

Growth momentum led by new media; upgrade to Buy

SHEM reported a healthy Q1FY19 with revenue growth of 19% YoY to ₹ 1234 (DCMe: ₹1219). EBITDA margin declined 70bps YoY to 31.5% due to higher operating expenditure. Traditional media segment grew 12.5% YoY on account of low base of DeMo. New media segment grew 36.3% YoY on back of expansion towards digital reach. We expect a minor convergence in the margins due to investment in digital, weak revenue growth in the YouTube segment and higher expenditure towards manpower. We upgrade the stock to a BUY and rollover to Sept'19 TP of ₹ 575 (₹ 550 earlier) based on 13x one yr. fwd. PER

Revenue above estimates; lower interest cost accelerates PAT

SHEM reported revenue growth of 19% YoY to ₹1,234mn (DCMe: ₹ 1,219mn) above our estimate on back of better performance in new media segment. EBITDA margin declined 70bps YoY at 31.5% (DCMe: 33.0%) due to lower gross margin. PAT grew 35.9% YoY to ₹187mn (DCMe: ₹ 177mn) on the back of lower other expenses and finance cost. EPS was at ₹ 7.2.

Continued traction in the new media segment

Revenue from new media segment surged 36.3% YoY to ₹ 389mn and it now contributes 32% of revenue as on Q1FY19. YouTube views for SHEM reached to 750mn views per month in Jun'18 though the revenue from this segment is low as YouTube is undergoing safety guidance measures.

Higher growth in the traditional segment led by low base of DeMo

Revenue from traditional segment grew 12.5% YoY in Q1FY19 to ₹ 845mn because of low base of DeMo. Contribution from the traditional segment continues to decline and it now contributes 68% of revenue as on Q1FY19; company intends its traditional media to contribute around 50% of its total revenue over the medium to long term

View

SHEM has maintained its strong focus on the Devotional category from the last few years which has helped gain traction in its share in Digital revenue. SHEM has good content on devotional which is also provided on paid DTH services and has also launched an application "Shemaroo Bhakti". Digital industry is growing at around 20-25% and SHEM targets its digital revenue to grow 5% higher than the industry average. We expect digital media to grow at 33% CAGR (FY18-21E) and traditional media to grow at 11% CAGR (FY18-21E); traction on growth in Digital persists led by higher data speeds due to launch of Jio FTH in the near term which will benefit Video consumption. Further, entry of more new players like Apple, Times and Disney in the VoD space will benefit aggregators like SHEM which have a large content library. We expect margins to be in the range of 30-31% due to investment in digital and higher employee cost. SHEM is currently trading at inexpensive valuations of 12.3x/9.8x based on FY20/FY21 earnings estimates. we upgrade SHEM to BUY and rollover to Sep'19 TP of ₹ 575 (₹ 550 earlier) based on 13x one yr. fwd. PER

Q1FY19 Result (₹ Mn)

Particulars	Q1FY19	Q4FY18	Q1FY18	QoQ (%)	YoY (%)
Revenue	1,234	1,184	1,036	4.2	19.0
EBITDA	389	368	334	5.8	16.4
Pre-Tax Profit	316	288	250	9.8	26.6
Net Profit	195	187	159	4.4	22.7
EPS (₹)	7.2	6.9	5.9	4.4	22.7
Margins (%)					
EBITDA Margin	31.5	31.1	32.2	47	(72)
PBT Margin	25.6	24.3	24.1	129	153
Net Margin	15.8	15.8	15.4	2	48

CMP	₹ 480
Target / Upside	₹ 575/20%
BSE Sensex	37,337
NSE Nifty	11,278

Script Details

Equity / FV	₹ 272mn/₹ 10/-
Market Cap	₹ 13bn
	USD 192mn
52 week High/Low	₹ 595/325

Avg. Volume (no)	14931
NSE Symbol	SHEMAROO
Bloomberg Code	SHEM IN

Shareholding Pattern Mar'18 (%)

Promoters	65.8
MF/Banks/FIs	0.1
FIIIs	16.7
Public / Others	17.4

Valuation (x)

	FY19E	FY20E	FY21E
P/E	15.1	12.3	9.8
EV/EBITDA	7.5	5.9	4.8
ROE (%)	16.0	16.7	17.8
ROCE (%)	30.7	31.5	32.0

Estimates (₹ Mn)

