

Q1FY20 Result Update

Buy

	Media & Entertainment
Industry	
CMP (Rs)	298
FY21E Target Price (Rs)	416
52 Week H/L (Rs)	530/325
Volumes (BSE+NSE)*	10,880
Shares O/S (mn)	27.2
Market Cap (Rs mn)	2902
Free Float (%)	34.2
Bloomberg Code	SHEM IN
Reuters Code	SHEM.BO

* Three Month Daily Average

Share Holding Pattern (as on 30/06/2019)

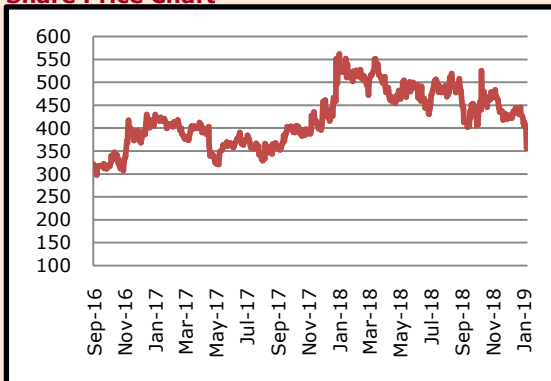
Particulars	Shares (mn)	Holding (%)
Promoters	17.9	65.8
FIIs	5.0	18.5
DIIs	0.1	0.2
Others	4.2	15.5
Total	27.2	100.0

Source : BSE

Financial Highlights

(Rs mn)	FY19	FY20E	FY21E
Sales	5,678	6,304	7,075
EBITDA	1,578	1,566	1,697
EBITDA Margin	27.8%	24.8%	24.0%
Net Profit	831	851	943
EPS (Rs)	30.6	31.3	34.7
EV/EBITDA (x)	7.5	7.3	6.7
P/E (x)	11.8	11.6	10.4
RoE	15.6%	14.1%	14.1%

Share Price Chart



Analyst: Shalini Gupta
 +91- 22- 40287023
 shalini@qsmail.com

Shemaroo Entertainment Ltd (Shemaroo) posted a topline of Rs 1430mn (15.9% growth y-o-y), higher than our expectation of 13% growth. Traditional Media Revenues grew by 12% y-o-y vs our expectation of 5% y-o-y growth. New Media Revenues grew by 25% y-o-y vs our expectation of 30% growth. EBITDA Margin came in at 22.3% vs. 31.5% in Q1FY19, a decline of 920bps. This is vs our expectation of a 30% EBITDA margin. Net Profit came in at Rs 162mn, decline of 17.2% y-o-y, much lower than our expectation of a net profit of Rs 232mn, growth of 19%.

Growth in Traditional Media strong; New Media slowing down

Segmental Revenue (Rs mn)	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20
Traditional Media	845	1177	1063	874	943
<i>Growth y-o-y</i>	<i>13%</i>	<i>18%</i>	<i>7%</i>	<i>5%</i>	<i>12%</i>
New Media	389	456	426	448	487
<i>Growth y-o-y</i>	<i>37%</i>	<i>33%</i>	<i>29%</i>	<i>29%</i>	<i>25%</i>
Total Revenues	1234	1633	1489	1322	1430
<i>Growth y-o-y</i>	<i>19%</i>	<i>19%</i>	<i>12%</i>	<i>12%</i>	<i>16%</i>

Source : Company

Revenues impacted by a slowdown in ad revenues

This has impacted revenues of both the traditional media as well as the New Media. New Media is anyways experiencing a slower growth trajectory, driven by a slowdown in the industry as well as a higher base.

Revenues from YouTube (a contributor of ~20% to New Media revenues) has not grown as much as viewership growth

- Shemaroo has crossed 25mn subscribers on YouTube channel FilmiGaane (FG). This is a viewership growth of 19% q-o-q for FG.
- Advertisement CPM (cost per thousand impressions, equivalent to realisation) continue to fall leading to lower realizations.
- The management is of the view that YouTube revenues are now growing, lower realizations being compensated by higher volumes.

EBITDA margin has declined because of lower gross margins

The management feels that these sort of margins are not the new normal. Margins this quarter are lower, because some deals which were done at a lower price.

