

5 December 2016

SELL

TP: INR 400.00

▲ 0.4%

Shemaroo Entertainment

SHEM IN

Risk-reward unfavourable – downgrade to SELL

SHEM has been our small-cap content pick given strong growth in its new media business, but the recent share price uptick and slowdown in telecom data uptake makes the risk-reward unfavourable. We believe debt capital employed (for content) will continue to expand and this coupled with slower growth will stall ROCE improvement, limiting a P/E re-rating. We find the stock fully valued at 15x FY18E PE and downgrade SHEM from BUY to SELL, rolling over to a Sep'17 TP of Rs 400 (Rs 420 earlier).

- ➔ **New media the key growth driver:** SHEM has successfully monetised the new media opportunity, performing well both in terms of revenue and margins. The revenue contribution from new media increased to 21% in Q2FY17 from 17% a year ago, with new media recording a 70% revenue CAGR over FY15-FY16. While the long-term trend for this business remains intact, the sharp slowdown in data revenues and continued investment in content are growing risks.
- ➔ **Data slowdown could hamper new media growth:** New media growth has been led by data bandwidth (3G/4G) and smartphone penetration. But data revenue growth for telcos has slowed down to 22-30% in FY17 YTD from 60-80% in FY15 & FY16, which could weigh on SHEM's new media segment.
- ➔ **Balance sheet constrained, ROCE improvement a challenge:** The success of content-driven business models depends on their capacity to acquire new content. SHEM's balance sheet is constrained and we expect debt levels to rise further upon content acquisition – this together with any slowdown in new media could expand working capital needs, making ROCE improvement from current 12-13% levels difficult.
- ➔ **Risk-reward unfavourable; downgrade to SELL:** We cut our FY17/FY18 EPS estimates by 11%/9% as we reduce new media growth estimates and increase debt-led content acquisition. SHEM is trading at 15x FY18E P/E and 2.2x FY18E P/BV, which we think is fair considering current ROCE/ROE of 16%/14%. We roll over to a Sep'17 TP of Rs 400 (Mar'17 TP of Rs 420 earlier) set at 14x one-year forward PE (unchanged). Downgrade to SELL as we see limited upside from current levels.

Financial Highlights

Y/E 31 Mar	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue (INR mln)	3,235	3,749	4,400	5,178	6,115
EBITDA (INR mln)	869	1,098	1,257	1,452	1,697
Adjusted net profit (INR mln)	421	535	632	733	855
Adjusted EPS (INR)	17.4	19.2	22.7	26.3	30.8
Adjusted EPS growth (%)	26.8	10.5	18.1	16.2	17.0
DPS (INR)	0.4	1.2	1.5	1.5	1.5
ROIC (%)	14.7	14.3	13.5	13.1	13.1
Adjusted ROAE (%)	17.0	15.6	16.0	16.1	16.1
Adjusted P/E (x)	23.0	20.8	17.6	15.1	12.9
EV/EBITDA (x)	14.2	10.8	10.0	9.1	8.0
P/BV (x)	2.9	3.0	2.6	2.2	1.9

Source: Company, Bloomberg, RCML Research



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PRICE CLOSE (02 Dec 16)

INR 398.60

MARKET CAP

INR 10.8 bln

USD 158.8 mln

SHARES O/S

27.2 mln

FREE FLOAT

33.0%

3M AVG DAILY VOLUME/VALUE

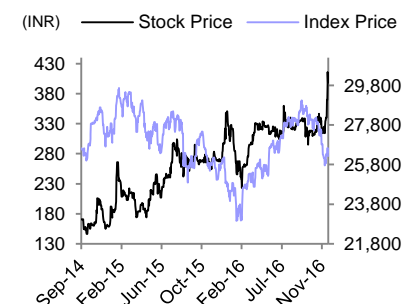
0.0 mln / USD 0.2 mln

52 WK HIGH

INR 422.00

52 WK LOW

INR 221.10



SELL

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**Shemaroo
Entertainment**

SHEM IN



Company Update

INDIA

MEDIA

Fig 1 - Estimate revision

(Rs mn)	New estimates			Old estimates		Change %	
	FY17E	FY18E	FY19E	FY17E	FY18E	FY17E	FY18E
Revenue	4,400	5,178	6,115	4,431	5,175	(0.7)	0.1
EBIT	1,216	1,407	1,647	1,245	1,396	(2.4)	0.7
EBITDA	1,257	1,452	1,697	1,286	1,441	(2.3)	0.7
Pre Tax Profit	933	1,084	1,268	1,049	1,188	(11.0)	(8.8)
Net Profit	616	715	837	692	784	(11.0)	(8.8)
Reported EPS	23	26	31	25	29	(11.0)	(8.8)
Margins (%)							
EBIT Margin	27.6	27.2	26.9	28.1	27.0	-	-
EBITDA Margin	28.6	28.0	27.7	29.0	27.8	-	-
Net margin	14.0	13.8	13.7	15.6	15.2	-	-

Source: RCML Research, Company

SELL

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**Shemaroo
Entertainment**

SHEM IN



Company Update

INDIA

MEDIA

Per Share Data

Y/E 31 Mar (INR)	FY15A	FY16A	FY17E	FY18E	FY19E
Reported EPS	17.4	19.2	22.7	26.3	30.8
Adjusted EPS	17.4	19.2	22.7	26.3	30.8
DPS	0.4	1.2	1.5	1.5	1.5
BVPS	136.2	134.2	155.4	180.2	209.5

