

CMP:Rs 515.00 (Recommendation BUY)

Target 655.78 (Sector Media)

Business Overview

Shemaroo Entertainment Limited is a holding company. The Company is an entertainment company engaged in the business of motion picture, video and television program distribution activities. The Company is engaged in the distribution of content for satellite channels, physical formats and digital technologies, such as the Mobile, Internet, Broadband, Internet Protocol television and Direct to Home, among others. Its business activities include content library; distribution platforms, including broadcast syndication, new media, home entertainment and other distribution platforms; content licensing, and other business activities. Its Content Library consists of over 3,400 titles spanning various Hindi films. The Company also has non-film content and titles in various other regional languages, such as Marathi, Gujarati, Punjabi and Bengali, among others.

Overview of Company's Financial performance:- During the year under review, the Standalone Revenue from Operations & Other Income increased to Rs. 41,950 Lakhs as against Rs. 37,694 Lakhs in the previous year and the Consolidated Revenue from Operations & Other Income increased to Rs. 42,850 Lakhs as compared to Rs. 37,664 Lakhs in the previous year. Your Company had a standalone growth with a Net Profit after tax of Rs. 6,168 Lakhs as compared to the Net Profit after tax of Rs. 5,543 Lakhs in the previous financial year and a consolidated growth with a Net Profit after tax of Rs. 6,148 Lakhs as compared to the Net Profit after tax of Rs. 5,215 Lakhs in the previous financial year. There are no material changes and commitments affecting the financial position of your Company which have occurred between the end of the financial year 2016-17 and the date of this Report.

While diversification into the newer markets will provide scale, it will also result in improved profitability. We also see SIL as a strong re-rating candidate, as the expected increase in capacity over the next few years should help it achieve significant scale benefits. SIL targets to increase its cement grinding capacity from 4.1mt now to 8.2mt over the next 30



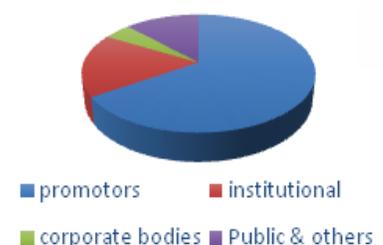
Stock Details

| | |
|--------------------|---------------|
| NSE Code | SHEMAROO |
| Bse Code | 538685 |
| Market Cap. | 1399.74 |
| Free Float (%) | 34.18% |
| Face Value | 10 |
| Dividend | 1.40 |
| 52-week High / Low | 478.6 / 316.5 |

Major Shareholder

| | |
|------------------|--------|
| Promoters | 65.82% |
| Institutional | 17.39% |
| Corporate Bodies | 4.52% |
| Public & Others | 12.27% |

Major Shareholder



Valuation Parameter

| | FY 2017 | FY 2018E | FY 2019E |
|-------------------|---------|----------|----------|
| Net Sales | 425.50 | 487.9 | 570.2 |
| Growth (%) | 13.50% | 14.67% | 16.87% |
| EBITDA | 127.60 | 149.50 | 179.75 |
| Margin (%) | 30% | 31% | 33% |
| PAT | 61.50 | 73.50 | 95.50 |
| Margin (%) | 14.40% | 15.25% | 18.50% |
| EPS | 22.60 | 27.25 | 35.5 |
| PE | 18.80 | 17.50 | 13.7 |
| P/BV | 2.1 | 2.3 | 1.9 |
| EV/ EBITDA | 9.5 | 10.5 | 9.6 |

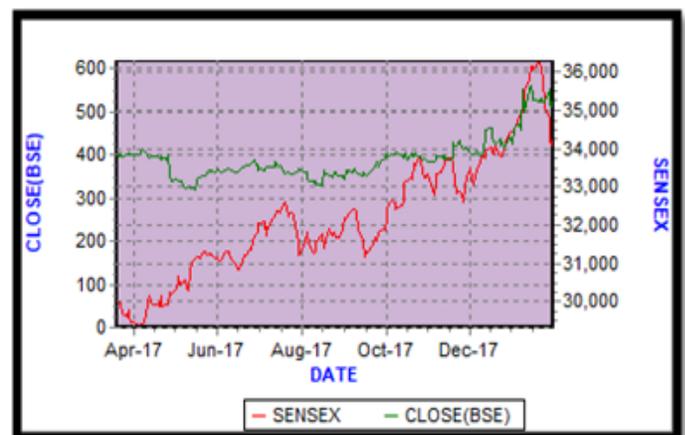
Consolidated Financial Statement: -

The consolidated financial statements of Company for the financial year 2016-17, are prepared in compliance with applicable provisions of the Companies Act, 2013 ("the Act"), applicable Accounting Standards and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI Listing Regulations"). The consolidated financial statements have been prepared based on audited financial statements of the Company, its subsidiaries and associate companies, as approved by their respective Board of Directors. Pursuant to the provisions of Section 136 of the Act, the Financial Statements of the Company.

