

## Shemaroo Entertainment Ltd

Recommendation	BUY
CMP	426
Target Price	612
Sector	Media

## Stock Details

BSE Code	538685
NSE Code	SHEMAROO
Bloomberg Code	SHEM IN
Market Cap (Rs cr)	1157
Free Float (%)	34.18
52- wk HI/Lo (Rs)	478.6/316.5
Avg. volume (BSE+NSE) (Quarterly)	20820
Face Value (Rs)	10
Dividend (FY 17)	Rs 1.4 per share
Shares o/s (Cr)	2.72

Relative Performance	1Mth	3Mth	1Yr
Shemaroo	5.7%	12.7%	4.4%
Sensex	3.6%	8.2%	28.9%



## Shareholding Pattern

Sep 17

Promoters Holding	65.82%
Institutional (Incl. FII)	17.39%
Corporate Bodies	4.52%
Public & others	12.27%

Akansha Jain – (+91 22 3926-8034)  
 Research Analyst [akansha.jain@nirmalbang.com](mailto:akansha.jain@nirmalbang.com)

## Long term outlook looks Positive!!!!

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

## Valuation &amp; Recommendation

Going ahead, we expect the company's sales to grow by 12.4% in FY18E and 13.1% 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 30.8% and 32.8% in FY18E & FY19E respectively. Higher profit with low capex will generate positive FCF which we believe to come in at Rs 48.1cr 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 21.0% in FY19E vs. 17.6% in FY17. Company is likely to do PAT of Rs 71.5 cr and Rs 92.5 cr in FY18E and FY19E respectively. At CMP, the share is trading at EV/Ebitda of 7.9x and PE of 12.5x FY19E EPS of Rs 34.

**We recommend a Buy on Shemaroo with a target price of Rs 612, based on 18x FY19E EPS implying 44% return**

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	22.2	12.7	14.3%
FY17	425.5	13.5%	127.6	30.0%	61.5	14.4%	22.6	18.8	11.4	14.4%
FY18E	478.3	12.4%	147.4	30.8%	71.5	14.9%	26.3	16.2	9.8	14.5%
FY19E	541.1	13.1%	177.5	32.8%	92.5	17.1%	34.0	12.5	7.9	15.9%

## Shemaroo Entertainment Ltd

## Quarterly Financials

Particulars	Q2FY18	Q1FY18	QoQ%	Q2FY17	YoY%
<b>Net Sales</b>	134.4	103.6	29.7%	113.6	18.3%
Other Operating Income	0.0	0.0		0.0	
<b>Total Income</b>	<b>134.4</b>	<b>103.6</b>	<b>29.7%</b>	<b>113.6</b>	<b>18.3%</b>
Change in inventory	14.2	-75.5	-118.7%	-17.2	
Cost of raw material consumed	69.3	131.3	-47.2%	86.4	-19.9%
<b>Gross Profit</b>	<b>51.0</b>	<b>47.9</b>	<b>6.5%</b>	<b>44.3</b>	<b>15.0%</b>
<b>Gross Margin (% of net sales)</b>	<b>37.9%</b>	<b>46.2%</b>	<b>-826.58</b>	<b>39.0%</b>	<b>-108.99</b>
Employee Expenses	9.9	8.4	17.5%	7.3	35.7%
Other Expenses	5.0	6.1	-17.8%	5.3	-5.1%
<b>Total Expenditure</b>	<b>98.3</b>	<b>70.2</b>	<b>39.9%</b>	<b>81.8</b>	<b>20.2%</b>
<b>EBITDA</b>	<b>36.1</b>	<b>33.4</b>		<b>31.8</b>	
<b>% of net sales</b>	<b>26.9%</b>	<b>32.2%</b>	<b>-536.52</b>	<b>28.0%</b>	<b>-110.67</b>
Depreciation	1.3	1.2	4.8%	1.1	23.8%
EBIT	34.8	32.2	8.2%	30.7	13.3%
Interest	8.4	8.1	3.8%	7.3	14.6%
PBT & OI	26.4	24.1	9.7%	23.4	12.9%
Other Income	0.2	0.9	-77.0%	0.3	-33.3%
Forex	0.0	0.0		0.0	
<b>PBT</b>	<b>26.6</b>	<b>25.0</b>	<b>6.7%</b>	<b>23.7</b>	<b>12.3%</b>
Exceptional item	0.0	0.0		0.0	
<b>PBT After Exception</b>	<b>26.6</b>	<b>25.0</b>	<b>6.7%</b>	<b>23.7</b>	<b>12.3%</b>
Tax	7.8	8.9	-12.8%	9.1	-14.2%
Tax / PBT	29.3%	35.8%		38.3%	
<b>Net Profit</b>	<b>18.8</b>	<b>16.0</b>	<b>17.5%</b>	<b>14.6</b>	<b>28.8%</b>
Minority interest/ share of ass	-0.1	-0.1		0.6	
<b>Net Profit</b>	<b>18.7</b>	<b>15.9</b>	<b>17.5%</b>	<b>15.2</b>	<b>23.3%</b>
<b>% of net sales</b>	<b>13.9%</b>	<b>15.4%</b>	<b>-143.66</b>	<b>13.4%</b>	<b>55.57</b>
<b>Adjusted Net Profit</b>	<b>18.7</b>	<b>15.9</b>		<b>15.2</b>	
Equity	2.7	2.7		2.7	
EPS (Unit Curr.)	68.8	58.6		55.8	

