

## Shemaroo Entertainment Ltd

Recommendation	BUY
CMP	460
Target Price	644
Sector	Media

## Stock Details

BSE Code	538685
NSE Code	SHEMAROO
Bloomberg Code	SHEM IN
Market Cap (Rs cr)	1250
Free Float (%)	34.18%
52- wk HI/Lo (Rs)	595/374
Avg. volume (BSE+NSE) (Quarterly)	17680
Face Value (Rs)	10
Dividend (FY 18)	Rs 1.55 per share
Shares o/s (Cr)	2.72

Relative Performance	1Mth	3Mth	1Yr
Shemaroo	1.5%	-3.7%	19.1%
Sensex	0.8%	-7.2%	5.4%



## Shareholding Pattern

Sep 18

Promoters Holding	65.82
Institutional (Incl. FII)	16.76
Corporate Bodies	3.60
Public & others	13.82

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## Long term outlook looks Positive!!!!

Shemaroo reported improved set of numbers for the quarter. Net sales came in at Rs 163.3cr (+32.4% QoQ, +21.6% YoY) in Q2FY19 vs QoQ Rs. 123.4 Cr, YoY Rs. 134.4 Cr. Improvement in revenue was led by both Traditional & New media business which grew by 39.3 % QoQ/17.5% YoY & 17.2% QoQ / 33.3% YoY respectively. Although sales increased Ebitda margins depressed by 542bps QoQ mainly due to rebranding expense which is one off. In Q1FY19 the company has rebranded its corporate identity after 55 years by a new logo and announces 'India Khush Hua' as its new tagline. Lower Ebitda margin led to lower PAT Margin which came at 14.06% in Q2FY19 vs 15.84% in Q1FY19 vs 13.92% in Q2FY18.

## Key Highlights

- FY18 inventory stood at 3751 titles vs 3585 in FY17(i.e. +166 new inventory). Management indicated addition in new inventory in FY19 would be met through internal accruals
- Traditional media industry is expected to grow at 8-10% & management expects to grow by 200 bps above the industry in FY19. Management guided Digital media business to grow in the range of 32-35%.
- To achieve its aspirational target of 5x in 5 years, the company's concentration would be on B2C & B2B2C model. Some of the initiative taken by the company includes
  - Company plans to launch its OTT platform (which would be an entertainment heavy offering) by Jan – Mar which will be a low fixed cost model . It is expected to generate a B2B2C connect through various platforms
  - Company in last quarter had signed content deal with Share it , launched bhakti apps and launched comedy services with Dish TV
  - This quarter, co, Acquired the video music rights for the 'NH Studioz', Catalog for digital business . NH Studioz, is a leading content house, with distribution of Indian cinema around the globe via all possible modes and mediums. It is an acquisition of Pre 2000 video music rights.
  - To fill the need gap the company launched Thriller Service with Videocon d2h and Dish TV in Sep 2018
  - Launched Bhojpuri Service with Videocon d2h,Dish TV and Tata Sky
  - Launched Marathi language Service with Airtel Digital TV in July 2018

## Valuation &amp; Recommendation

Going ahead, we expect the company's sales to grow by 18% in FY19E & 15.3% FY20E. We expect operating margins to come in at 28.3% & 29.9% in FY19E & FY20E respectively. Shemaroo has generated a positive FCFF of Rs 35.4 cr in FY18. With higher operating profit, Shemaroo is likely to acquire new content majorly from internal accruals going forward. Company is likely to do PAT of Rs 90.0 cr and Rs 116.7 cr in FY19E & FY20E resp. At CMP, the share is trading at EV/Ebitda of 6.8x and PE of 10.7x FY20E EPS of Rs 42.9