Valuation & Recommendation: we expect the company's sales to grow by 14.67% in FY18E and 16.87% in FY19E. Management has maintained the guidance of maintaining inventory for FY18 on similar level or will have a slight uptick as compared to FY17, which indicates it's the end of the investment phase of the company. We expect operating margins to have an uptick to 31.0% and 33.0% in FY18E & FY19E respectively. Higher profit with

Relative Performance

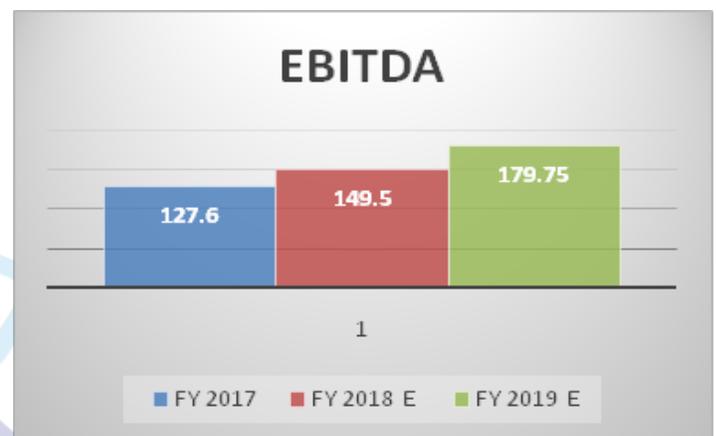
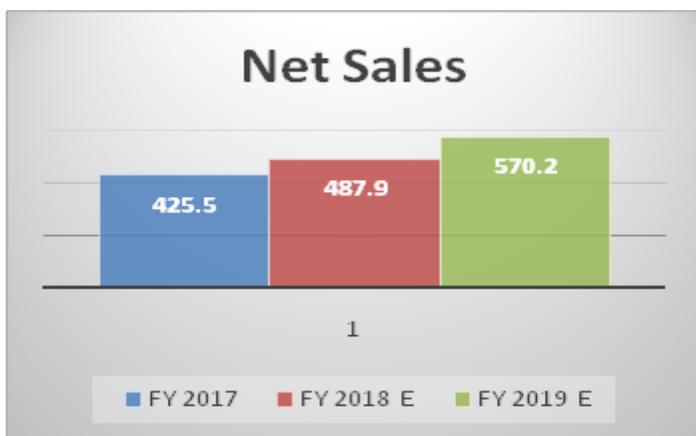
| | 1 Month | 3 Month | 1 Year |
|-----------------|---------|---------|--------|
| Shemaroo | 5.70% | 12.70% | 4.40% |
| Sensex | 3.60% | 8.20% | 28.90% |



