

**Eros International**

₹ 164

**Block - Buster****Buy**

May 24, 2013

**Company Background**

Eros International Media Ltd. (Eros International) is a leading global company in Indian entertainment industry that acquires, co-produces & distributes Indian films across all available formats such as cinema, television and digital media. Eros International is part of Eros International Plc, which was the first Indian Media Company to get listed on the Alternative Investment Market of the London Exchange. Eros International has experience of over three decades in establishing a global platform for Indian Cinema. The company has a competitive advantage through its extensive and growing movie library comprising of over 1100 films, which include Hindi, and other regional language films for home entertainment distribution. Eros has built a dynamic business model by combining the release of new films every year with the exploitation of its film library.

**Key Highlights**

- ➔ Eros and Endemol India have entered an alliance to produce 3 films & original content programming for TV. An amount of Rs. 1 bn has been earmarked for the films. This deal would allow Eros to access IPR's belonging to Endemol which has a great track record of versatile content across various genres on TV such as Bigg Boss, Fear Factor, etc. We believe the deal is a right step in to penetrate into the fast expanding Rs. 500 bn television industry.
- ➔ For coming year (FY14), Eros has an impressive line-up of movies involving big names such as Amitabh Bachchan, Rajnikanth, Hrithik Roshan and so on. For FY14, Sales is expected to grow at around 23%.
- ➔ Eros has delivered a series of mega starer Blockbuster Hits in 2012-2013 like Agent Vinod, Housefull 2, Ferrari Ki Sawaari, English Vinglish, Maatraan, Kochadaiyaan, etc and has a similar series lined up in near future.
- ➔ Catering to all movie lovers and each having a distinct identity, Eros and HBO Asia have recently aired two premium channels HBO Hits & HBO Defined, in which HBO DEFINED is a 24-hr advertising-free premium channel and home of the latest Hollywood and Bollywood blockbusters & HBO Originals, while HBO HITS is a similar high-octane channel that is packed full of entertainment with a bold, honest and unapologetic attitude.

**Key Financials**

Year Ended 31 <sup>st</sup>	Mar 10	Mar 11	Mar 12
Revenue (INR mn)	5,519.9	4,897.7	8,289.9
Rev. growth (%)	13.16	(11.27)	69.26
EBITDA (INR mn)	2,547.8	2,957.3	5,136.8
Net profit (INR mn)	515.6	695.6	1,097.9
Shares outstanding (mn)	71.4	91.4	91.7
EPS (INR)	7.2	7.6	12.0
EPS growth (%)	(92.31)	5.39	57.27
P/E (x)	26.3	18.3	15.1
RONW (%)	37.5	19.3	18.4
ROCE (%)	18.1	13.1	12.8

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**Previous Report Data**

Date	: Sep 14, 2012
Recommended	: Buy @ 161
Target	: 193.2
Target Reached	: Nov 26, 2012

**Market Data**

52 Wk Range (₹)	: 153 / 235
Shares in Issue (mn)	: 91.7
Mkt. Cap (₹ bn)	: 15.14
BSE 2 Wk Avg Vol	: 26000

**Share Holding Pattern (%)**

Promoters	: 74.88
DII's	: 2.88
FII's	: 9.39
Others	: 12.85

**Investment Theme**

Eros International is a leading global company in Indian filmed entertainment industry that acquires coproduces and distributes Indian language films in multiple formats. It has last year signed various agreements with various producers and broadcasters like Viacom 18 Media Pvt. Ltd. which can trigger its growth in the coming years. The arrangement with Endemol India may propel it in the Indian TV industry also giving it access to the later IPR. Eros group has also recently announced its tie-up with HBO Asia for the launch of their two new premium advertising-free movie channels, HBO DEFINED and HBO HITS in India. The Net Sales and PAT of the company are expected to grow at a CAGR of 26% and 22% over 2011 to 2014E respectively. We therefore are bullish on the stock and recommend it with a Buy.