Acquisition cost of the library is lower than earlier

The management sees this an opportunity to acquire content at a lower cost. Yet it would be cautious about acquisitions, which tells us that it does not see a recovery within this year.

Buy Shemaroo

Shemaroo currently trades at a PE of 11.6x and 10.4x of FY20E and FY21E earnings respectively. Shemaroo has generally traded at a 1 year forward P/E of 13. We have attributed a 1 year forward P/E of 12x FY21E EPS and on that basis we arrive at a fair price of Rs 416. We also attribute to it a Buy rating because of an expected ROCE of 20% (FY21).

Quarterly Financials

(Rs mn)	Q1FY20	Q1FY19	Y-o-Y Change	Q4FY19	Q-o-Q Change
Income from operations	1,430	1,234	15.9%	1,322	8.2%
Less:					
Cost of materials	879	685	28.4%	611	44.0%
Operating & other expenses	75	49	51.6%	135	-44.7%
Staff expenses	158	111	41.9%	166	-5.3%
EBITDA	319	389	-17.9%	410	-22.2%
EBITDA margin	22.3%	31.5%	-920 bps	31.0%	-870 bps
Other income	9	2	269.6%	8	3.7%
Depreciation	14	14	2.9%	14	1.4%
EBIT	313	377	-17.0%	404	-75.2%
Financial expenses	58	61	-5.9%	73	-21.0%
PBT	256	316	-19.1%	331	-22.8%
Taxation	92	121	-23.9%	125	-26.8%
PAT	164	195	-16.2%	206	-20.4%
Minority interest	-2.0	0.9	322.2%	-3	NA
Profit from associates & subsidiaries	-4.0	-0.9	-344.4%	-0.2	1900.0%
Net profit	162	195	-17.2%	209	-22.5%
EPS (Rs)	6.0	7.2	-17.2%	7.7	-22.5%

Income Statement

Y/E March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Income from operations	3,751	4,255	5,678	6,304	7,075
Y-o-Y Growth (%)	16.0	13.5	16.2	11.0	12.2
Direct operational expenses	2,252	2,438	3,176	3,606	4,068
Staff expenses	235	311	551	716	931
Operating & other expenses	186	231	374	416	379
EBITDA	1,078	1,276	1,578	1,566	1,697
EBITDA Margin (%)	28.8	30.0	27.8	24.8	24.0
Other income	14	30	17	13	14
Depreciation & amortization	37	43	56	56	59
EBIT	1,055	1,263	1,540	1,523	1,652
Financial expenses	228	323	256	220	209
PBT	827	939	1,284	1,302	1,443
Taxation	307	342	457	456	505
PAT	520	597	827	846	938
Minority interest & Profit/Loss of associates	-15	-15	-7	-15	-15
Net Profit	522	598	831	851	943
Y-o-Y Growth (%)	27.4	14.7	16.7	2.5	10.7

Balance Sheet Statement

Y/E March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Share capital	272	272	272	272	272
Reserves and surplus	3,377	3,995	5,445	6,069	6,753
Shareholders' funds	3,649	4,266	5,717	6,341	7,024
Borrowed fund	1,773	2,741	1,973	1,695	1,611
Minority interest	-8	-32	-42	-32	-31
Other liabilities	7	10	32	32	32
Deferred tax liability (Net)	67	67	34	36	36
Total Liabilities	5,487	7,052	7,714	8,071	8,672
Net fixed assets	310	348	317	321	306
Long term loans & advances & others	93	90	62	20	21
Investments	81	72	65	82	75
Current assets, loans & advances	5,641	7,298	7,859	8,434	9,190
<i>Inventory</i>	<i>3,876</i>	<i>5,004</i>	<i>6,027</i>	<i>6,390</i>	<i>7,075</i>
<i>Receivables</i>	<i>1,069</i>	<i>1,914</i>	<i>1,590</i>	<i>1,727</i>	<i>1,900</i>
<i>Cash</i>	<i>19</i>	<i>19</i>	<i>16</i>	<i>110</i>	<i>78</i>
<i>Short term loans & advances</i>	<i>13</i>	<i>3</i>	<i>6</i>	<i>6</i>	<i>7</i>
Less: Current liabilities & provisions	638	757	588	785	919
<i>Trade payables</i>	<i>105</i>	<i>195</i>	<i>298</i>	<i>345</i>	<i>407</i>
<i>Other current liabilities</i>	<i>533</i>	<i>562</i>	<i>290</i>	<i>440</i>	<i>512</i>
Net current assets	5,003	6,541	7,270	7,649	8,271
Total Assets	5,487	7,052	7,714	8,071	8,672

