

Eros International Media Ltd.

Date	18 th December, 2012
NSE/BSE Code	EROSMEDIA/533261
FV	Rs. 10
Market Capitalization	1,987 cr
CMP	Rs. 209.35
Target Price	Rs. 350

Eros Worldwide FZ LLC (the "Sellers") has submitted to BSE a Notice of Offer for Sale of an aggregate of 25,73,710 equity shares of Rs. 10 each of Eros International Media Ltd (the "Sale Shares") representing 2.8% of the equity share capital of the Company, by Promoter (the "Sellers") through a sale on the separate window provided by the BSE Ltd & NSE Ltd (the "Stock Exchanges") for this purpose.

The Sale shall take place on the separate window of the Stock Exchanges and shall commence on December 20, 2012 at 9.15 a.m. and shall close on the same day at 3.30 p.m. Indian Standard Time ("Trade Date"). The issue comprises 2.8 percent of the total issued paid up capital. The Floor Price is Rs. 200.

We believe the Group's recent tie up with HBO Asia, the regional pay TV leader to launch two new premium advertising-free movie channels, HBO DEFINED and HBO HITS, in India to augur well for the company. In addition, its marketing efforts at the Cannes film festival is expected to open new markets for its films, which will progressively unlock the value of the film library. EIML is a major beneficiary of the opportunity present in Indian Media and Entertainment sector. With due consideration to factors like a) strong slate of movies, b) rights of over 1,100 films, c) unique and derisked business model, d) end to end distribution network, e) strong regional presence, f) television syndication strategy to augur well for the company, g) Clear visibility of revenues for television and music for next two years through pre-licensing underpinning the significant portion of slate cost and minimizing the overall risk profile, h) tie up with Warner Brothers to substantially contribute to bottomline, we strongly recommend to accumulate the stock at this Floor Price with a target Price of Rs. 350/-

Investment Summary

EIML is one of the market leaders in the Indian film industry and has been one of the pioneers in taking Indian films to the global audiences by leveraging its well-established distribution network. Being part of the Eros group, it enjoys strong parentage. Eros group has three decades of experience in its domain. The group went public, through Eros plc, (the holding company of the Eros Group), through Alternative Investment Market (AIMs) of the London Stock Exchange. EIML is engaged in sourcing Indian

and other film content. It exploits its content globally, through its offices in India, UK, USA, UAE, Singapore, Australia, the Isle of Man and Fiji. Presently, the company has an extensive and impressive film library of 1,100 plus strong library of Hindi, Tamil and regional language films. Its distribution formats includes theatres, home entertainment, television and digital new media. In FY 11, EIML successfully released a total of 77 films across various languages, reiterating its leadership position in the Indian film industry. In the same period, the company successfully completed the listing of its shares on the Indian exchanges. It raised Rs. 3,500 mn through Initial Public Offer of its shares. The issue price was kept at Rs. 175/- per share including a premium of Rs. 165/- per share. The issue got a overwhelming response and was subscribed 29.9 times.

Company Background

Eros International Media Limited (“EIML”) is part of the Eros group, which has been in the Indian media and entertainment sector close to three decades. Eros plc, the holding company of the Eros Group, is a promoter of the Company and is listed on the Alternative Investment Market of the London Stock Exchange. The Eros Group has an extensive film library and is in the business of sourcing Indian and other film content and exploiting it worldwide through its offices in India, UK, USA, UAE, Singapore, Australia, the Isle of Man and Fiji. Its distribution formats includes theatres, home entertainment, television and digital new media. It is one of the market leaders in the Indian Film Industry; EIML releases 12-15 Hindi movies per year.

The Company has a competitive advantage through its extensive and growing movie library comprising of over 1,100 films, which include Hindi, Tamil, and other regional language films for home entertainment distribution. The Company came out with a IPO worth Rs. 350 crores in September 2010. The initial public offer received an overwhelming response and was subscribed robust 26.51 times. The anchor investors include Citigroup, The India Fund Inc, IDFC Mutual Fund, Lloyd George Investment Management, Indus Capital Adviser and Lockheed Martin Corp.

