increasing number of OTT platforms are all pointing to the fact that there will be huge demand for video content in the years to come and that monetization rates will also improve with advertiser's increasingly adopting digital medium. Since FY 12, digital media revenue for Shemaroo has recorded 44% CAGR with 30% plus growth in FY 18 and management is hopeful of maintaining 35-36% CAGR going ahead also.

Digital Media growth is being driven by unprecedented growth in mobile data consumption in India. The tug of war between telecom providers has resulted in a massive drop in data rates. Consequently, mobile phone users are consuming a lot more data on daily basis than ever before. The availability of high-speed data connectivity is one of the primary reasons behind exploded data consumption in India.

## THE OTT NUMBER GAME





## THE INDIAN OTT MARKET

- 432 MN** Internet users in India, growing at a rate of **4-8%**
- 355 MN** Number of OTT video viewers in India expected by **2020**
- 35%** Growth y-o-y in number of India's OTT video viewers
- ₹ 40%** Share of regional content in viewership on OTT
- 30+** Number of OTT players in India
- a 300 MN** What Amazon Prime is expected to invest in original content.
- 2.5x** Number of vernacular users compared to English internet user base
- ₹25,000-33,000 MN** Money set aside for original OTT content

(Source: Deloitte Technology, Media and Telecommunications Practice, India 2018)

### SOME OTT (OVER-THE-TOP) VIDEO STATS

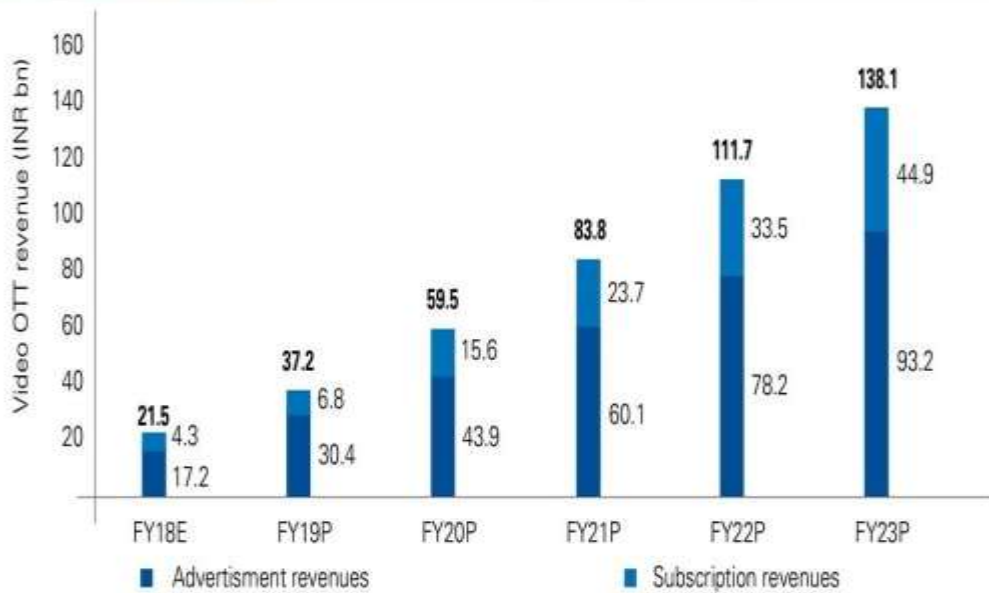
Despite problems with piracy, OTT video revenue has grown rapidly in recent years and according to PwC's Global Entertainment & Media Outlook 2018-2022, India will be among the top 10 largest global OTT video markets by 2022.

- ₹2019 CRORE** (Revenue from OTT video in India in 2017)
- ₹5595 CRORE** (projected revenue from OTT video in India by 2022)
- 22.6%** Growth rate
- 70%** of revenue in 2017 is attributable to Subscription on Demand Video (SVOD) platforms
- 79.4%** of total market revenue is expected to be from SVOD by 2022

(Source: PwC India)

Source PWC

Video OTT revenue (INR billion)



Source: Industry discussions and KPMG in India analysis, 2018

According to KPMG, the OTT market is expected to increase by 6.5x over the next 5 years as shown above, this is positive for Shaamaroo which is already a large player here and is gradually increasing its market share here.