	FY19E	FY20E	FY21E
Net Sales	5,750	6,765	8,017
EBITDA	1,733	2,087	2,511
PAT	864	1,058	1,332
EPS (₹)	31.9	39.1	49.1

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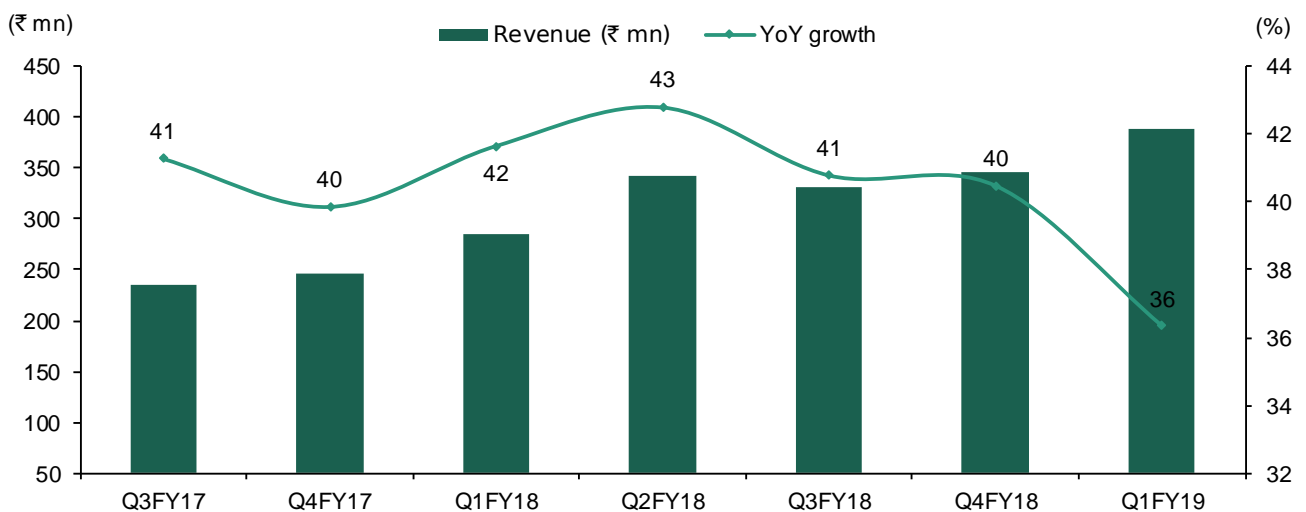
Concall Highlights

- Management indicated their Youtube views of around 750mn for the month of June, which translates to 25mn daily views. They indicated that they saw a 25% growth QoQ in the number of views on Youtube. Youtube went through a safety guidance hence Youtube monetization was impacted
- The viewership share for general entertainment was the highest at ~26-27%, for Movies was ~16-17% and for kids, news & sports is ~6-8%.
- Devotional is a category in which they have been focusing since the past few years, they have some good content on the category and they target to be the market leader in the category. Devotional is a paid DTH service. They even stated that devotional industry is bigger in India as compared to the films industry
- The management vision is to grow at 5x in the next 5 years on the digital front as they believe many opportunities are available. They expect digital to contribute more than 50% to the revenue in the next couple of years.
- Their target for FY19 is to have a net negative Capex and make all investments from internal accruals
- The industry trend for traditional for FY19 to be around 10% -12% and for new media to be around 25%; management looking to do better on both fronts by 1-2% and 5% respectively as compared to the industry. Further the stated that the new media growth appeared to be lower due to the base effect.
- Management indicted tax rate to be in the range of 34-35% going ahead. They mentioned their interest rate for borrowings to be around 10.5%. Gross Debt as on June is ₹.220crs.
- On the EBITDA margin, there is no impactful change for FY19 as there are certain cost push pressures but some operating leverage available which is getting set-off as they are currently focusing on investing in building the team & other business aspects, management expects to maintain it within 300bps trajectory.

