Initiating Coverage
Shemaroo Entertainment Ltd.

Digitalization to steer ahead!

17th May, 2016

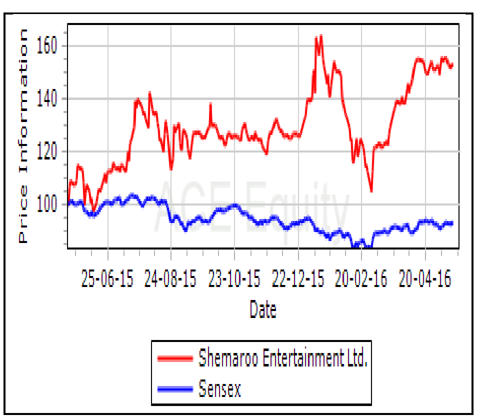
Rating	
CMP	Rs 325
Target Price	Rs 392
Recommendation	BUY

Stock Info	
BSE Group	B
BSE Code	538685
NSE Symbol	SHEMAROO
Bloomberg	SHEM IN
Reuters	SHEM.BO
BSE Sensex	25,704
NSE Nifty	7,870

Market Info	
Market Capital	Rs 882 cr
Equity Capital	Rs 27 cr
Avg. Trading Vol.	69,98,000
52 Wk High/ Low	375/202
Face Value	Rs 10

Shareholding Pattern (%)	(Mar' 16)
Promoters	65.8
Domestic Institutions	2.4
Foreign Institutions	11.4
Public & Others	20.4

Price Chart:



Company Profile

Shemaroo Entertainment was originally incorporated as a private limited company under the Companies Act, 1956 on December 23, 2005 with the name Shemaroo Holdings Private Limited. On May 28, 2008, the name of the company was changed to Shemaroo Entertainment Private Limited. Established as a book circulating library, today the company is at the forefront of the dynamic and growing Indian Entertainment industry established as an integrated media content house in India with activities across content acquisition, value addition to content and content distribution. Together with film-based copyrights and other entertainment rights the brand "Shemaroo" is synonymous with quality entertainment.

Investment Positives

- Shemaroo has grown multi-fold over the years by developing excellent relationships with producers and also the broadcasting networks, thereby becoming the largest organized player in a historically fragmented industry.
- Growing technology has remained a catalyst igniting several new innovations which opened excess revenue generation opportunities. Being equipped with a robust content library and wide distribution presence the company is well positioned to tap these opportunities and improve profitability.
- The current content library that company owns stands at around 3,000 plus titles giving them a competitive advantage as the number of participants in the industry are few and Shemaroo holding a major market share enjoys the dominant position.
- Rising share of robustly growing digital media to augment profitability for the company going ahead.

Valuation

At CMP of Rs 325 company trades at a P/E multiple of 10.8 (x) its FY 18 estimates. We have valued the stock at its FY 18E forward P/E of 13 (x) and arrived at a fair value of Rs 392 per share. We initiate coverage with **"BUY"** rating on the company.

Financial Snapshot

(Rs Cr)	2014	2015	2016	2017E	2018E
Revenue	263	323	375	436	499
EBITDA	65	88	111	131	153
Net Profit	28	42	55	67	82
EPS	14.0	15.4	20.4	24.8	30.1
ROE	17%	17%	16%	17%	17%
P/E	0.0	11.9	14.5	13.1	10.8

