Batlivala & Karani

B&K SECURITIES
WE UNDERSTAND MONEY

VISIT NOTE

MID CAP

Eros International Media

Not Rated

Price: Rs 151 | **BSE Index: 20,016** | **23 December 2010**

Share Data

Reuters code	EROS.BO
Bloomberg code	EROS IN
Market cap. (US$ mn)	307
Issued shares (mn)	91

Performance (%)	1M	3M	12M
Absolute	(16)	–	–
Relative	(16)	–	–

Valuation ratios

Yr to 31 Mar	FY09	FY10
EPS (Rs)	146.6	11.6
+/- (%)	74.9	(92.1)
PER (x)	1.0	13.2
PBV (x)	0.5	4.5
EV/Sales (x)	2.4	2.4
EV/EBITDA (x)	13.3	13.6

Major shareholders (%)

Promoters	78
FIIs	8
MFs	2
BFSI's	3
Public & Others	9

Robust monetisation model reduces dependence on box office...

Eros International Media (Eros) is the largest integrated film studio house in India. The company's portfolio approach, strong content library, robust distribution network and unique monetisation model with lower dependence on the box office differentiate it from others.

Key takeaways from our meeting with Mr Kamal Jain, CFO, Eros International

- Eros adopts a portfolio approach of releasing a mix of big, medium and small budget movies in Hindi and Tamil languages. The company acquires content mostly under the co-production model.
- The co-producer ensures the completion of the movie on time and Eros concentrates on financing, distribution and monetisation of content. The co-production model engenders scalability in the complex and creative process of film making.
- Eros minimises its dependence on the Indian box office partly by selling all the international rights of a movie to its promoter and partly by entering into agreement with various broadcasters/other parties for selling the satellite and music rights even before the release of a movie. Thus Eros is able to recover 60-70% of the cost of movie even before its actual release in theatres.
- The company's parent has the strongest international distribution network for Indian film content, built over the past 30 years and nurtured through strong relationships. Eros has an extensive distribution network in India with offices in key markets such as Mumbai, Delhi and Punjab.
- Eros has a movie library comprising more than ~1,000 films (50:50 Hindi to non-Hindi ratio), accumulated over the past 30 years. It monetises them through syndication deals and selling of satellite rights of new movies.

B&K's view

Eros is the largest film producer and distributor in India in terms of movie slate and revenue. Its co-production model ensures scalability. The company works on many large projects simultaneously as the co-producer is responsible for film completion and Eros undertakes financing, distribution and monetisation of content and is involved in all the creative stages.

Eros has a strong distribution network in India and its investment in UFO Moviez ensures digital delivery of content in more than 800 theatres at minimal cost. Its parent company, Eros International Plc., has the strongest distribution network for Indian content in the international market. The company's unique agreement with Eros Plc. (30% cost plus 30% mark-up allocated towards exploitation of international rights) ensures that its dependence on the Indian theatrical box office is minimal, taking care of the biggest risk in this business. Eros has an excellent understanding of the film distribution space. Thus, it does not over-pay while acquiring content as it is able to gauge the market-wise revenue potential of a movie.

Eros has a fairly large and superior film library, which it monetises by bundling satellite rights of old movies with those of the yet-to-be-sold new movies. This ensures continuous and better monetisation.