Business Model

	Execution Role	Creative Control	Cost	Scalability
Acquisition	Low	Low	Market Value	High
Co -Production	Moderate	Moderate	Cost plus Arrangement	Moderate - High
Own Production	High	High	At cost (can overrun)	Low



EIML's core competencies

EIML exclusively sources all Indian film content for the Eros Group and exploits such content across formats within India, Nepal and Bhutan. It has various rights of over 1,000 films which include Hindi, Tamil and other regional language films, which is considered to be a key competitive advantage and an integral part of its business model. It also owns rights to certain English language films for home entertainment distribution within India. The Hindi, Tamil, other regional and English language films together form the Eros India Library.

It sources content primarily through acquisitions from third party producers and through co-productions and, occasionally, through its own productions. It mainly acquires films from third party producers at various stages of a film's production for an agreed contractual value, and also co-produces films from inception with certain producers for a pre-agreed fixed budget.

Co-productions – derisking the business model

The key difference between a co-produced film and a film entirely produced by EIML is that the principal line production responsibility lies with the co-producer it works with. Typically, once EIML agrees with the co-producer the script, cast and main crew including the director, the budget and expected cash flow as per a detailed shooting schedule, the co-producer takes the lead in production and execution. It normally nominates an executive producer on the film for control purposes. In exchange for the financing of the film through its production schedule, it typically secures all worldwide distribution rights for a specified period and a minimum 50% share in the intellectual property rights of the film. Pending determination of the actual production cost in respect of the film, it also pre-agrees a production fee to compensate the co-producer for his services. It normally does not have to share any revenues with the co-producer until the entire investment in the film has been recouped, including its distribution and marketing costs, and an additional distribution commission of between 10% and 20% of EIML's investment. The co-production model allows the company to work on more than one production with key talent simultaneously, allowing it to build scale more rapidly.

Distribution of end-to-end Indian film content

It exploits and distributes end-to-end Indian film content within India, Nepal and Bhutan through multiple formats such as theatres, home entertainment, principally in the form of DVDs, VCDs and audio CDs, and television syndication. This primarily involves licensing the broadcasting rights to major satellite television broadcasting channels, cable television channels and terrestrial television channels. In addition, EIML also exploits and distributes content via digital new media such as mobile ring tones, wallpapers and downloads, IPTV, DTH and other internet channels and also licenses films to airlines for in-flight viewing.

The International Rights for distribution of Indian film content for the entire world excluding India, Nepal and Bhutan are licensed to the Eros International Group in accordance with the terms of the Relationship Agreement with effect from October 1, 2009 between EIML and its Promoters, Eros Worldwide and Eros plc. However, its Tamil language films are distributed globally by Ayngaran and therefore arrangements for their distribution are not governed by the Relationship Agreement.

EIML directly acquires all its Hindi and regional language films, other than Tamil language films, while most of its Company's co-production and production activities are conducted through EIML's wholly-owned subsidiary, Eros International Films. EIML distributes all Indian Rights of such films across formats as well as licenses the International Rights of such films to the Eros International Group.

EIML occasionally also acquires films in particular genres and overseas-only rights, through its wholly-owned subsidiary, Copsale. Its 64%-owned subsidiary, Big Screen Entertainment undertakes production projects that are initiated by its minority shareholder and approved by EIML and distributed by EIML. In 2007, Eros plc acquired a 51% stake in an international Tamil film distribution house Ayngaran and in 2008 Eros plc transferred its entire stake to EIML's Subsidiary Copsale at cost. Ayngaran conducts all of activities relating to Tamil language films in India and internationally.

Credit Rating

By its letter dated November 4, 2011 the rating agency CARE has assigned a rating of 'CARE A+' [Single A Plus] to this issue of NCDs by the Issuer to the extent of Rs.200 Crores. The Credit Rating Letter is enclosed herewith.