Valuation Ratios

Y/E 31 Mar (x)	FY15A	FY16A	FY17E	FY18E	FY19E
EV/Sales	3.8	3.2	2.9	2.5	2.2
EV/EBITDA	14.2	10.8	10.0	9.1	8.0
Adjusted P/E	23.0	20.8	17.6	15.1	12.9
P/BV	2.9	3.0	2.6	2.2	1.9

Financial Ratios

Y/E 31 Mar	FY15A	FY16A	FY17E	FY18E	FY19E
Profitability & Return Ratios (%)					
EBITDA margin	26.9	29.3	28.6	28.0	27.7
EBIT margin	25.7	28.3	27.6	27.2	26.9
Adjusted profit margin	13.0	14.3	14.4	14.2	14.0
Adjusted ROAE	17.0	15.6	16.0	16.1	16.1
ROCE	14.4	14.1	13.5	13.1	12.9
YoY Growth (%)					
Revenue	22.2	15.9	17.4	17.7	18.1
EBITDA	34.9	26.3	14.5	15.5	16.9
Adjusted EPS	26.8	10.5	18.1	16.2	17.0
Invested capital	27.1	31.5	21.0	17.2	17.6
Working Capital & Liquidity Ratios					
Receivables (days)	151	114	124	148	148
Inventory (days)	439	549	574	568	562
Payables (days)	43	22	23	29	29
Current ratio (x)	2.7	2.6	2.4	2.3	2.2
Quick ratio (x)	0.0	0.0	0.0	0.0	0.0
Turnover & Leverage Ratios (x)					
Gross asset turnover	1.8	1.7	1.8	2.1	2.4
Total asset turnover	0.7	0.7	0.6	0.6	0.6
Net interest coverage ratio	4.2	5.0	4.3	4.4	4.3
Adjusted debt/equity	0.3	0.5	0.5	0.6	0.6

DuPont Analysis

Y/E 31 Mar (%)	FY15A	FY16A	FY17E	FY18E	FY19E
Tax burden (Net income/PBT)	65.9	62.5	67.1	67.1	66.9
Interest burden (PBT/EBIT)	76.7	80.8	77.4	77.7	77.6
EBIT margin (EBIT/Revenue)	25.7	28.3	27.6	27.2	26.9
Asset turnover (Revenue/Avg TA)	71.5	67.8	64.7	63.2	63.0
Leverage (Avg TA/Avg equities)	182.7	161.2	172.8	179.5	183.1
Adjusted ROAE	17.0	15.6	16.0	16.1	16.1



Income Statement

Y/E 31 Mar (INR mln)	FY15A	FY16A	FY17E	FY18E	FY19E
Total revenue	3,235	3,749	4,400	5,178	6,115
EBITDA	869	1,098	1,257	1,452	1,697
EBIT	832	1,061	1,216	1,407	1,647
Net interest income/(expenses)	(200)	(211)	(283)	(323)	(379)
Other income/(expenses)	0	0	0	0	0
Exceptional items	6	7	8	9	9
EBT	633	850	933	1,084	1,268
Income taxes	(222)	(307)	(317)	(368)	(431)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	(1)	(22)	0	0	0
Reported net profit	415	528	624	724	846
Adjustments	6	7	8	9	9
Adjusted net profit	421	535	632	733	855

Balance Sheet

Y/E 31 Mar (INR mln)	FY15A	FY16A	FY17E	FY18E	FY19E
Accounts payables	174	102	237	279	330
Other current liabilities	414	533	663	780	921
Provisions	0	0	0	1	1
Debt funds	1,057	1,773	2,273	2,873	3,473
Other liabilities	74	74	74	74	77
Equity capital	272	272	272	272	272
Reserves & surplus	2,940	3,377	3,952	4,628	5,424
Shareholders' fund	3,211	3,649	4,224	4,899	5,696
Total liabilities and equities	4,931	6,130	7,470	8,906	10,498
Cash and cash eq.	23	13	(49)	103	151
Accounts receivables	1,270	1,066	1,929	2,270	2,680
Inventories	2,879	3,846	4,520	5,319	6,282
Other current assets	192	768	603	709	838
Investments	200	66	66	66	66
Net fixed assets	295	307	337	372	414
CWIP	0	0	0	1	1
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	72	66	66	66	66
Total assets	4,931	6,131	7,470	8,906	10,498

Cash Flow Statement

Y/E 31 Mar (INR mln)	FY15A	FY16A	FY17E	FY18E	FY19E
Net income + Depreciation	446	558	656	760	887
Interest expenses	0	0	0	0	0
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(23)	(1,268)	(1,107)	(1,088)	(1,310)
Other operating cash flows	(677)	222	0	0	4
Cash flow from operations	(254)	(487)	(450)	(328)	(420)
Capital expenditures	(22)	(49)	(71)	(80)	(91)
Change in investments	0	0	0	0	0
Other investing cash flows	(71)	9	0	0	0
Cash flow from investing	(93)	(40)	(71)	(80)	(91)
Equities issued	1,086	0	0	0	0
Debt raised/repaid	(455)	727	500	600	600
Interest expenses	(212)	(232)	0	0	0
Dividends paid	(10)	(32)	(41)	(41)	(41)
Other financing cash flows	(2)	(7)	0	0	0
Cash flow from financing	407	457	459	560	560
Changes in cash and cash eq	60	(71)	(62)	152	49
Closing cash and cash eq	4,610	3,471	4,935	8,500	50

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Sell	Less than -5%

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