Source: Ace Equity, Arihant Research

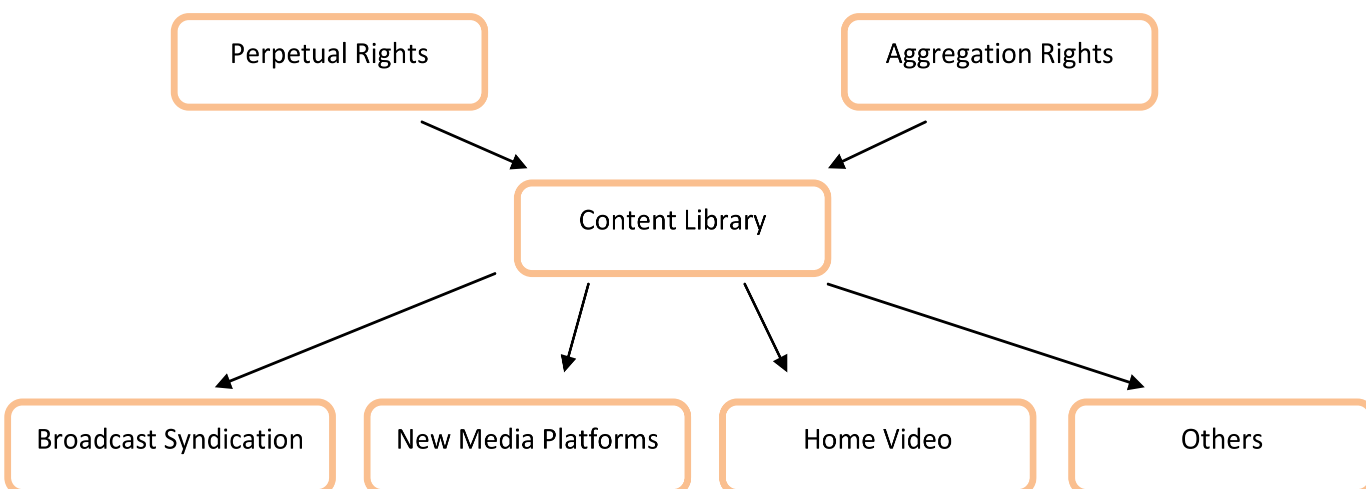
Business Model

Shemaroo Entertainment Ltd. is engaged in the business of Aggregation, Production and Co-Production of Cinematograph Films, Dramas etc. and subsequently exploiting and distributing rights of Films, Dramas across the world through various medium such as television licensing , DVD and VCD release, exploiting various rights of the content through new distribution avenues such as IPTV, VOD and mobile platform. The Company houses state-of-the-art studio facilities, equipped with highly sophisticated studio hardware and software.

The content Library of the company consists of more than 3,000 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. It is one of the largest independent content aggregators in Bollywood.

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) Others - in flight, overseas.

CONTENT BUILD-UP



Role In Movie Lifecycle

Revenue generations from movie is segregated into different lifecycles. The first cycle consists of Theatrical, Television and Overseas release. About 90-95% of the revenues are generated in the first cycle of launch, where Shemaroo is not typically present. Shemaroo is present in the ancillary revenue streams like New Media and Home Video movie distribution, which contribute the remaining 5% to 10% of the revenues. This is the second and subsequent cycle of film monetization. These subsequent cycles of film monetization have been typically growing due to factors like increasing advertisement spends, digitization and others. There is a lower risk in these cycles due to visibility of performance of movie during first cycle of launch. Shemaroo decides on the cost of the content after it is confident of achieving the desired return on investment at a portfolio level, normally 18% IRR. Shemaroo then distributes this content over different platforms like Broadcasting channels, New Media platforms like YouTube and others.

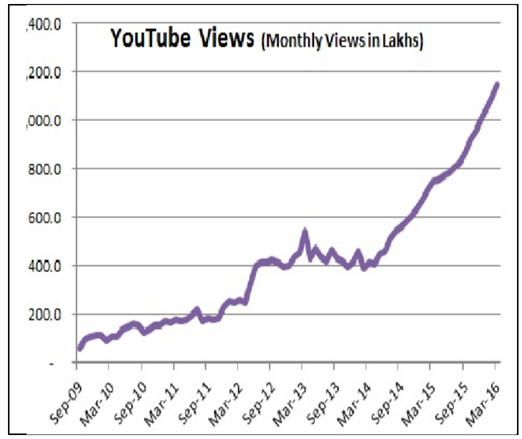
Source: Ace Equity, Arihant Research

Recent Initiatives

The company has tied up as an official channel partner for Google Inc.'s You Tube where it is managing more than 50 channels. The company is also moving beyond providing just content, to providing content management solutions to partners.