Exhibit 1: Q1FY19 Performance

(₹ mn)	Q1FY19	DCMe	Diff (%)	Q4FY18	QoQ(%)	Q1FY18	YoY(%)
Revenue	1,234	1,219	1.2	1,184	4.2	1,036	19.0
EBIT	375	387	(3.1)	355	5.7	322	16.5
EBITDA	389	402	(3.3)	368	5.8	334	16.4
Pre-Tax Profit	316	302	4.8	288	9.8	250	26.6
Net Profit	195	196	(0.3)	187	4.4	159	22.7
EPS (₹)	7.2	7.2	(0.3)	6.9	4.4	5.9	22.7
Margins (%)							
EBIT Margin	30.4	31.7		30.0		31.0	
EBITDA Margin	31.5	33.0		31.1		32.2	
Net Margin	15.8	16.1		15.8		15.4	
Segment revenue							
Traditional	845	836	1.1	836	1.1	751	12.5
New Media	389	347	12.1	347	12.1	285	36.3

Source: DART, Company

Exhibit 2: New media segment- revenue and YoY growth


Source: DART, Company

Exhibit 3: Estimate Change

(₹ mn)	New			Old			Change (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY
Revenue	5,750	6,765	8,017	5,750	6,765	8,017	0.0	0.0	0.0
EBITDA	1,733	2,087	2,511	1,744	2,100	2,526	(0.6)	(0.6)	(0.6)
Pre-Tax Profit	1,329	1,628	2,049	1,340	1,642	2,066	(0.8)	(0.8)	(0.8)
Net Profit	864	1,058	1,332	871	1,067	1,343	(0.8)	(0.8)	(0.8)
EPS (₹)	31.9	39.1	49.1	32.1	39.4	49.5	(0.8)	(0.8)	(0.8)
Margins (%)									
EBITDA Margin	30.1	30.9	31.3	30.3	31.0	31.5	(19)	(19)	(19)
Net margin	15.0	15.6	16.6	15.1	15.8	16.7	(13)	(13)	(13)

Income Statement (₹ mn)

Particulars	Mar18	Mar19E	Mar20E	Mar21E
Net Sales	4,886	5,750	6,765	8,017
Total Expenditure	3,465	4,017	4,677	5,506
Raw Material	2,783	3,211	3,725	4,377
Employee Expenses	397	468	553	658
Other Expenses	286	337	399	471
EBIDTA	1,421	1,733	2,087	2,511
Net Interest Expense	290	342	385	374
Gross Profit	2,104	2,539	3,039	3,640
Depreciation	51	62	74	87
PBT & EO Items	1,080	1,329	1,628	2,049
Profit Before Tax	1,080	1,329	1,628	2,049
Tax	368	465	570	717
Net Profit	712	864	1,058	1,332
Minority Interest	(3)	0	0	0
Net Profit	715	864	1,058	1,332

Balance Sheet (₹ mn)

Particulars	Mar18	Mar19E	Mar20E	Mar21E
Sources of Funds				
Equity Capital	272	272	272	272
Other Reserves	4,692	5,533	6,599	7,862
Net Worth	4,964	5,805	6,871	8,134
Minority Interest	(32)	(32)	(32)	(32)
Loan Funds	73	99	80	108
Total Capital Employed	5,006	5,872	6,920	8,210

Applications of Funds

Net Block	333	441	571	726
Other LT Assets (+)	34	34	34	34
Investments	101	101	101	101
Current Assets, Loans & Advances				
Inventories	5,297	5,671	6,301	7,138
Sundry Debtors	1,406	1,969	2,317	2,745
Cash and Bank Balance	13	221	717	1,164
Loans and Advances	164	193	204	242
<i>sub total</i>	6,880	8,054	9,539	11,289
Less: Current Liabilities & Provisions				
Current Liabilities	2,342	2,759	3,325	3,941
<i>sub total</i>	2,342	2,759	3,325	3,941
Net Current Assets	4,537	5,296	6,213	7,348
Total Assets	5,005	5,873	6,920	8,210

E – Estimates

Cash Flow (₹ mn)

