



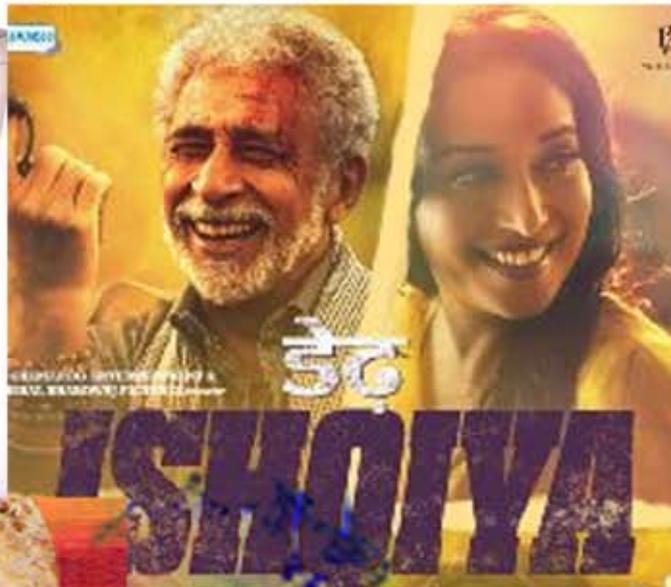
NIRMAL BANG
a relationship beyond broking

जब वी मेट
JAB WE MET

Directed by
IMTIAZ ALI

POST CARD
on our way to
BHATINDA

more Power
from India's King
Special Appearance
Came Your Life!



इश्किया
ISHQIYA



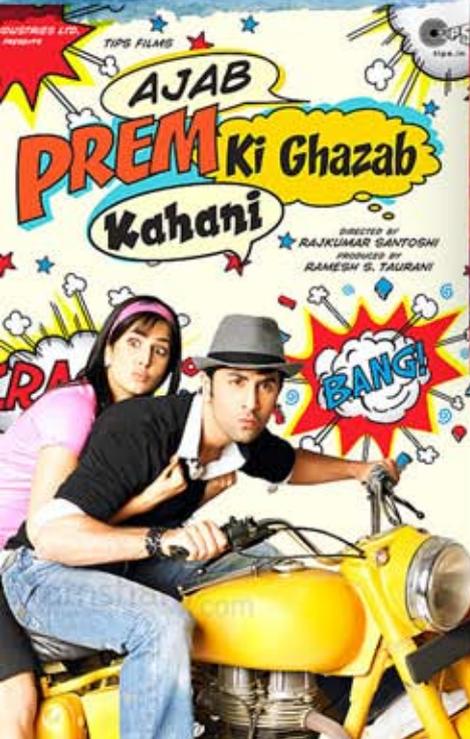
SAR



मुघल-ए-ज़म
MUGHAL-E-ZAM



Picture abhi baki hai



अजब
PREM Ki Ghazab
Kahani

DIRECTED BY
RAJKUMAR SANTOSH
PRODUCED BY
RAMESH S. TAURANI



अकबर
Anthony



काबिल
KABIL

PRODUCED BY
VINNU ANAND R.D BURMAN MAHENDRA GANDHI IQBAL SINGH

Shemaroo Entertainment Ltd

Recommendation	BUY
CMP	356
Target Price	485
Sector	Media

Stock Details

BSE Code	538685
NSE Code	SHEMAROO
Bloomberg Code	SHEM IN
Market Cap (Rs cr)	968
Free Float (%)	34.18
52- wk HI/Lo (Rs)	439/294
Avg. volume (BSE+NSE) (Quarterly)	23360
Face Value (Rs)	10
Dividend (FY 17)	Rs 1.4 per share
Shares o/s (Cr)	2.72

Relative Performance	1Mth	3Mth	1Yr
Shemaroo	-2.7%	-2.0%	19.5%
Sensex	-0.3%	1.4%	12.4%



Shareholding Pattern	Jun 17
Promoters Holding	65.82%
Institutional (Incl. FII)	17.18%
Corporate Bodies	4.91%
Public & others	12.09%

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Picture Abhi Baki Hai !!!

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.

Investment Rationale

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 FCFF to the company, in turn improving the ROE of the company over a period.

Change in revenue mix leading to higher margins - Shemaroo's new media segment is high margin business and contributed 22.2% to FY17 revenue from 8.1% in FY12 (CAGR of 44.4% from FY12-17)

Largest Content Base in Bollywood- With 3585 titles, 948 perpetual rights & 2637 aggregate rights as on FY17, Shemaroo, has the largest content base in Bollywood which makes vital for a broadcaster to purchase contents from Shemaroo in order to run a meaningful Bollywood content service.