**Small Screen - Big Money !**

## Financial Statements

## Income Statement

(₹ mn)

Year end	Mar 10	Mar 11	% Chg	Mar 12	% Chg
Total Sales + Excise	5345.7	4776.6	(10.65)	8020.0	67.90
Other Income	171.8	118.6	(30.97)	236.5	99.41
Change in Stocks	0.0	0.0	-	0.0	-
Raw Material Con.	0.0	0.0	-	0.0	-
Employee Exp.	105.2	168.8	60.46	148.2	(12.20)
Indirect Taxes	0.0	0.3	-	1.1	266.67
Other Exp.	2864.5	1768.8	(38.25)	2970.4	67.93
Operating Exp.	2969.7	1937.9	(34.74)	3119.7	60.98
Operating Profit	2376.0	2838.7	19.47	4900.3	72.62
Total Interest	109.2	120.5	10.35	223.9	85.81
Gross Profit	2438.6	2836.8	16.33	4912.9	73.18
Net Dep.	1636.4	1809.8	10.60	3209.0	77.31
Total Taxation	286.6	331.4	15.63	606.0	82.86
Net Profit/Loss	515.6	695.6	34.91	1097.9	57.83

## 4 Years Balance Sheet

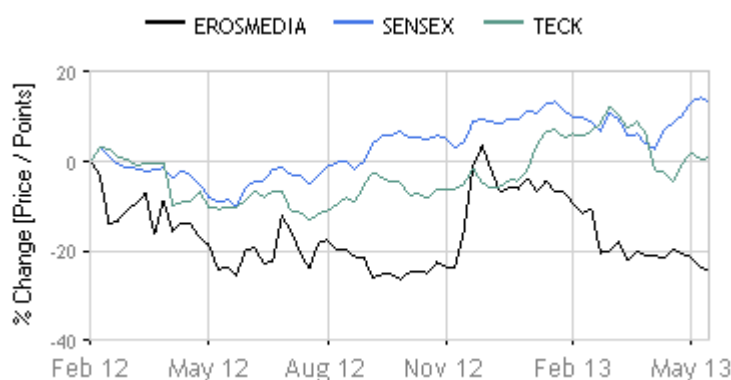
(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 09	Mar 10	Mar 11	Mar 12
<b>SOURCES OF FUNDS</b>	<b>2,315.5</b>	<b>3,328.1</b>	<b>7,279.6</b>	<b>10,357.5</b>
Equity Share capital	51.0	714.1	914.1	917.4
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	1,043.8	920.6	4,664.8	5,780.8
Long Term Loans	458.4	493.7	357.3	1,240.9
Short Term Loans	762.3	1,199.7	1,343.4	2,418.4
<b>USES OF FUNDS</b>	<b>2,315.5</b>	<b>3,328.1</b>	<b>7,279.6</b>	<b>10,357.5</b>
Gross Block	5,379.1	7,529.6	9,841.1	14,773.3
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	3,887.7	5,500.7	7,278.5	10,425.4
Net Block	1,491.4	2,028.9	2,562.6	4,347.9
Capital Work in Progress	0.0	2.8	4,583.1	4,048.6
Investments	204.1	204.1	1,678.8	639.1
Current Assets	6,120.7	5,051.6	2,294.4	4,812.2
Less : Current Liabilities	5,500.7	3,959.3	3,839.3	3,490.3
Total Net Current Assets	620.0	1,092.3	(1,544.9)	1,321.9
Misc. Expenses not written	0.0	0.0	0.0	0.0
<b>NOTE</b>				
Bk Val Unquoted Investments	204.1	204.1	204.1	204.1
Mkt Val. Quoted Investments	0.0	0.0	1,474.7	435.0
Contingent Liabilities	140.4	438.5	545.4	522.4
Dividend (%)	0	0	0	0

**Quarterly Income Sheets**

(₹ mn)