Particulars	Mar18E	Mar19E	Mar20E	Mar21E
Profit before tax	1,080	1,329	1,628	2,049
Depreciation & w.o.	51	62	74	87
Other Non-Cash Adj.	(17)	(29)	(32)	(74)
Direct taxes paid	(368)	(465)	(570)	(717)
Change in Working Capital	(631)	(551)	(421)	(688)
(A) CF from Opt. Activities	115	346	679	657
Capex	(107)	(127)	(149)	(176)
Inc./ (Dec.) in Investments	7	220	530	481
Other	0	0	0	0
(B) CF from Invt. Activities	0	0	0	0
Issue of Equity/ Preference	(107)	(127)	(149)	(176)
Chg. in Short-Term Borrow	0	0	0	0
Chg. in Long-Term Borrow	54	3	3	3
Dividend Paid (Incl. Tax)	(42)	(42)	(42)	(42)
Finance expense	0	0	0	0
(C) CF from Financing	9	(34)	(34)	(34)
Net Change in Cash	16	186	496	447
Opening Cash balances	19	35	221	717
Closing Cash balances	13	221	717	1,164

Important Ratios

Particulars	Mar18	Mar19E	Mar20E	Mar21E
(A) Measures of Performance (%)				
EBIDTA Margin	29.1	30.1	30.9	31.3
Interest / Sales	5.9	6.0	5.7	4.7
Gross Profit Margin	43.0	44.2	44.9	45.4
Tax/PBT	34.0	35.0	35.0	35.0
Net Profit Margin	14.6	15.0	15.6	16.6
(B) As Percentage of Net Sales				
Cost of Goods	57.0	55.8	55.1	54.6
Employee Expenses	8.1	8.1	8.2	8.2
Other Expenses	5.8	5.9	5.9	5.9
(C) Measures of Financial Status				
Debtors Period (days)	105	125	125	125
Closing stock (days)	396	360	340	325
Inventory Turn Ratio (x)	0.9	1.0	1.1	1.1
Fixed Assets Turnover (x)	14.7	13.0	11.8	11.0
WC Turnover (x)	1.1	1.1	1.1	1.1
Non-Cash WV (₹ Mn)	4,524	5,075	5,496	6,184
(D) Measures of Investment				
EPS (₹) (excl EO)	22.1	31.9	39.0	49.1
EPS (₹)	22.1	31.9	39.0	49.1
CEPS (₹)	28.3	34.2	41.8	52.4
DPS (₹)	1.6	1.6	1.6	1.6
Dividend Payout (%)	7.0	4.9	4.0	3.2
Profit Ploughback (%)	93.0	95.1	96.0	96.8
Book Value (₹)	183.2	214.2	253.5	300.1
RoANW (%)	15.5	16.0	16.7	17.7
RoACE (%)	29.0	30.7	31.5	32.0
RoAIC (%)	29.1	31.4	34.0	36.6
(E) Valuation Ratios				
CMP (₹)	480	480	480	480
P/E (x)	21.7	15.1	12.3	9.8
Market Cap. (₹ Mn)	13,046	13,046	13,046	13,046
MCap/ Sales (x)	2.7	2.3	1.9	1.6
EV (₹ Mn)	13,107	12,925	12,410	11,991
EV/Sales (x)	2.7	2.2	1.8	1.5
EV/EBDITA (x)	9.2	7.5	5.9	4.8
P/BV (x)	2.6	2.2	1.9	1.6
Dividend Yield (%)	0.3	0.3	0.3	0.3

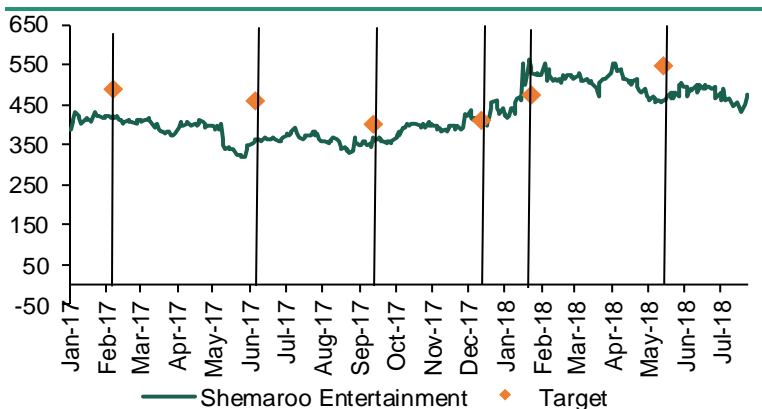
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)*
Feb'17	Buy	490	420
Jun'17	Buy	460	363
Sep'17	Accumulate	400	369
Dec'17	Reduce	410	400
Jan'18	Sell	475	543
May'18	Accumulate	550	470

* As on Recommendation Date

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