As on FY 16 the company has:

- crossed 1 Billion views on flagship Shemaroo YouTube channel
- crossed 100 Million+ Views on 'Shemaroo Kids' YouTube channel
- crossed 1 lac Subscribers on 'Shemaroo Punjabi' YouTube Channel
- Signed a further content deal with Spuul
- launched Tata Sky 'Active Devotion' service on 25th Feb 2016
- launched Tata Sky 'Comedy' service on 9th Mar 2016
- Acquired the Sagarika Bengali Audio Catalog perpetually



Experienced Leadership

Buddhichand Maroo, Chairman Co-founder of the group and associated with the Group since 1962, has over 50 years of business experience & over 30 years in media & entertainment industry.

Raman Maroo, Promoter, MD Co-founder of the Group and associated with the Group since 1974 has over 40 years of business experience & over 30 years in media & entertainment industry and Instrumental in expansion into television rights syndication and transformation of Shemaroo into a content house.

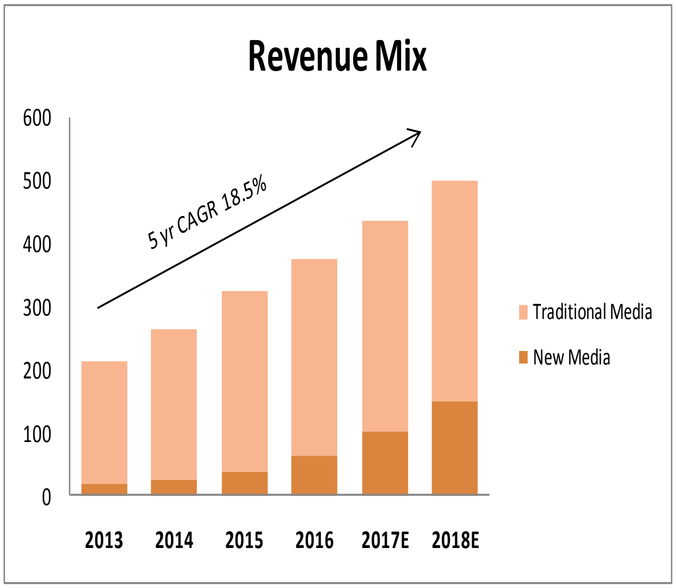
Atul Maru Promoter, Joint MD has over 30 years of experience in the media and entertainment industry & is actively involved in the operations of the Company and has spearheaded various initiatives including the home video division of the Company

Hiren Gada, Whole Time Director & CFO has over 18 years of work experience & over 10 years in media & entertainment Industry. He handles the Strategy and Finance functions in the Company & is a regular speaker at industry forums; quoted in media on issues pertaining to the industry

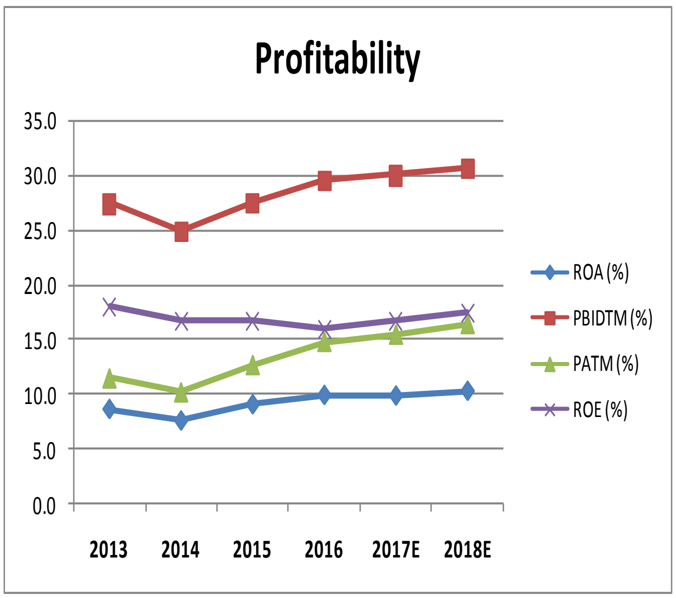
Jai Maroo, Non Executive Director has 4 years experience as a software engineer and over 10 years in media & entertainment. He holds a masters degree in computer science and engineering from Pennsylvania State University, U.S.A & has worked with Citrix Systems Inc., USA as investor in several technology ventures. He has been guiding the Company on digital distribution activities mainly on mobile and internet.