Financials & Few Key Ratios

(Rs. In Crore)

As at March 31	2009	2010	2011	2012	Q1FY13
Net Sales	474	535	478	802	259
PBT	73	80	102	172	50
PAT	48	52	70	110	31
Key ratios					
Long Term Debt Equity ratio	0.34	0.23	0.06	0.17	NA
Growth in Total Income (%)	11.2	13.95	-12.01	67.78	60
PAT / Total Income(%)	9.92	9.37	14.37	13.71	12.10

Note: Q1FY13 are consolidated numbers

Movie slate

A selective list of forthcoming releases in FY13 and FY14

Film Name	Cast	Release date (Fiscal year)
Sadi Love Story	Jimmy Shergill, Amrinder Gill, Surveen Chawla, Diljit Dosanjh (Dheeraj Ratan)	FY13
Bhoot 2	Ram Gopal Varma	FY13
Attacks of 26/11	Ram Gopal Varma	FY13
Khiladi	Akshay Kumar, Paresh Rawal (Ashish R Mohan)	FY13
Kochadalyaan (Tamil, Hindi, Telugu)	Rajnikanth, Deepika Padukone, Music – A.R. Rehman (Soundarya Rajnikanth)	FY13
Dishkiyaaon	Sanjay Dutt, Harman Baweja (Sanamjit Singh Talwar)	FY13

3G	Neil Nitin Mukesh, Sonal Chauhan (Shantanu Ray. Sheershak Anand)	FY13
Go Goa Gone	Saif Ali Khan, Kunal khemu, Vir Das, Puja gupta (Krishna DK, Raj Nidimoru)	FY13
Table no. 21	Paresh Rawal, Rajeev Khandelwal (Aditya Dutt)	FY13
Peddlers	Gulshan Devaiah, Kriti Malhotra (Vasan Bala)- Selected for International Critics' Week, Cannes 2012	FY13
Dekh Tamasha Dekh	Satish Kaushik & Others	FY13
Rangeeley (Punjabi)	Jimmi Shergill and others (Nananiat Singh)	FY13
Warning (3D)	Santosh Barmola, Madhurmia Tuli, Manjari Phadnis (Anubhav Sinha)	FY13
Ranjhna	Dhanush, Kangana Ranaut (Anand Rai)	FY14
Ram Leela	Ranvir Singh, Kareena Kapoor (Sanjay Leela Bhansali)	FY14
Tanu Weds Manu – Season 2	R. Madhavan, Kangana Ranaut (Anand Rai)	FY14
Namak	Shahid Kapoor (Prabhu Deva)	FY14
Illuminati Films - Untitles	Saif Ali Khan (Saket Chaudhary)	FY14
Akele Akele	Arjun Rampal (Vikram Jeet Singh)	FY14
Purani Jeans	(Tanushree Basu)	FY14
Sarkar 3	Amitabh Bachchan, Abhishek Bachchan (Ram Gopal Varma)	FY14

Source: Company

Financials

Income statement summary

Y/e 31 Mar (Rs m)	FY07	FY08	FY09	FY10	FY11	FY12	H1FY13
Revenue	2,179	4,747	6,265	6,409	7,070	9,439	4,863
Operating profit	162	551	1,138	1,131	1,561	2,123	940
Depreciation	(9)	(18)	(50)	(44)	(38)	(60)	(34)
Interest expense	(52)	(28)	(61)	(90)	(94)	(134)	(48)
Other income	68	155	13	126	60	193	40
Profit before tax	169	660	1,040	1,123	1,489	2,122	898
Taxes	(26)	(217)	(283)	(297)	(336)	(631)	(357)
Minorities and other	0	0	0	0	0	0	0
Adj. profit	143	442	756	826	1,153	1,491	541
Exceptional items	(10)	(16)	(14)	(5)	(10)	(13)	34
Net profit	133	426	742	821	1,143	1,478	575