Source: Company data, Nirmal Bang Securities

## Segment Performance

(Rs in Cr)	FY15	FY16	FY17	H1FY18
<b>New Media</b>	37.3	63.5	92.4	62.7
<b>% of net sales</b>	<b>12%</b>	<b>17%</b>	<b>22%</b>	<b>26%</b>
<b>Traditional</b>	286.5	312.2	323.2	174
<b>% of net sales</b>	<b>88%</b>	<b>83%</b>	<b>78%</b>	<b>74%</b>
<b>Total</b>	<b>323.8</b>	<b>375.7</b>	<b>415.5</b>	<b>236.7</b>

Source: Company data, Nirmal Bang Securities

## Shemaroo Entertainment Ltd

### Financials

Income Statement (Rs. In Cr)					Balance Sheet (Rs. In Cr)				
	FY16	FY17	FY18E	FY19E		FY16	FY17	FY18E	FY19E
<b>Revenues - Net</b>	<b>375.1</b>	<b>425.5</b>	<b>478.3</b>	<b>541.1</b>	Issued Share Capital	27.2	27.2	27.2	27.2
% change	16.0%	13.5%	12.4%	13.1%	Reserves & Surplus	337.7	399.5	466.4	554.3
<b>EBITDA</b>	<b>107.7</b>	<b>127.6</b>	<b>147.4</b>	<b>177.5</b>	<b>Net Worth</b>	<b>364.9</b>	<b>426.6</b>	<b>493.5</b>	<b>581.4</b>
EBITDA margin	28.7%	30.0%	30.8%	32.8%	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
<b>Operating income</b>	<b>103.9</b>	<b>123.3</b>	<b>142.9</b>	<b>172.9</b>	<b>Total Loans</b>	<b>212.4</b>	<b>296.1</b>	<b>285.1</b>	<b>242.6</b>
Interest	22.8	32.3	33.4	30.3	Trade Payables	10.5	19.5	27.2	39.8
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
<b>PBT</b>	<b>82.7</b>	<b>93.9</b>	<b>112.5</b>	<b>145.5</b>	<b>Total Liabilities</b>	<b>612.7</b>	<b>780.8</b>	<b>844.4</b>	<b>902.5</b>
Exceptional (Gain)/ Loss	0.0	0.0	0.0	0.0	<b>Net Fixed Assets</b>	<b>31.0</b>	<b>34.8</b>	<b>33.3</b>	<b>31.7</b>
<b>PBT</b>	<b>82.7</b>	<b>93.9</b>	<b>112.5</b>	<b>145.5</b>	<b>Investments</b>	<b>8.1</b>	<b>7.2</b>	<b>7.2</b>	<b>7.2</b>
Tax	30.7	34.2	41.0	53.0	Inventories	387.6	500.4	544.1	575.7
<b>PAT</b>	<b>52.0</b>	<b>59.7</b>	<b>71.5</b>	<b>92.5</b>	Cash and cash equivalent	1.9	1.9	0.1	1.2
Minority interest / share of assc	<b>0.1</b>	<b>1.8</b>	<b>0.0</b>	<b>0.0</b>	Sundry Debtors	106.9	191.4	213.6	241.7
<b>PAT</b>	<b>52.2</b>	<b>61.5</b>	<b>71.5</b>	<b>92.5</b>	Loans & Advances	7.8	7.5	7.5	7.6
<b>APAT</b>	<b>52.2</b>	<b>61.5</b>	<b>71.5</b>	<b>92.5</b>	Other CA	69.4	37.7	38.6	37.5
Shares o/s ( No. in Cr.)*	2.7	2.7	2.7	2.7	<b>Total Assets</b>	<b>612.7</b>	<b>780.8</b>	<b>844.4</b>	<b>902.5</b>
<b>Adj EPS</b>	<b>19.2</b>	<b>22.6</b>	<b>26.3</b>	<b>34.0</b>	Cash Flow (Rs. In Cr)				
Quarterly (Rs. In Cr)					FY16	FY17	FY18E	FY19E	
	Dec.16	Mar.17	Jun.17	Sep.17	EBITDA	107.7	127.6	147.4	177.5
<b>Revenue including OI</b>	<b>113.5</b>	<b>98.6</b>	<b>103.6</b>	<b>134.4</b>	Exceptional and forex	0.0	0.0	0.0	0.0
<b>EBITDA</b>	<b>30.4</b>	<b>31.7</b>	<b>33.4</b>	<b>36.1</b>	Change in WC	-30.6	-27.4	-15.4	-14.3
Dep	1.1	1.1	1.2	1.3	Change in inventories	-99.0	-112.8	-43.6	-31.6
<b>PBIT</b>	<b>29.3</b>	<b>30.6</b>	<b>32.2</b>	<b>34.8</b>	Tax	-30.7	-34.2	-41.0	-53.0
