

Margins Contracted

1st February 2019

CMP: Rs. 369
Target Price: Rs. 430
Recommendation: **ACCUMULATE**

Stock Info

BSE Group	B
BSE Code	538685
NSE Symbol	SHEMAROO
Bloomberg	SHEM IN
Reuters	SHEM.BO
BSE Sensex	36,257
NSE Nifty	10,830

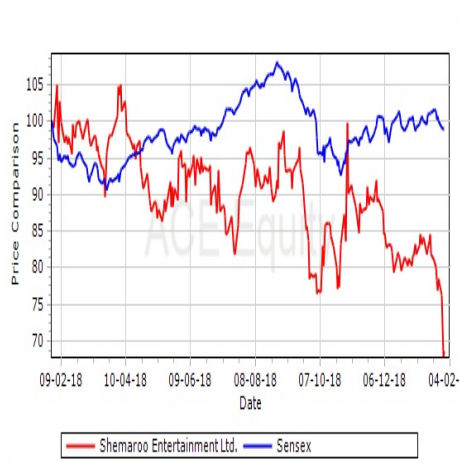
Market Info

Market Capital	Rs 994 cr
Equity Capital	Rs 27 cr
Avg. Trading Vol.	25,140
52 Wk High/ Low	560/335
Face Value	Rs 10

Shareholding Pattern(%) (Dec 18)

Promoters	65.8
Domestic Institutions	-
Foreign Institutions	18.4
Public & Others	15.8

Price Chart:



Operating Performance

Shemaroo reported mixed set of numbers for the quarter Q3FY19. Net sales stood at Rs 149 Cr registering a growth of 12.3% YoY however on sequential basis it de-grew by 9%. EBITDA margin contracted by 331bps YoY at 23.7% mainly due to higher employee cost. Profit for the quarter under review grew by 8% YoY at Rs. 19.4 Cr vs Rs. 18 Cr in corresponding quarter of previous year. In terms of revenue break-up, digital and traditional media contributes to ~29% and 71% respectively, which is expected to be in the ratio of 50:50 in next 5 years.

Key Highlights:

1. The company added a total of 18mn subscribers to its YouTube channels.
2. Main reason for decline in margins was due to increase in employee cost. Management expects EBITDA margin fall in range of 26-29% for FY19.
3. Management expects You Tube growth to pick-up on account of higher digital spends.
4. The company targets a 5x growth in Revenue in the next 5 years with a 50-50 digital and traditional revenue mix.
5. On an average, the peers generate 5-15% of the revenue from international markets. The company also aims to achieve a similar revenue mix. As a part of the strategy to achieve growth, the company aims to magnify revenue from its international markets.

Valuation

In terms of revenue mix, management's long term goal is to balance its traditional and digital media share both equally. We are positive on the stock and expect 20% growth in its revenue in FY19 and FY20E. At CMP of Rs 369, the stock trades at a P/E multiple of 10.7(x) its FY 20 estimates. We have valued the stock at its FY20E forward P/E of 12.5(x) and arrived at a fair value of Rs. 430 per share showing a potential upside of 16%. We have an "ACCUMULATE" rating on the stock.

Financial Snapshot

Particulars (Rs Cr)	2018	2019E	2020E
Revenue	489	586	704
EBITDA	142	152	169
Net Profit	71	79	93
EPS	26.2	28.9	34.4
ROE	15%	15%	16%
P/E	14.1	12.8	10.7

Q3 FY19 Earnings Snapshot:

Quarterly Results					
Particulars (Rs cr)	Q3FY19	Q3FY18	YoY %	Q2 FY 19	QoQ %
Revenue	149.0	132.6	12.3%	163.3	-8.8%
Expenditure	113.7	96.8		120.7	
EBITDA	35.3	35.8	-1.5%	42.6	-17.2%
EBITDA Margin	23.7%	27.0%		26.1%	
Depreciation	1.4	1.3		1.3	
Operating Profit	33.9	34.5	-1.9%	41.3	-18.0%
Interest	6.5	7.1		5.6	
PBT	27.3	27.6		35.7	
Tax	7.9	9.7		12.7	
Net Profit	19.4	18.0	8.0%	23.0	-15.5%
PAT Margin	13.0%	13.5%	-3.8%	14.1%	
EPS	7.1	6.6		8.5	

Divisional Performance (Consolidated) (Rs cr)					
Divisional Performance	Q3FY19	Q3FY18	YoY %	Q2 FY 19	QoQ %
Digital Media	42.6	33.1	28.7%	45.6	-6.6%
Share in Revenue	28.6%	25.0%		27.9%	
Traditional Media	106.3	99.5	6.8%	117.7	-9.7%
Share in Revenue	71.4%	75.0%		72.1%	
Total Income from operations	149.0	132.6	12.3%	163.3	-8.8%

Income Statement

Particulars (Rs cr)	2018	2019E	2020E
Revenue	489	586	704
Expenditure	347	434	535
EBITDA	142	152	169
Depreciation	5	6	6
Operating Profit	108	121	139
Interest	31	28	25
PBT	108	121	139
Tax	37	42	46
Net Profit	71	79	93

Balance Sheet

Particulars (Rs cr)	2018	2019E	2020E
Share Capital	27.18	27.18	27.18
Reserves & Surplus	469	544	558
Non-Current Liabilities	7	7	7
Current Liabilities	234	216	230
Total Liabilities & Equity	735	791	816
Total non-current assets	32	35	36
Current Assets	688	740	762
<i>Cash & Bank</i>	1	4	35
Total Assets	735	791	816

Cashflow Statement

Particulars (Rs cr)	2018	2019E	2020E
Net Profit	71.23	78.56	93.43
Non-Cash items	35.85	33.29	31.09
Working Capital changes	-34.80	-94.05	-110.89
CFO	109.03	60.11	59.65
CFI	-6.83	-5.80	0.18
CFF	-115	-51	-29
Change in Cash	-12.3	3.0	30.8
Opening Cash	13.6	1.3	4.3
Closing Cash	1.30	4.32	35.08

Ratios

Particulars (Rs cr)	2018	2019E	2020E
Revenue Growth	17.8%	20.0%	20.0%
EBITDA Margin	29.1%	26.0%	24.0%
Pat Margin	14.6%	13.4%	13.3%
ROE	15.4%	14.7%	16.2%
D/E	0.38	0.30	0.28
Current Ratio	2.94	3.42	3.32
EPS	26.21	28.90	34.38
DPS	1.55	1.55	1.55
P/E	14.1	12.8	10.7

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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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