Valuation & Recommendation

Going ahead, we expect the company's sales to grow by 11.2% in FY18E and 11.8% in FY19E. Reselling of the historically acquired perpetual inventory and aggregate rights of over 10 years, which are completely amortized, will lead to higher profits to the company. Apart from this, with increase in internet penetration, new media segment which is a high margin business is likely to gain traction going ahead. We expect operating margins to improve by 186 bps in FY18E & 150 bps in FY19E and inch to 31.8% and 33.3% respectively. With 3585 titles on books, we expect major capex phase for the company is over and will slowdown in coming years. Higher profit with low capex will generate positive FCFF which we believe to come in at Rs 52.5cr in FY19E from a negative of Rs 81.1 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 20.5% in FY19E vs. 17.6% in FY17. We expect company to report EBITDA of Rs 150.7 cr and Rs 176.4 cr in FY18E and FY19E and is likely to do PAT of Rs 88 cr and EPS of Rs 32.4 in FY19E . At CMP, the share is trading at EV/Ebitda of 7.0x and PE of 11.0x FY19E EPS.

We recommend a BUY on Shemaroo with a target price of Rs 485, based on 15x FY19E EPS implying 36% return from current levels.

Year	Net Sales	Growth %	EBITDA	Margin %	PAT	Margin%	EPS	PE	EV/EBITDA	ROE %
FY16	375.1	16.0%	107.7	28.7%	52.2	13.9%	19.2	18.6	10.9	14.3%
FY17	425.5	13.5%	127.6	30.0%	61.5	14.4%	22.6	15.7	9.9	14.4%
FY18E	473.2	11.2%	150.7	31.8%	70.4	14.9%	25.9	13.7	8.5	14.3%
FY19E	529.0	11.8%	176.4	33.3%	88.0	16.6%	32.4	11.0	7.0	15.3%

Shemaroo Entertainment Ltd

Business

Incorporated in 1962, Shemaroo Entertainment Ltd, a content aggregator, is an established Film Entertainment "Content House" in India. With more than 3500 titles, Shemaroo entertainment, is one of the largest independent content aggregators in Bollywood. Shemaroo acquires movie titles in its 2nd phase i.e after 5 – 7 years of its release which helps Shemaroo to de risk the acceptance of the content by the audience. Shemaroo purchases the titles of a movie from RK Films, TIPS, Viacom 18, Red Chillies, Sohail Khan Production, Firoz Nadiawala etc. Some of the broadcasters who purchase movies from Shemaroo are Star Gold, N Pictures, Cartoon Network, Viacom 18, 9x Jalwa, Tv Today, Doordarshan, Sony Max, Zee Cinema, Masti, UTV Movies, Hathway, Times Now etc

The company is engaged in the business of Aggregation and subsequently exploiting and distributing rights of Films across the world through various mediums. 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) other media like overseas & in-flight etc.

The company has 2 types of rights over its content i.e. Perpetual Right & Aggregation Right. In Perpetual Right, the company has a complete ownership right which allows the company to distribute content worldwide for a perpetual period across all mediums. Aggregation Rights have certain restrictions over monetization. Such rights restrict or limit the usage of the acquired content by period of usage, distribution platforms, medium and geography or a combination thereof. In the Content Library of Hindi films, the company has Perpetual Rights over notable films such as Beta, Dil, Xcuse Me, Mann, Raja, Masti, Dus, Chal Mere Bhai, Love Ke Liye Kuch Bhi Karega, Aankhen, Bhoot amongst others and Classic Hindi films like Amar Akbar Anthony, Kaalia, Khuda Gawah, Jab Jab Phool Khile, and Anari, amongst others. The company has Aggregate Rights over films like Ajab Prem Ki Ghazab Kahani, Bhagam Bhag, Khatta Meetha, Golmaal – Fun Unlimited and Pyaar Kiya To Darna Kya amongst others.

	FY13	FY14	FY15	FY16	FY17
Perpetual rights					
Hindi films	353	355	366	423	443
Regional titles	351	364	373	440	456
Special interest content	36	40	42	49	49
Total perpetual rights	740	759	781	912	948
Aggregate rights					
Hindi films	1253	1289	1336	1394	1423
Regional titles	647	728	750	927	984
Special interest content	181	142	144	199	230
Total aggregate rights	2081	2159	2230	2520	2637
Total	2821	2918	3011	3432	3585

Source: NBRR, company

The content Library of the company consists of more than 3500 titles spanning new Hindi films and titles in various other regional languages like Marathi, Gujarati, Punjabi, Bengali among others as well as non-film content e.g. devotional, animation, spiritual .