Interest	8.3	10.0	8.1	8.4	<b>CF from Operations</b>	<b>-52.5</b>	<b>-46.9</b>	<b>47.3</b>	<b>78.5</b>
Other Inc.	1.7	0.7	0.9	0.2	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
<b>PBT</b>	<b>22.7</b>	<b>21.3</b>	<b>25.0</b>	<b>26.6</b>	Other Income	1.6	3.0	3.0	3.0
Tax	8.4	7.5	8.9	7.8	<b>Cash from Investment</b>	<b>7.3</b>	<b>-1.1</b>	<b>0.0</b>	<b>0.0</b>
Minority interest / share of assc	0.2	0.0	-0.1	-0.1	Dividend paid	-4.6	-4.6	-4.6	-4.6
<b>PAT</b>	<b>14.5</b>	<b>13.8</b>	<b>15.9</b>	<b>18.7</b>	Share Capital and Premium	0.0	0.0	0.0	0.0
EPS (Rs.)	19.9	18.8	21.8	25.6	Interest Paid	-22.8	-32.3	-33.4	-30.3
Operational Ratio					FY16	FY17	FY18E	FY19E	
EBIT margin (%)	27.7%	29.0%	29.9%	31.9%	Change in Borrowing	75.2	83.8	-11.1	-42.5
Adj.PAT margin (%)	13.9%	14.4%	14.9%	17.1%	Others	-3.1	1.1	0.0	0.0
Adj. ROE (%)	14.3%	14.4%	14.5%	15.9%	<b>Cash from Financing</b>	<b>44.7</b>	<b>47.9</b>	<b>-49.1</b>	<b>-77.4</b>
ROCE (%)	19.2%	17.6%	18.7%	21.0%	Net change in Cash	-0.5	0.0	-1.8	1.1
Debt Equity Ratio	0.58	0.69	0.58	0.42	Opening cash balance	2.5	1.9	1.9	0.1
Valuation Ratio					FY16	FY17	FY18E	FY19E	
Price Earnings (x)	22.2	18.8	16.2	12.5	<b>Closing cash balance</b>	<b>1.9</b>	<b>1.9</b>	<b>0.1</b>	<b>1.2</b>
Price / Book Value (x)	3.2	2.7	2.3	2.0	Per Share Data				
EV / Sales	3.6	3.4	3.0	2.6	Cash EPS	20.6	24.2	27.9	35.7
EV / EBITDA	12.7	11.4	9.8	7.9	BV per share	134.3	157.0	181.6	213.9
					Cash per share	143.3	184.8	200.2	212.3
					Dividend per share	1.4	1.4	1.4	1.4

Source: Company data, Nirmal Bang Securities

**Disclaimer:**

Nirmal Bang Securities Private Limited (hereinafter referred to as "NBSPL ") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and MCX stock Exchange Limited. We have been granted certificate of Registration as a Research Analyst with SEBI . Registration no. is INH000001766 for the period 23.09.2015 to 22.09.2020 .NBSPL or its associates including its relatives/analyst do not hold any financial interest/beneficial ownership of more than 1% in the company covered by Analyst (in case any financial interest is held kindly disclose)NBSPL or its associates/analyst has not received any compensation from the company covered by Analyst during the past twelve months. NBSPL /analyst has not served as an officer, director or employee of company covered by Analyst and has not been engaged in market making activity of the company covered by Analyst. The views expressed are based solely on information available publicly and believed to be true. Investors are advised to independently evaluate the market conditions/risks involved before making any investment decision

**Nirmal Bang Research (Division of Nirmal Bang Securities Pvt. Ltd.)**

B-2, 301/302, Marathon Innova,  
Opp. Peninsula Corporate Park,  
Off Ganpatrao Kadam Marg,  
Lower Parel (W), Mumbai-400013  
Board No. : 91 22 3926 8000/8001  
Fax. : 022 3926 8010