SWOT Analysis

The company has a dominant position in the industry. It has more than 3,000 rights, far more than its competitor "Yash Raj Films" having about 70 rights. The rights generally have longer durations and being exclusive in nature reduces the potential of new entrants into the industry. The company is in existence since 1962 and has created a strong brand loyalty for its products. Lesser number industry participants and strong brand loyalty gives the company better pricing power. The digital media has a lower receivable cycle which for the company has improving share in the revenue mix & thus the trending down days of outstanding. Greater number of production houses in relation to few competitors allows the firm to negotiate better terms with the suppliers. The transformation to digital media has slowed the growth of traditional media which contributes major share of revenue to the company. However improving share of digital media and its better operating margins reduces the concern of decelerating traditional media.



The share of new media has increased over the years. This segment continues to register robust performance. For the year FY 16 the segment grew at 70% YoY growth rate outperforming the industry. Traditional segment for the same period grew at a decelerated growth rate of 9%. Share of traditional media in revenue dropped to 83% for FY 16 against 92% in FY 13 while the share of new media for the same period mounted from 8% to 17%. Total Revenue for the company grew at 16% for FY 16. We expect the revenue for the company to grow further at 2 year CAGR of 15.4% over FY 16-18E backed by its stronger share of revenue from digital media growing at robust 2 year CAGR of 53%.



The company has reported consistent growth in profits over the years. Return on Assets for the company rose from 8.7% in FY 13 to 9.7% in FY 16. Return on equity however witnessed a slight drop. RoE for the year FY 16 stood at 16% against 18% in FY 13. EBITDA margins in FY 13 stood at 27.3% while the profit margin in the same year stood at 10.2%. The company managed to increase its margins by improving its revenue mix. For FY 16 EBITDA margin stood at 29.5% while the profit margin stood at 14.8%. We expect the return on asset for the company to rise further to 10.3% by FY 18 backed by its improving EBITDA and profit margins of 30.6% and 16.4% respectively, due to the better revenue mix.

Industry Outlook

In 2015, the Indian Media & Entertainment (M&E) industry registered a growth of 11.8% over 2014 and touched USD 19 billion. The entertainment industry is projected to be more than USD 62 billion by FY 25. Digitalization has played the major role in the growth of Indian film industry. Rising incomes and evolving lifestyles have led to higher demand for aspirational products and services. Higher penetration and a rapidly growing young population coupled with increased usage of 3G, 4G and portable devices would augment demand further. Over the next five years digital technologies are expected to increase their influence across the industry leading to transformation in consumer behavior across all segments.

Source: Ace Equity, Arihant Research

Quarterly Results					
Particulars	Q4 FY 16	Q4 FY 15	YoY %	Q3 FY 16	QoQ %
Revenue	102.8	86.8	18.4%	101.0	1.7%
Expenditure	67.2	60.3		74.4	
EBITDA	35.6	26.5	34.0%	26.6	33.6%
Depreciation	1.0	0.9		0.9	
Operating Profit	34.6	25.7	34.8%	25.7	34.7%
Interest	7.3	5.2		5.6	
PBT	27.7	20.9		20.4	
Tax	9.7	8.1		7.2	
Net Profit	18.0	12.8	41.1%	13.2	36.2%
EPS	6.1	5.4		4.7	
New Media	17.7	11.5	54.2%	16.6	6.1%
Traditional Media	85.5	75.7	13.0%	84.7	0.9%
Total Income from opera	103.2	87.2		101.4	

Quarterly Analysis

The company showed a robust performance for the quarter with revenue growing at 18% YoY. For the full year FY 16 the revenue grew at 16% vs. 23% in the previous year. Revenue from digital media continued the upward curve with over 54% YoY growth rate. For FY 16 revenue from New Media grew over 70% vs. 52% in the previous year. Traditional media too continued to grow at a healthy growth rate of 13% YoY for the quarter under review. For the full year however, the growth decelerated to 9% vs. 20% in previous year. Revenue mix for the year FY 16 continued in favor of digital media, constituting 17% of the total revenue vs. 12% in the previous year.