Cash Flow Statement

Y/E March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
PBT	939	1,080	1,285	1,302	1,443
Add : Depreciation	43	51	56	56	59
Less : Tax	(342)	(368)	(457)	(456)	(505)
Other liabilities	3	(24)	14	2	-
Others	(3,337)	118	(1,573)	(604)	(1,377)
Change in working capital	(1,539)	140	(872)	(284)	(654)
Cash flow from operations	(1,156)	717	196	584	274
Change in debt	968	(861)	93	(278)	(84)
Change in equity	-	(0)	-	-	-
Cash flow from financing activities	968	(861)	93	(278)	(84)
Capex	81	25	76	34	44
Change in investments	(8)	29	(37)	17	(7)
Dividend paid	48	64	159	223	254
Others	(308)	(255)	88	(62)	(69)
Cash flow from investing	(188)	(138)	287	212	222
Net change in cash	(0)	(6)	3	95	(32)
Closing cash balance	19	19	13	16	110

Key Ratios

Y/E March	FY17	FY18	FY19	FY20E	FY21E
Profitability					
Return on Equity	15.3%	15.1%	15.6%	14.1%	14.1%
Return on Capital Employed	21.3%	19.7%	20.9%	19.1%	19.6%
Margins					
EBITDA	28.8%	30.0%	27.8%	24.8%	24.0%
Net Profit	13.9%	14.1%	14.6%	13.5%	13.3%
Leverage and Coverage					
Current Ratio	2.59	2.16	3.07	3.43	3.66
Debt/Equity	0.49	0.64	0.35	0.27	0.23
Efficiency Ratio					
Asset Turnover Ratio (x)	0.6	0.5	0.7	0.7	0.7
Inventory (Days)	377	429	387	370	365
Debtor (Days)	104	164	102	100	98
Creditor (Days)	10	17	19	20	21
Per Share Data					
EPS (Rs)	19.2	22.0	30.6	31.3	34.7
Book Value Per Share (Rs)	134.3	157.0	210.3	233.3	258.4
Valuation					
P/E	16.4	13.8	11.8	11.6	10.4
P/BV	2.3	2.0	1.7	1.6	1.4
EV/Sales	2.8	3.8	4.8	5.8	6.8
EV/EBITDA	9.8	8.2	7.5	7.3	6.7
Dividend Yield	0%	1%	1%	2%	2%

Disclaimer: Quantum Securities Pvt. Ltd. (QSPL) offers discount and full Service brokerage services and is not involved in any investment banking or merchant banking activities. This document is based on information obtained from sources believed to be reliable and due diligence has been conducted to that effect. We do not have any other material conflict of interest at the time of publication of the research report. Opinions & theories expressed are based on present circumstances & judgment and are subject to change without notice. Quantum Securities Pvt. Ltd. accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or further communication given in relation to this document.

If annualized returns are greater than 15%, then the stock is rated as BUY, between a range of 10-15% is rated as Accumulate. If annualized returns are lower than -15%, then the stock is rated as SELL and between a range of -10% to -15% is rated as Reduce. In the range of +/- 10%, the stock is rated as Hold. However, within this zone we may choose to give an Accumulate, Reduce or Hold rating.

Quantum Securities Pvt. Ltd. does not have any financial interest in the subject company and has not been engaged in market making activity for the subject company; QSPL or any of its associates have not received any compensation or other benefits from the subject company or third party in connection with the research report or any other compensation from the subject company in the past twelve months. Further, Shalini Gupta has not served as an officer, director or employee of the subject company; QSPL does not have actual/beneficial ownership of one per cent or more of securities of the subject company, at the end of the month immediately preceding the date of publication of the research report.