

Broker's call: Shemaroo (Buy)



Dalmia Securities

Shemaroo (Buy)

CMP: ₹495.1

Target: ₹562

Shemaroo Entertainment has carved out its place in the industry by building its movie library syndication business, acquiring movie titles from producers and distributing these to multiple media platforms. It has steadily built this business and has begun to capitalise on its pioneering position. The company typically participates in the second and subsequent cycles of film monetisation. The risk associated with these subsequent cycles is low compared to the first cycle, caused by the higher predictability of earnings.

We expect the company's sales to grow by a CAGR of 14 per cent between FY17-20E. We expect the company to record operating EBITDA of around ₹162.1 crore and ₹186.7 crore in FY19E and FY20E, respectively. With higher operating profit Shemaroo is likely to acquire new content majorly from internal accruals. Further, we expect higher operating profit and lower debt level which will lead to improvement in ROCE to 21.4 per cent in FY20E. For FY19E and FY20E, we expect a gradual increase in net profit margin to around 15.3 per cent and 16.1 per cent, respectively. In absolute terms, we estimate net profit of around ₹85.6 crore and ₹101.8 crore in FY19E and FY20E, respectively. We recommend a 'buy' on Shemaroo with a target price of ₹562, based on 15x FY20E EPS.

Published on July 30, 2018