**We recommend a Buy on Shemaroo with a target price of Rs 644, based on 15x FY20E EPS (40% return)**

Year	Net Sales	Growth %	EBITDA	Margin %	PAT	Margin%	EPS	PE	EV/EBITDA	ROE %
FY17	425.5	13.5%	127.6	30.0%	61.5	14.5%	22.6	20.3	12.1	14.5%
FY18	488.6	14.8%	142.1	29.1%	71.2	14.6%	26.2	17.6	10.2	14.5%
FY19E	576.6	18.0%	163.5	28.3%	90.0	15.6%	33.1	13.9	8.7	15.7%
FY20E	664.6	15.3%	198.8	29.9%	116.7	17.6%	42.9	10.7	6.8	17.0%

## Shemaroo Entertainment Ltd

## Quarterly Financials

Particulars	Q2FY19	Q1FY19	QoQ%	Q2FY18	YoY%
<b>Net Sales</b>	163.3	123.4	32.4%	134.4	21.6%
Cost of raw material consumed	97.9	68.5	43.0%	83.4	17.4%
<b>Gross Profit</b>	<b>65.4</b>	<b>54.9</b>	19.2%	<b>51.0</b>	<b>28.4%</b>
<b>Gross Margin (% of net sales)</b>	<b>40.1%</b>	<b>44.5%</b>	<b>-444.6</b>	<b>37.9%</b>	<b>213.4</b>
Employee Expenses	12.3	11.1	10.5%	9.9	24.5%
Other Expenses	10.6	4.9	114.4%	5.0	111.0%
<b>Total Expenditure</b>	<b>120.7</b>	<b>84.5</b>	<b>42.9%</b>	<b>98.3</b>	<b>22.8%</b>
<b>EBITDA</b>	<b>42.6</b>	<b>38.9</b>	9.6%	<b>36.1</b>	<b>18.0%</b>
<b>% of net sales</b>	<b>26.1%</b>	<b>31.5%</b>	<b>-542.5</b>	<b>26.9%</b>	<b>-78.0</b>
Depreciation	1.3	1.4	-5.0%	1.3	2.3%
EBIT	41.3	37.5	10.2%	34.8	18.6%
Interest	5.6	6.1	-8.2%	8.4	-33.1%
PBT & OI	35.7	31.4	13.7%	26.4	35.1%
Other Income	0.0	0.2		0.2	
<b>PBT</b>	<b>35.7</b>	<b>31.6</b>	<b>12.9%</b>	<b>26.6</b>	<b>34.0%</b>
Exceptional item	0.0	0.0		0.0	
<b>PBT After Exception</b>	<b>35.7</b>	<b>31.6</b>	<b>12.9%</b>	<b>26.6</b>	<b>34.0%</b>
Tax	12.7	12.1	5.4%	7.8	63.0%
<i>Tax / PBT</i>	35.6%	38.1%		29.3%	
<b>Net Profit</b>	<b>23.0</b>	<b>19.5</b>	<b>17.6%</b>	<b>18.8</b>	<b>22.1%</b>
Minority interest/ share of associ	0.0	0.0		-0.1	
<b>Net Profit</b>	<b>23.0</b>	<b>19.5</b>	<b>17.6%</b>	<b>18.7</b>	<b>22.8%</b>
<b>% of net sales</b>	<b>14.06%</b>	<b>15.84%</b>	<b>-177.6</b>	<b>13.9%</b>	<b>13.9</b>
<b>Adjusted Net Profit</b>	<b>23.0</b>	<b>19.5</b>		<b>18.7</b>	
Equity	2.7	2.7		2.7	
EPS (Unit Curr.)	8.5	7.2		6.9	

Source: Company data, Nirmal Bang Securities

## Segment Performance

(Rs in Cr)	FY15	FY16	FY17	FY18	Q1FY19	Q2FY19
<b>New Media</b>	37.3	63.5	92.4	130.5	38.9	45.6
<b>% of net sales</b>	<b>11.5%</b>	<b>16.9%</b>	<b>22.2%</b>	<b>26.7%</b>	<b>31.5%</b>	<b>27.9%</b>
<b>Traditional</b>	286.5	312.2	323.2	358.1	84.5	117.7
<b>% of net sales</b>	<b>88.5%</b>	<b>83.1%</b>	<b>77.8%</b>	<b>73.3%</b>	<b>68.4%</b>	<b>72.0%</b>
<b>Total</b>	<b>323.8</b>	<b>375.7</b>	<b>415.5</b>	<b>488.6</b>	<b>123.4</b>	<b>163.3</b>