Shemaroo Entertainment Ltd

In new media segment, Shemaroo has agreements with various internet video platforms like YouTube, Hotstar, Hooq, Apple iTunes, Google Play etc. for distribution of its content on international devices. The Company has entered into agreements with major telecom operators, namely Airtel, Vodafone, Reliance Communication, Idea, Reliance jio etc. to distribute its product portfolio including imagery, videos, full songs, etc. under MVAS through both operator branded portals as well as its own branded portals. Shemaroo also distributes its content through other platforms like Interactive services, IPTV, etc. The company is also moving beyond providing just content, to providing content management solutions to partners.

Investment Rationale

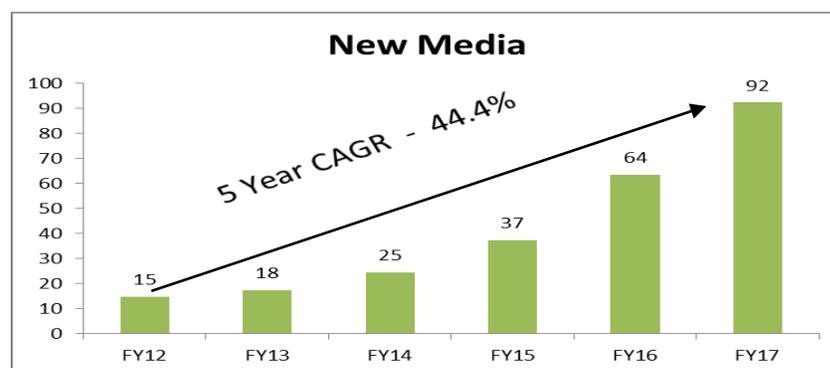
End of Investment phase

From past few year, 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%, indicating continuous higher investment by the company. In Q1FY18 again inventory increased by Rs 75cr but management clarified that this Inventory is mainly of regular business and not increase in Investment and will correct over coming quarters. Management has given guidance of FY 18 closing inventory to be lower than FY17 Inventory, which indicates Investment phase is getting over.

With reselling of the amortized perpetual rights and aggregate rights of more than 10 years will help Shemaroo to generate higher profits. Higher Profits accompanied with lower capex will lead to positive FCF to the company. With positive FCF we expect Shemaroo to start repaying debt which in turn will improve the ROE of the company over a period.

Change in revenue mix leading to higher margins

With, lower tariff plans, mobile data usage in India has quadrupled. Availability of internet has allowed people to view the videos as per their choice on various media platforms. With government initiative of building smart city, internet penetration in India will further increase.



Source: NBRR, company

Shemaroo's new media segment is a high margin high growth business (operating profit margin is more than 35%). New Media Segment which was contributing around 8.1% of FY12 revenue has grown at a CAGR of 44.4% from FY12 to FY17 and contributed 22.2% of FY17 revenues and this has further improved to 27.75% in Q1FY18. Increase in internet penetration will lead to growth to the company's new media segment. We expect company's new media segment to grow at a CAGR of 39% from FY17-19E. Being a high margin business, higher growth in this segment will not only improve the margins of the overall business but will also improve the free cash flow generation.

Shemaroo Entertainment Ltd

Largest Content Base in Bollywood:

With 3585 titles, 948 perpetual rights & 2637 aggregate rights as on FY17, Shemaroo, has the largest content base in Bollywood. Shemaroo purchases the right of a movie after 5 years of its release. Since movies are in then 2nd phase, these movies acts as major gap filler for any broadcaster to run a meaningful Bollywood content service. For any broadcaster, they would typically require around 8 movies a day to be aired on a channel. So for a year, they would typically air around 2900 movies. Even if they repeat 1 movie 4 times a year a broadcaster would require around 730 movies in their basket. Even if the broadcaster air new movies (i.e. movies of 1st phase), they would require a huge chunk of other movies to run a meaningful channel. Shemaroo, having the largest content base, makes vital for a broadcaster to purchase contents from Shemaroo in order to run a meaningful Bollywood content service.