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## **MVAS –**

In this platform, Shemaroo distributes caller tunes, ring tones, games, songs, wallpapers amongst other services. It has entered into agreements with major telecom operators like Airtel, BSNL, Idea, and Reliance Jio. The MVAS segment offers significant potential for growth given the fact that

According to industry sources, more than 40-50% of the traffic for video sites comes from mobile devices India's mobile subscriber base is expected to grow from 795 million in 2013 to 1145 million subscribers by 2020. Smartphone penetration to grow from 10% or 90 million devices in 2013 to 45% or 520 million devices Growth of mobile internet users to be much faster than that of fixed broadband internet users

Further, as content acquisition costs are common to both TV broadcast and digital media, operating leverage is expected to result in margin expansion going ahead.

The integration of video with social media has further lead to the boom in data usage. In fact, streaming, in general, is becoming increasingly popular. 50% of smartphone users are watching in social videos and live streams on videocentric apps at least weekly, while 25% are regularly watching videos and podcasts from music streaming apps.

Thus, with the rapid increase in data consumption, advertisers' interest is following the ongoing shift in consumption trends towards digital media. It is expected that Digital advertising will grow at a robust CAGR of almost 35% between 2016 and 2021, making this the fastest-growing segment

## **Recent Initiatives by Shemaroo –**

The company has tied up as an official channel partner for Google Inc.'s You Tube where it is managing more than 50 channels. The company is also moving beyond providing just content, to providing content management solutions to partners

As on FY18 Shemaroo has refreshed its corporate identity after 55 years with a new logo and tagline 'India Khush Hua' after exhaustive research and understanding of emergent trends and consumers

It has Signed a content deal with SHAREit

It has crossed 5 Bn cumulative views on our YouTube channel 'FilmiGaane'

It has crossed 8 Mn subscribers on our YouTube channel 'ShemarooEnt'

It has crossed 1 Mn subscribers on our YouTube channel 'Shemaroo Kids'

It has crossed 1 lac Subscribers on 'Shemaroo Punjabi' YouTube Channel

A new comedy Service has been launched with Videocon d2h in April 2018

Also Marathi language Service has been launched with Videocon d2h & Dish TV in March 2018

It has also acquired the live streaming rights for Shani Shignapur in Maharashtra and Ajmer Sharif in Rajasthan for digital and traditional platforms

In partnership with major DTH and Cable operators, Shemaroo has launched subscription-based, ad-free content services across various genres like Movies, Devotion, Comedy and Regional



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### **Expansion in new media has driven higher EBITDA 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. Shemaroo's contribution from new media has grown 400bps from 8% in FY12 to 27% in FY18. This has also impacted its EBITDA margin as they have grown 150 bps from 25.5% to 30% 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.

### **Also New Media segment is better for working capital requirements also –**

New media platforms (YouTube/MVAS) have shorter payment cycles, and hence 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.

### **End of Investment phase –**

From past few years, the company is constantly incurring high capex in buying the titles of movies. From 2013-2017, the number of titles has grown at a CAGR of 6.2% and inventory has increased at a CAGR of 36%. As per management guidance of FY18 closing inventory to be lower than FY17 inventory, which indicates investment phase is getting over.

Higher Profits accompanied with lower capex will lead to positive cashflows to the company, in turn improving the ROE.

In case of Shemaroo, the cause of concern for the investors has been negative operating cash flows for the last 5 years. We believe it is important to understand here that Shemaroo classifies all its content as inventory (even the perpetual rights) even though the content gets monetized over a period of 5 years in aggregate rights and 10 years and beyond in case of perpetual rights.

So, certain investment in inventory is of the nature of CAPEX; however as it is classified as inventory the cash outflow is put under operating cash flows.