Titles	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18
Perpetual rights	740	759	781	912	948	1037
Aggregate rights	2081	2159	2230	2520	2637	2714
<b>Total</b>	<b>2821</b>	<b>2918</b>	<b>3011</b>	<b>3432</b>	<b>3585</b>	<b>3751</b>
<b>Addition</b>		97	93	421	153	166

Source: Company data, Nirmal Bang Securities

## Shemaroo Entertainment Ltd

## Financials

Income Statement (Rs. In Cr)	FY17	FY18	FY19E	FY20E	Balance Sheet (Rs. In Cr)	FY17	FY18	FY19E	FY20E
<b>Revenues - Net</b>	<b>425.5</b>	<b>488.6</b>	<b>576.6</b>	<b>664.6</b>	Issued Share Capital	27.2	27.2	27.2	27.2
% change	13.5%	14.8%	18.0%	15.3%	Reserves & Surplus	399.3	466.2	550.9	662.6
<b>EBITDA</b>	<b>127.6</b>	<b>142.1</b>	<b>163.5</b>	<b>198.8</b>	<b>Net Worth</b>	<b>426.5</b>	<b>493.4</b>	<b>578.1</b>	<b>689.8</b>
<i>EBITDA margin</i>	<i>30.0%</i>	<i>29.1%</i>	<i>28.3%</i>	<i>29.9%</i>	Minority Interest	-3.2	-3.6	-3.6	-3.6
Depreciation	4.3	5.1	5.9	6.4	Tax liabilities	29.8	16.0	16.0	16.0
<b>Operating income</b>	<b>123.3</b>	<b>137.0</b>	<b>157.6</b>	<b>192.4</b>	<b>Total Loans</b>	<b>296.2</b>	<b>200.9</b>	<b>170.9</b>	<b>138.8</b>
Interest	32.3	30.7	23.1	18.7	Trade Payables	19.0	18.1	21.4	24.6
Other Income	3.0	1.7	1.9	3.3	Provisions	2.2	3.1	3.1	3.1
Forex	0.0	0.0	0.0	0.0	Other CL	9.9	3.4	3.4	3.4
<b>PBT</b>	<b>93.9</b>	<b>108.0</b>	<b>136.4</b>	<b>176.9</b>	<b>Total Liabilities</b>	<b>780.4</b>	<b>731.4</b>	<b>789.3</b>	<b>872.1</b>
Exceptional (Gain)/ Loss	0.0	0.0	0.0	0.0	<b>Net Fixed Assets</b>	34.8	33.3	31.0	28.2
<b>PBT</b>	<b>93.9</b>	<b>108.0</b>	<b>136.4</b>	<b>176.9</b>	<b>Investments</b>	7.2	6.7	6.7	6.7
Tax	34.2	36.7	46.4	60.2	Inventories	500.4	529.7	560.1	587.3
<b>PAT</b>	<b>59.7</b>	<b>71.2</b>	<b>90.0</b>	<b>116.7</b>	Cash and cash equivalent	1.9	1.3	1.5	31.4
Minority interest / share of assc	1.8	-0.1	0.0	0.0	Sundry Debtors	190.5	140.6	167.4	193.0
<b>APAT</b>	<b>61.5</b>	<b>71.2</b>	<b>90.0</b>	<b>116.7</b>	Loans & Advances	7.1	0.4	0.4	0.4
Shares o/s ( No. in Cr.)*	2.7	2.7	2.7	2.7	Other CA	38.5	19.4	22.2	25.1
<b>Adj EPS</b>	<b>22.6</b>	<b>26.2</b>	<b>33.1</b>	<b>42.9</b>	<b>Total Assets</b>	<b>780.5</b>	<b>731.3</b>	<b>789.3</b>	<b>872.1</b>