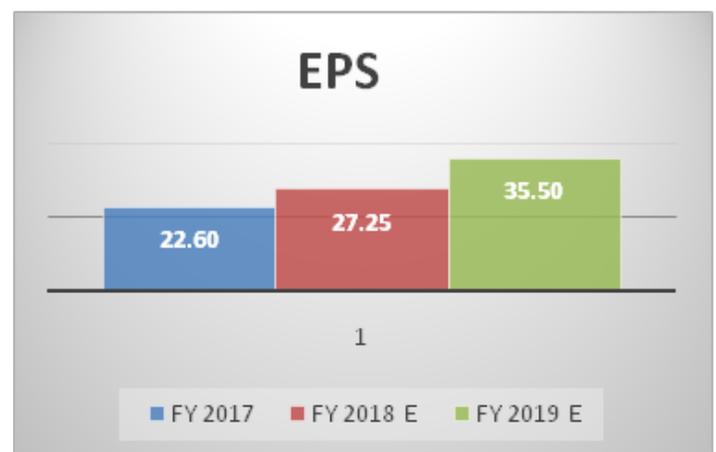
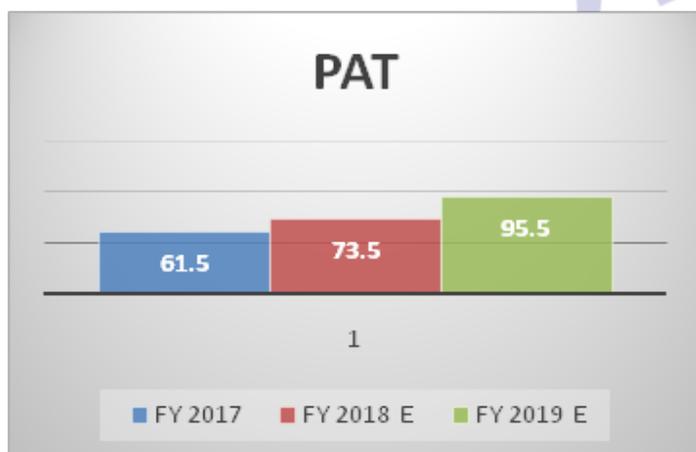
low capex will generate positive FCFF which we believe to come in at Rs 49.5cr in FY19E from a negative of Rs 83.2 cr in FY17. With higher operating profit, Shemaroo is likely to acquire new content majorly from internal accruals going forward, so, we expect debt has peaked out and the company will start repaying debt. Higher operating margins with repayment in debt will lead ROCE to improve to 21.0% in FY19E vs. 17.6% in FY17. Company is likely to do PAT of Rs 73.5 cr and Rs 95.5 cr in FY18E and FY19E respectively. At CMP, the share is trading at EV/Ebitda of 10.2x and PE of 12.5x FY19E EPS of Rs 35.5.

We recommend a Buy on Shemaroo with a target price of Rs 655.78, based on 18x FY19E EPS implying 25-27% return.

Key Consolidated Financial Highlight: -



Sensitivity Analysis: -



| SENSITIVITY ANALYSIS | | | | | | |
|----------------------|--------|--------|--------|--------|--------|--------|
| WACC | | | | | | |
| Growth Rate | 655.78 | 10.00% | 11.00% | 10.49% | 12.00% | 13.00% |
| | 5.00% | 601.62 | 506.44 | 550.61 | 438.65 | 387.98 |
| | 5.50% | 659.47 | 545.11 | 597.67 | 466.16 | 408.45 |
| | 6.00% | 731.77 | 591.52 | 655.20 | 498.26 | 431.83 |
| | 6.50% | 824.74 | 648.25 | 727.16 | 536.19 | 458.82 |
| | 7.00% | 948.69 | 719.15 | 819.73 | 581.71 | 490.31 |

Investment Rational

Long term outlook looks Positive

PAT margins depressed by around 144 bps QoQ. At the end of H1FY18 though inventory increased to Rs 561.7cr vs Rs 500.4 cr at the end of FY17 however, management has indicated that the investment cycle is over and company is likely to see similar inventory at the end of FY18 as compared to FY17 on segmental front, Traditional business, which was impacted due to demonetization grew by 12.2% QoQ,

Shemaroo reported mix set of numbers QoQ with decline in Inventory, sustained high growth in new media but decline in margin.

Net sales came in at Rs 134.4cr in Q2FY18 vs. Rs 103.6 cr in Q1FY18 up by 29.7% % QoQ. Growth was supported by both growth in the new media business (grew by 42.8% QoQ) & Traditional media business (grew by 12.2% QoQ).

Even with growth in sales, margins dipped. Gross margins dipped by 826.5 bps QoQ & Ebitda margins depressed by 536.5 bps QoQ to 26.9% in Q2FY18 vs. 32.2% in Q1FY18.

Decline in margins was mainly due to higher content cost and slow rampup in services that were rolled out which led to higher cost. YoY Revenue grew by 18.3% but Ebitda Margin declined by 111 bps.

Decline in Ebitda margins led to decline in PAT margins to the company.

On digital businesses front, Shemaroo crossed 2 Bn cumulative views on YouTube channel 'ShemarooENT' and 5 Mn subscribers on YouTube channel 'FilmiGaane'.

Although viewership has improved the advertisement revenue have dipped mainly due to some brands have pulled their advertising out from YouTube since some of their ads were shown next to hateful and offensive content.

As a result, YouTube has implemented stricter brand safety guidelines and therefore stopped monetizing certain videos. Management expects advertisers to come back to youtube in couple of quaters. In spite of decline of advertisers on youtube, New Media posted a growth of 42.8%, mainly due to adding new service line.

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