The improving share of digital media continues to drive up the operating margins for the company. EBITDA margin inclined to 34.6% for the quarter under review against 30.6% in the corresponding quarter of the previous year. For the full year FY 16 EBITDA margins stood at 29.5% against 27.2% in the previous year.

Rising operating margins of the company has lead to improving profitability. Net profit for the quarter under review came in at Rs 18 cr vs. Rs 12.8 cr in the corresponding quarter of the previous year climbing by 41% YoY & increasing by 36% on sequential basis. Earning per share for the quarter stood at Rs 6.1 vs. Rs 5.4 YoY and Rs 4.7 sequentially.

The receivable days for the company continued to slide down as the share of digital media advanced. For the year FY 16 days of receivables stood at 114 vs. 151 in the previous year. Short term advances however mounted as the company reported quasi stock.

Source: Ace Equity, Arihant Research

Income Statement					
Particulars	2014	2015	2016	2017E	2018E
Revenue	**263**	**323**	**375**	**436**	**499**
Expenditure	198	235	264	305	347
EBITDA	65	88	111	131	153
Depreciation	3	4	4	4	4
Operating Profit	**62**	**84**	**107**	**126**	**148**
Interest	19	22	23	25	25
PBT	44	64	86	104	126
Tax	16	22	31	36	44
Net Profit	**28**	**42**	**55**	**67**	**82**

Balance Sheet					
Particulars	2014	2015	2016	2017E	2018E
Share Capital	20	27	27	27	27
Reserves & Surplus	158	294	345	406	482
Non-Current Liabilities	19	8	30	42	47
Current Liabilities	216	164	218	263	291
Total Liabilities	**413**	**493**	**621**	**739**	**847**
Non-Current Assets	52	57	43	46	49
Current Assets	361	436	578	692	798
Cash & Bank	*1*	*2*	*1*	*3*	*3*
Total Assets	**413**	**493**	**621**	**739**	**847**

Cashflow Statement					
Particulars	2014	2015	2016	2017E	2018E
Net Profit	28	42	55	67	82
Non-Cash items	22	24	27	30	30
Working Capital changes	-75	-91	-122	-108	-117
CFO	**-18**	**-30**	**-48**	**-22**	**-18**
CFI	**-3**	**-9**	**4**	**-6**	**-6**
CFF	**20**	**41**	**44**	**29**	**24**
Change in Cash	-0.4	1.7	-0.7	1.2	-0.1
Opening Cash	1.0	0.6	2.3	1.7	2.9
Closing Cash	**0.6**	**2.3**	**1.7**	**2.9**	**2.8**

Ratios					
Particulars	2014	2015	2016	2017E	2018E
Revenue Growth	**23.4%**	**22.8%**	**15.9%**	**16.2%**	**14.6%**
EBITDA Margin	24.7%	27.2%	29.5%	30.0%	30.6%
Pat Margin	10.6%	12.9%	14.8%	15.5%	16.4%
ROE	**17.0%**	**16.8%**	**16.0%**	**16.7%**	**17.4%**
D/E	0.9	0.3	0.5	0.5	0.5
Current Ratio	1.7	2.7	2.6	2.6	2.7
EPS	**14.0**	**15.4**	**20.4**	**24.8**	**30.1**
DPS	0.5	1.2	1.4	1.8	2.0
P/E	**0.0**	**11.9**	**14.5**	**13.1**	**10.8**

Source: Ace Equity, Arihant Research

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Stock Rating Scale

	Absolute Return
Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5%

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