As per the management, they have now reached a phase where aggressive investment is not needed and going forward inventory should stabilize and there should also be debt reduction. Hence if the management is able to deliver what it promises here then the operating performance should start looking attractive on all operational metrics which includes the balance sheet and cash flow generation.

### **Shemaroo enjoys a strong balance sheet with huge scalability potential going ahead –**

Shemaroo runs a strong business model covering multiple product segments while it continues to invest on a sustained basis largely from its internal accruals.

Shemaroo has total debt of Rs 187 crs as on FY18 as compared to a tangible networth of Rs 585 crs.

We expect that going ahead overall bottomline growth in the next 3 years starting FY18 onwards should easily increase at a CAGR of 23-25% and with capex funded largely from internal cash flows. Hence going ahead we expect both the ROCE and ROE to improve to 22% and 15% by FY20 from 17% and 13% in FY18.



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### **Business Outlook & Stock Valuation –**

On a rough cut basis, in FY19, Topline will see a steady rise wherein Topline is expected to touch Rs 580 crs in FY19E.

On the bottomline level we expect the company to record a PAT of Rs 86 crs in FY19E. Thus on a conservative basis, Shemaroo should record a EPS of Rs 32 for FY19E. For FY20E and FY21E our expectation is that earnings traction for Shemaroo would continue to be strong wherein we expect a EPS of Rs 39 and Rs 50 respectively.

With the digital industry growing at around 20-25% and the company expecting to grow by 30-33% we expect digital media to grow at 33% CAGR (FY18-21E) while traditional media is likely to grow at 11% CAGR (FY18-21E) the overall prospects look strong. Going ahead traction on growth in the digital space led by higher data speeds due to launch of Jio FTTN in the near term will further benefit Video consumption and shemaroo's business generation here

Further, entry of more new players like Apple, Times and Disney in the VoD space should benefit aggregators like Shemaroo which have a large content library.

The managements vision is to grow at 5x in the next 5 years on the digital front as they believe many opportunities are available. They expect digital to contribute more than 50% to the revenue in the next couple of years. Also the managements target for FY19 is to have a net negative capex and make all investments from internal accruals.

What is attractive about Shemaroo is that its content basket is yet not fully exploited within the OTT and new media business which is capable of scaling up by almost 2 to 3x from the present levels. Generally content providers are discounted at a premium as quality content is the primary source of sustained revenue creation which only few companies like Shemaroo enjoy in this segment.

The Shemaroo stock trades at 12x and 10x FY20E and FY21E which looks attractive from a long term point of view and hence we suggest to BUY the stock at the current price.

Hence we believe that the Shemaroo stock should be purchased at the current price for a price target of around Rs 640 over the next 12 to 18 months.



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## FINANCIALS

For the Year Ended March Rs Crs	FY17A	FY18A	FY19E	FY20E	FY21E
Net Sales	425.53	488.6	580.10	690.1	810.00
EBIDTA	133.87	142.1	174.61	209.7904	247.05
EBIDTA %	31.46	29.08	30.10	30.40	30.50
Interest	32.42	29.00	33.00	37.00	38.00
Depreciation	4.27	5.10	5.25	7.10	7.50
Non Operational Other Income	2.99	1.99	1.99	1.90	1.90
Profit Before Tax	94.18	108.00	138.35	167.59	203.45
Profit After Tax	61.84	71.20	86.10	107.20	136.00
Diluted EPS (Rs)	22.75	26.20	31.68	39.44	50.04
Equity Capital	27.18	27.18	27.18	27.18	27.18
Reserves	493.42	558.62	638.72	737.92	863.92
Borrowings	267.00	187.00	175.00	180.00	170.00
GrossBlock	33.25	35.10	38.20	42.00	45.00
Investments	7.22	6.69	6.69	6.69	6.69

Source Company our Estimates

## KEY CONCERNS

High working capital cycle:

Dependent on others for quality content

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