Quarterly (Rs. In Cr)	Dec.17	Mar.18	Jun.19	Sep.19	Cash Flow (Rs. In Cr)	FY17	FY18	FY19E	FY20E
<b>Revenue including OI</b>	<b>132.6</b>	<b>118.4</b>	<b>123.4</b>	<b>163.3</b>	EBITDA	127.6	142.1	163.5	198.8
<b>EBITDA</b>	<b>35.8</b>	<b>36.8</b>	<b>38.9</b>	<b>42.6</b>	Exceptional and forex	0.0	0.0	0.0	0.0
Dep	1.3	1.3	1.4	1.3	Change in WC	-37.5	69.2	-26.5	-25.2
<b>PBIT</b>	<b>34.5</b>	<b>35.5</b>	<b>37.5</b>	<b>41.3</b>	Change in inventories	-112.8	-29.3	-30.3	-27.2
Interest	7.1	7.1	6.1	5.6	Tax	-34.2	-36.7	-46.4	-60.2
Other Inc.	0.2	0.4	0.2	0.0	<b>CF from Operations</b>	<b>-56.9</b>	<b>145.2</b>	<b>60.2</b>	<b>86.2</b>
Forex & exceptional	0.0	0.0	0.0	0.0	Capex and change in WIP	-4.6	-3.6	-3.6	-3.6
<b>PBT</b>	<b>27.6</b>	<b>28.8</b>	<b>31.6</b>	<b>35.7</b>	Investment	0.8	0.5	0.0	0.0
Tax	9.7	10.4	12.1	12.7	Other Income	3.0	1.7	1.9	3.3
Minority interest / share of assc	-0.2	0.3	0.0	0.0	<b>Cash from Investment</b>	<b>-0.8</b>	<b>-1.3</b>	<b>-1.7</b>	<b>-0.3</b>
<b>PAT</b>	<b>17.8</b>	<b>18.7</b>	<b>19.5</b>	<b>23.0</b>	Dividend paid	-4.6	-4.6	-5.1	-5.1
EPS (Rs.)	24.3	25.6	26.7	31.4	Share Capital and Premium	0.0	0.0	0.0	0.0
Operational Ratio	FY17	FY18	FY19E	FY20E	Interest Paid	-32.3	-30.7	-23.1	-18.7
EBIT margin (%)	29.0%	28.0%	27.3%	28.9%	Change in Borrowing	100.6	-95.3	-30.0	-32.1
Adj.PAT margin (%)	14.5%	14.6%	15.6%	17.6%	Others	-6.1	-13.9	-0.2	0.0
Adj. ROE (%)	14.5%	14.5%	15.7%	17.0%	<b>Cash from Financing</b>	<b>57.6</b>	<b>-144.5</b>	<b>-58.4</b>	<b>-55.9</b>
ROCE (%)	17.1%	19.8%	21.1%	23.3%	Net change in Cash	-0.1	-0.6	0.2	30.0
Debt Equity Ratio	0.70	0.41	0.30	0.20	Opening cash balance	1.9	1.9	1.3	1.5
Valuation Ratio	FY17	FY18	FY19E	FY20E	<b>Closing cash balance</b>	<b>1.9</b>	<b>1.3</b>	<b>1.5</b>	<b>31.4</b>
Price Earnings (x)	20.33	17.57	13.89	10.71	Per Share Data	FY17	FY18	FY19E	FY20E
Price / Book Value (x)	2.95	2.55	2.18	1.82	Cash EPS	24.2	28.1	35.3	45.3
EV / Sales	3.63	2.97	2.46	2.04	BV per share	155.7	180.2	211.4	252.4
EV / EBITDA	12.11	10.20	8.69	6.83	Dividend per share	1.4	1.6	1.6	1.6

Source: Company data, Nirmal Bang Securities

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## Shemaroo Entertainment Ltd

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