Key Risks and concerns

- Content acquisition being the crux, any delay in acquiring content will impact the financials
- The company needs to renew the Aggregate rights on content after a particular time. Any delay in renewal will impact the company's performance
- Slowdown in the internet penetration will impact the growth of the company
- Shemaroo has some of the hit old movies , so change in peoples preferences will lead to lower demand for those movies

Shemaroo Entertainment Ltd

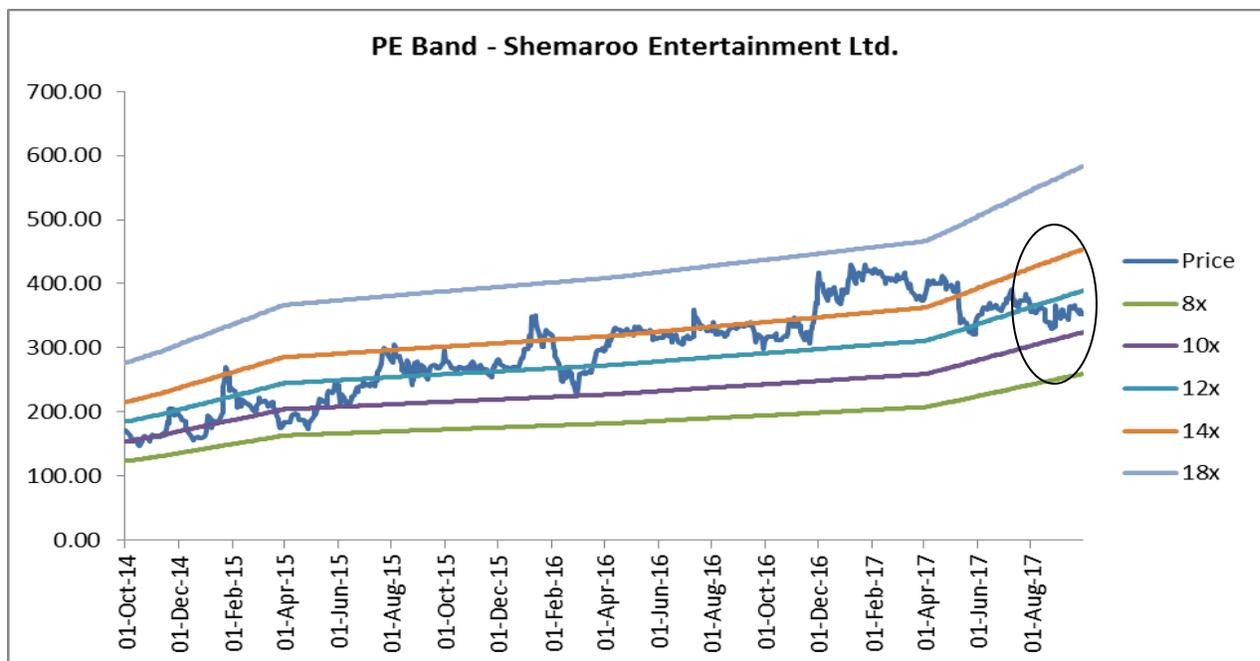
Valuation and Recommendation

Looking upon the size and the business of the company we have compared Shemaroo Entertainment Ltd with Eros international and Balaji Telefilms Ltd. Although Shemaroo, Eros and Balaji are not directly comparable, the comparison is in terms of competition.

FY17(Rs in Cr)	Sales	EBITDA	Margin	PAT	Margin	EPS	PE	EV/EBITDA	ROE
Eros International	1,399.7	340.8	24.3%	257.5	18.4%	27.4	7.7	7.5	12.8%
Balaji telefilms	421.2	-18.1	-4.3%	-28.1	-6.7%	-3.7	-41.0	-63.9	-5.6%
Shemaroo	425.5	127.6	30.0%	61.5	14.4%	22.6	15.7	9.9	14.4%

Source: Company Data, NBRR

Going ahead, we expect the company’s sales to grow by 11.2% in FY18E and 11.8% in FY19E. Reselling of the historically acquired perpetual inventory and aggregate rights of more 10 years, which are completely amortized, will lead to higher profits to the company. Apart from this, with increase in internet penetration, new media segment being a high margin business is likely to gain traction going ahead. We expect operating margins to improve by 186 bps in FY18E & 150 bps in FY19E and inch towards 31.8% and 33.3% respectively. With 3585 titles on books, we believe major capex phase for the company is over and will slowdown in coming years. Higher profit with lower capex will generate positive FCFF which we expect to come in at Rs 52.5 cr in FY19E from a negative of Rs 81.1 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 20.5% in FY19E vs. 17.6% in FY17. We expect company to report EBITDA of Rs 150.7 cr and Rs 176.4 cr in FY18E and FY19E and is likely to do PAT of Rs 88 cr and EPS of Rs 32.4 in FY19E . At CMP, the share is trading at EV/Ebitda of 7.0x and PE of 11.0x FY19E EPS. **We recommend a BUY on Shemaroo with a target price of Rs 485, based on 15x FY19E EPS implying 38% return from current levels.**