Source: Company, Ajcon Research

Balance sheet summary

Y/e 31 Mar (Rs m)	FY07	FY 08	FY09	FY10	FY11	FY12	H1FY13
Equity capital	51	51	51	714	714	714	714
Preference capital	0	0	0	0	0	0	0
Reserves	362	763	1,529	1,648	5,735	7,429	8,069
Net worth	413	814	1,580	2,362	6,449	8,143	8,783
Minority interest	6	0	40	42	51	64	30
Debt	686	1,239	2,118	2,178	1,986	1,125	1,382
Deferred tax liab (net)	0	88	281	499	685	1,037	1,369
Total liabilities	1,106	2,141	4,019	5,081	9,171	10,369	11,564
Fixed assets	718	1,419	2,195	2,722	3,796	564	523
Intangible assets	0	0	0	0	0	4,724	5,466
Investments	40	60	80	80	1,555	149	157
Deferred tax asset (net)	15	0	1	1	7	15	18
Net working capital	2	(498)	1,383	1,218	2,561	(2,169)	137
Inventories	170	695	978	409	54	70	89
Sundry debtors	772	1,046	1,588	1,303	1,452	2,450	2,438
Other current assets	1,629	3,647	6,005	4,466	5,279	1,391	1,171
Sundry creditors	(2,530)	(5,864)	(7,149)	(4,858)	(4,183)	(6,044)	(3,517)

Other current liabilities	(39)	(23)	(40)	(101)	(42)	(36)	(44)
Cash	331	1,160	361	1,060	1,252	7,086	5,263
Total assets	1,106	2,141	4,019	5,081	9,171	10,369	11,564

Source: Company, Ajcon Research

Cashflow summary

Y/e 31 Mar (Rs m)	FY07	FY 08	FY09	FY10	FY11	FY12	H1FY13
Profit before tax	169	660	1,040	1,123	1,489	2,122	898
Depreciation	9	18	50	44	38	60	34
Tax paid	(26)	(217)	(283)	(297)	(336)	(631)	(357)
Working capital Δ	(2)	500	(1,880)	164	(1,343)	4,730	(2,306)
Operating cashflow	150	961	(1,074)	1,034	(152)	6,281	(1,731)
Capital expenditure	(727)	(719)	(826)	(572)	(1,112)	(1,552)	(735)
Free cash flow	(577)	242	(1,900)	462	(1,264)	4,730	(2,466)
Equity raised	280	(25)	24	(39)	2,944	216	65
Investments	(40)	(20)	(20)	-	(1,475)	1,406	(8)
Debt financing/disposal	686	552	879	60	(192)	(861)	257
Dividends paid	-	-	-	-	-	-	-
Other items	(19)	80	218	215	178	344	329
Net Δ in cash	331	829	(799)	699	192	5,834	(1,823)

Ratio analysis

Y/e 31 Mar	FY 08	FY09	FY10	FY11	FY12
Growth matrix (%)					
Revenue growth	117.9	32.0	2.3	10.3	33.5
Op profit growth	240.3	106.5	(0.6)	38.0	36.0
EBIT growth	211.5	60.0	10.2	30.5	42.5
Net profit growth	209.0	71.0	9.2	39.6	29.3
Profitability ratios (%)					
OPM	11.6	18.2	17.6	22.1	22.5
EBIT margin	14.5	17.6	18.9	22.4	23.9
Net profit margin	9.3	12.1	12.9	16.3	15.8
RoCE	33.5	29.8	26.7	18.8	24.3
RoNW	72.1	63.2	41.9	26.2	20.4
RoA	7.6	7.9	7.8	9.8	10.0
Per share ratios					
EPS	6.2	10.6	11.6	16.1	20.9

Cash EPS	90.2	158.0	12.2	16.7	21.7
Book value per share	11.4	22.1	33.1	90.3	114.0
Valuation ratios (x)					
P/E	2.5	1.5	18.7	13.4	10.4
P/CEPS	2.4	1.4	17.8	13.0	10.0
EV/EBIDTA	2.1	2.5	14.7	10.4	4.5
Payout (%)					
Tax payout	33.0	27.2	26.5	22.6	29.7
Liquidity ratios					
Debtor days	80	93	74	75	95
Inventory days	53	57	23	3	3
Creditor days	451	416	277	216	234
Leverage ratios					
Interest coverage	24.4	18.0	13.4	16.9	16.8
Net debt / equity	0.1	1.1	0.5	0.1	(0.7)
Net debt / op. profit	0.1	1.5	1.0	0.5	(2.8)

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