Quarter Ended	Mar 12	Jun 12	Sep 12	Dec 12
Net Sales	1,461.50	2,502.20	2,272.30	2,945.70
Cost Of Sales	1,326.90	1,906.00	1,780.70	2,356.70
Operating Profit	134.60	596.20	491.60	589.00
Recurring Income	101.60	21.70	15.10	7.40
Adjusted PBDIT	236.20	617.90	506.70	596.40
Financial Expenses	26.00	20.90	27.40	26.00
Depreciation	12.30	14.00	14.40	14.40
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	197.90	583.00	464.90	556.00
Tax Charges	82.30	213.60	146.80	168.40
Adjusted PAT	115.60	369.40	318.10	387.60
Non Recurring Items	0.00	0.00	0.00	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	115.60	369.40	318.10	387.60

**52 Week Index Relative Percentage Appreciation**

**Eros vs SENSEX vs TECK**
**Points to Ponder**

- ➔ Eros has been recently in a lot of strategic tie-ups with Sony they recently announced a co-production with Multi Screen Media Private Limited (Sony Entertainment), one of the largest Indian television network who will co-invest and co-produce Shashant Shah's Bhajathe Raho. Eros and Sony Entertainment will jointly produce and distribute the film which is currently under production. It had also entered into a strategic tie-up with Sony Music Entertainment, a global music giant for the music of its film Go Goa Gone and further extended when they joined hands for the music of Ranjhanaa.
- ➔ Eros has also recently tied-up with Endemol a TV Production company. While Endemol India is widely known for its versatile formats across genres, Eros International has a vast film library. This association between the two well established production houses marks the beginning of coming-of-age content creation.

**Risks Associated**

The company may fail to source adequate film content on favorable terms or at all through acquisitions or co-productions, which could have a material and adverse impact on their business. The popularity and commercial success of the films are subject to numerous factors, over which the company may have limited or no control. The success of the company's business depends on their ability to consistently create and distribute filmed entertainment that meets the changing preferences of the broad consumer market both within India and internationally. The company's ability to exploit their content is limited to the rights that the company acquire from third parties or otherwise own. Piracy of company's content, including digital and internet piracy, may adversely impact their revenues and business.

**In a Nutshell**

Eros International generates revenues from multiple channels starting from theatrical distribution to new media. It generates a majority of its revenues from box-office collections of films. With its own offices across major markets in India it distributes films to theatres and multiplexes. It also receives royalties from public performance of songs in TV & Radio. Its subsidiary Eros Music Publishing acts as an exclusive sub-publisher in India. It has formed EyeQube, an animation and visual effects studio that uses the latest technologies to create highend visual effects in films. Eros International enters into licensing deals with major television networks in India, such as Star, Sony, Zee and Colors to license its new and catalogue films. Eros distributes content through physical formats such as DVDs, VCDs, Blu-rays, etc as well as through the latest digital mediums such as VOD, DTH, Internet, Mobile and In-flight entertainment. It has implemented the digital asset management platform and is in the process of digitisation and cataloguing its entire film library. Home entertainment consists of distribution of content in formats such as ACDs, MP3s, DVDs, VCDs and Blu-ray discs through retail outlets and its website. It distributes these variants under the Eros and Ayngaran labels. Over the years the company has consistently been increasing and improving its scale and quality of earnings. It's focusing on de-risking its business model through optimum utilisation of its content library with increasing revenue share from television satellite rights licensing coupled with cost optimisation through increase in movie distribution through digital cinema and reduced competition for screens. It is also planning to enter the small screen by entering into co-production with Endemol India.

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**Rating Interpretation**

<b>Buy</b>	: Expected to appreciate 20% or more over 12-months	<b>Reduce</b>	: Expected to depreciate up to 10% over 12-months
<b>Accumulate</b>	: Expected to appreciate 10% to 20% over 12-months	<b>Sell</b>	: Expected to depreciate 10% or more over 12-months
<b>Trade Buy</b>	: Expected to appreciate more than 10% over 45-days	<b>Trade Sell</b>	: Expected to depreciate more than 10% over 45-days

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