Shemaroo Entertainment Ltd

Quarterly Financials

Particulars	Q1FY18	Q4FY17	QoQ%	Q1FY17	YoY%
Net Sales	103.6	98.6	5.1%	95.9	8.1%
Other Operating Income	0.0	0.0		0.0	
Total Income	103.6	98.6	5.1%	95.9	8.1%
Change in inventory	-75.5	-59.0	28.1%	-4.7	
Cost of raw amterial consumed	131.3	110.1	19.3%	58.4	124.8%
Gross Profit	47.9	47.5	0.7%	42.2	13.6%
Gross Margin (% of net sales)	46.2%	48.2%	-199.71	44.0%	223.26
Employee Expenses	8.4	8.1	3.1%	7.7	9.1%
Other Expenses	6.1	7.7	-21.2%	4.4	37.6%
Total Expenditure	70.2	67.0	4.9%	65.8	6.7%
EBITDA	33.4	31.7		30.1	
% of net sales	32.2%	32.1%	11.93	31.3%	90.17
Depreciation	1.2	1.1	8.8%	1.0	19.2%
EBIT	32.2	30.6	5.3%	29.0	10.9%
Interest	8.1	10.0	-18.6%	6.8	18.6%
PBT & OI	24.1	20.6	16.9%	22.2	8.6%
Other Income	0.9	0.7	29.9%	0.3	163.6%
Forex	0.0	0.0		0.0	
PBT	25.0	21.3	17.3%	22.5	10.8%
Exceptional item	0.0	0.0		0.0	
PBT After Exception	25.0	21.3	17.3%	22.5	10.8%
Tax	8.9	7.5	19.4%	9.3	-4.1%
<i>Tax / PBT</i>	35.8%	35.2%		41.4%	
Net Profit	16.0	13.8	16.2%	13.2	21.4%
Minority interest/ share of associ	-0.1	0.0		1.0	
Net Profit	15.9	13.8	15.6%	14.2	12.2%
% of net sales	15.4%	14.0%	140.10	14.8%	55.96
Adjusted Net Profit	15.9	13.8		14.2	
Equity	2.7	2.7		2.7	
EPS (Unit Curr.)	58.6	50.7		52.2	

Source: Company data, Nirmal Bang Securities

- Company came out with ok set of number in Q1 post impact of Demonetisation in previous 2 quarters.
- Sales grew by 5.1% QoQ and came in at Rs 103.6 cr in Q1FY18 vs Rs 98.6 cr in Q4FY17
- Higher Sales led to improvement in margins to the company. Ebitda margins improved by 11.93 bps QoQ
- PAT margins expanded by 140.1 bps QoQ, led by higher Ebitda margins and lower interest cost. Interest cost came in at Rs 8.1 cr Q1FY18 vs Rs 10 cr in Q4FY17
- Change in inventory increased by Rs 75 cr but management clarified that this Inventory is mainly of regular business and not increase in Investment and this will correct over coming quarters.

Shemaroo Entertainment Ltd

Financials

Income Statement (Rs. In Cr)					Balance Sheet (Rs. In Cr)				
	FY16	FY17	FY18E	FY19E		FY16	FY17	FY18E	FY19E
Revenues - Net	375.1	425.5	473.2	529.0	Issued Share Capital	27.2	27.2	27.2	27.2
% change	16.0%	13.5%	11.2%	11.8%	Reserves & Surplus	337.7	399.5	465.3	548.7
EBITDA	107.7	127.6	150.7	176.4	Net Worth	364.9	426.6	492.4	575.9
EBITDA margin	28.7%	30.0%	31.8%	33.3%	Minority Interest	-0.8	-3.2	-3.2	-3.2
Depreciation	3.7	4.3	4.5	4.7	Net Deferred Tax liabilities	6.7	6.7	6.7	6.7
Operating income	103.9	123.3	146.2	171.7	Total Loans	212.4	296.1	309.1	261.6
Interest	22.8	32.3	38.4	36.2	Trade Payables	10.5	19.5	26.5	38.6
Other Income	1.6	3.0	3.0	3.0	Provisions	14.6	25.6	25.6	25.6
Forex	0.0	0.0	0.0	0.0	Other CL	4.4	9.5	9.5	9.5
PBT	82.7	93.9	110.7	138.4	Total Liabilities	612.7	780.8	866.6	914.7
Exceptional (Gain)/ Loss	0.0	0.0	0.0	0.0	Net Fixed Assets	31.0	34.8	33.3	31.7
PBT	82.7	93.9	110.7	138.4	Investments	8.1	7.2	7.2	7.2
Tax	30.7	34.2	40.4	50.5	Inventories	387.6	500.4	565.8	591.5
PAT	52.0	59.7	70.4	88.0	Cash and cash equivalent	1.9	1.9	2.0	2.4
Minority interest / share of assc	0.1	1.8	0.0	0.0	Sundry Debtors	106.9	191.4	212.6	237.7
PAT	52.2	61.5	70.4	88.0	Loans & Advances	7.8	7.5	7.5	7.6
APAT	52.2	61.5	70.4	88.0	Other CA	69.4	37.7	38.2	36.7
Shares o/s (No. in Cr.)*	2.7	2.7	2.7	2.7	Total Assets	612.7	780.8	866.6	914.7
Adj EPS	19.2	22.6	25.9	32.4	Cash Flow (Rs. In Cr)				
Quarterly (Rs. In Cr)					FY16	FY17	FY18E	FY19E	
	Sep.16	Dec.16	Mar.17	Jun.17	EBITDA	107.7	127.6	150.7	176.4
Revenue including OI	113.6	113.5	98.6	103.6	Exceptional and forex	0.0	0.0	0.0	0.0
EBITDA	31.8	30.4	31.7	33.4	Change in WC	-30.6	-27.4	-14.8	-11.4
Dep	1.1	1.1	1.1	1.2	Change in inventories	-99.0	-112.8	-65.4	-25.6
PBIT	30.7	29.3	30.6	32.2	Tax	-30.7	-34.2	-40.4	-50.5
Interest	7.3	8.3	10.0	8.1	CF from Operations	-52.5	-46.9	30.2	88.8
Other Inc.	0.3	1.7	0.7	0.9	Capex and change in WIP	-3.0	-4.9	-3.0	-3.0
Forex & exceptional	0.0	0.0	0.0	0.0	Investment	8.7	0.8	0.0	0.0
PBT	23.7	22.7	21.3	25.0	Other Income	1.6	3.0	3.0	3.0
Tax	9.1	8.4	7.5	8.9	Cash from Investment	7.3	-1.1	0.0	0.0
Minority interest / share of assc	0.6	0.2	0.0	-0.1	Dividend paid	-4.6	-4.6	-4.6	-4.6
PAT	15.2	14.5	13.8	15.9	Share Capital and Premium	0.0	0.0	0.0	0.0
EPS (Rs.)	20.8	19.9	18.8	21.8	Interest Paid	-22.8	-32.3	-38.4	-36.2
Operational Ratio					FY16	FY17	FY18E	FY19E	
EBIT margin (%)	27.7%	29.0%	30.9%	32.5%	Change in Borrowing	75.2	83.8	12.9	-47.5
Adj.PAT margin (%)	13.9%	14.4%	14.9%	16.6%	Others	-3.1	1.1	0.0	0.0
Adj. ROE (%)	14.3%	14.4%	14.3%	15.3%	Cash from Financing	44.7	47.9	-30.1	-88.3
ROCE (%)	19.2%	17.6%	18.5%	20.5%	Net change in Cash	-0.5	0.0	0.1	0.5
Debt Equity Ratio	0.58	0.69	0.63	0.45	Opening cash balance	2.5	1.9	1.9	2.0
Valuation Ratio					FY16	FY17	FY18E	FY19E	
Price Earnings (x)	18.6	15.7	13.7	11.0	Closing cash balance	1.9	1.9	2.0	2.4
Price / Book Value (x)	2.7	2.3	2.0	1.7	Per Share Data				
EV / Sales	3.1	3.0	2.7	2.3	Cash EPS	20.6	24.2	27.5	34.1
EV / EBITDA	10.9	9.9	8.5	7.0	BV per share	134.3	157.0	181.2	211.9
					Cash per share	143.3	184.8	208.9	218.5
					Dividend per share	1.4	1.4	1.4	1.4

Source: Company data, Nirmal Bang Securities

Disclaimer:

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