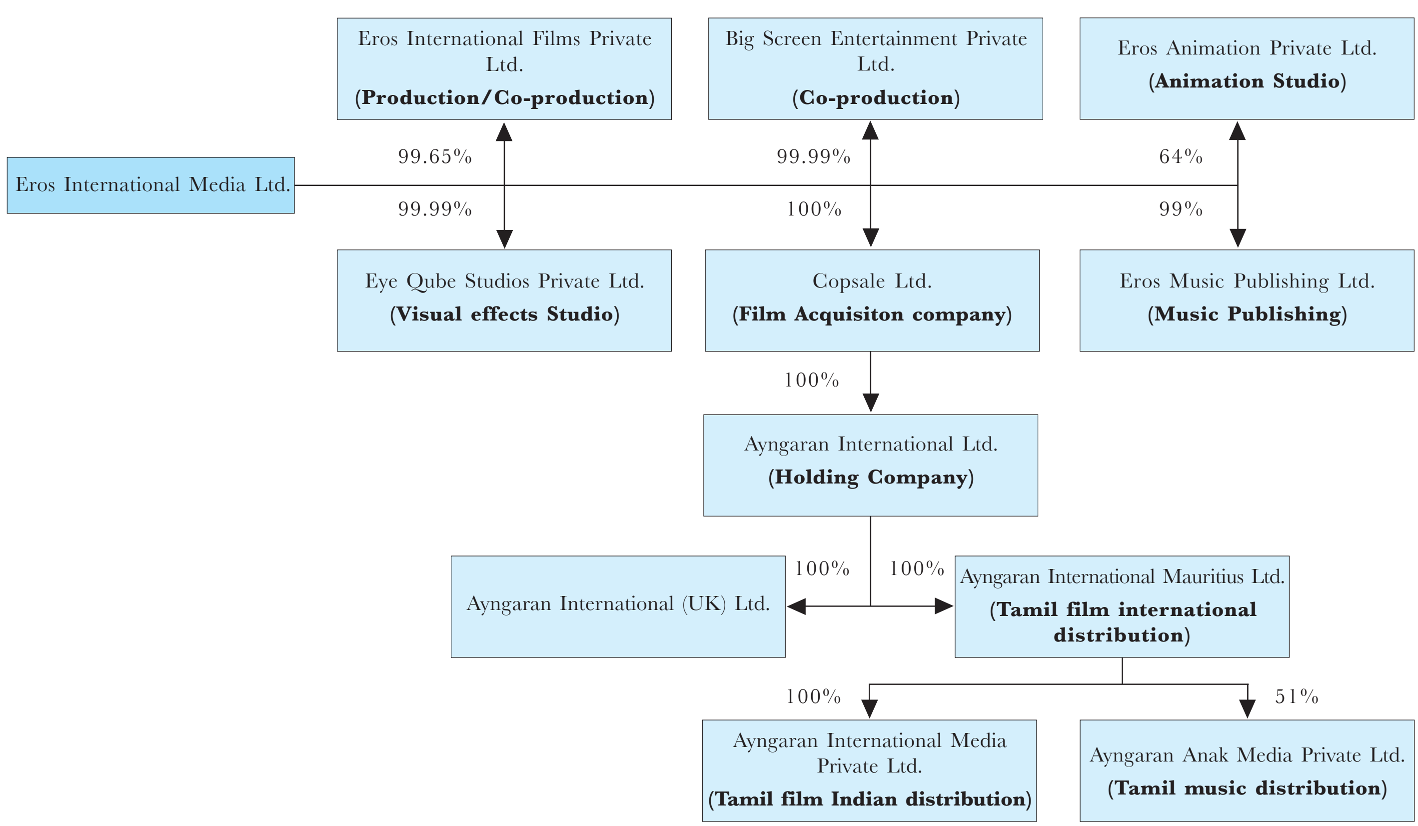
We like Eros' co-production model and its risk mitigation strategy with minimal dependence on the box office performance of a film. Generally, we are not comfortable with the film production or distribution business because of its highly unpredictable nature. However, Eros offers higher visibility in terms of cash flows vis-à-vis peers and seems strongly placed if one has to play on this theme. Nevertheless, we believe its share price would be highly correlated to the performance of its big-budget movies. Key risks include: Change in terms or termination of the agreement with Eros Plc. and slowdown in the TV satellite rights market.

Company background

Eros was incorporated as Rishima International Private Limited in 1994. Later, it acquired Jupiter Enterprises, a partnership firm of Mr Sunil Lulla and Mr Arjun Lulla. Its name was changed to Eros Multimedia Private Limited in July 2000 and further to Eros International Media Private Limited in 2008. In November 2009, it was converted into a public limited company.

Eros International Media Limited is a subsidiary of Eros International Plc. Eros group has been involved in sourcing of Indian film content and exploitation of rights worldwide for more than three decades now. It has offices in India, UK, USA, UAE, Singapore, Australia and a few other countries and presence across various platforms such as theatre, home entertainment, television and emerging media.

Eros and its subsidiaries

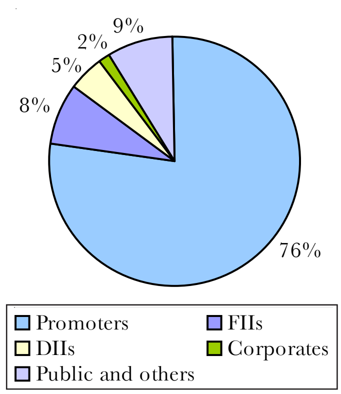


Source: Company, B&K Research

Chronology of key events in the company

Year	Events
1994	Incorporation of the company and its subsidiary Eros International films.
1999	Acquired business of Jupiter Enterprises. Commenced selling of home entertainment products like VCD's and DVD's.
2005	Release of first co-produced film "Waqt".
2006	First India theatrical release and music distribution of the film Omkara. Launch of the Eros Music label.
2007	Set up of VFX operations under our Subsidiary EyeQube Entered into a shareholder's agreement for acquisition of 64% in Big Screen Entertainment.
2008	Entered Tamil film industry via Ayngaran (assignment to Copsale, by Eros Plc.). Incorporation of subsidiary Eros Music Publishing Joint Venture Agreement with Universal Music India. Indian theatrical distribution expansion through offices in Mumbai and Delhi.
2009	Indian threatrical distribution expansion through offices in Punjab and exclusive arrangement for West Bengal. Execution of settlement agreement with various film exhibitors. Conversion to a public limited company and an increase in authorised share capital to Rs 1,250 mn.
2010	Execution of relationship agreement with Eros International Plc. IPO of 20 mn equity share in the price band of Rs 158-175.

Shareholding pattern – September 2010



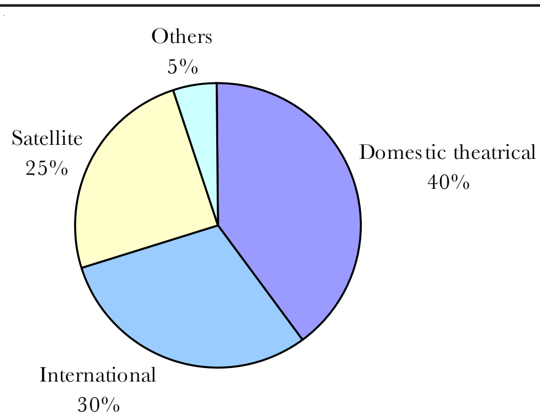
Source: BSE, B&K Research

Business analysis

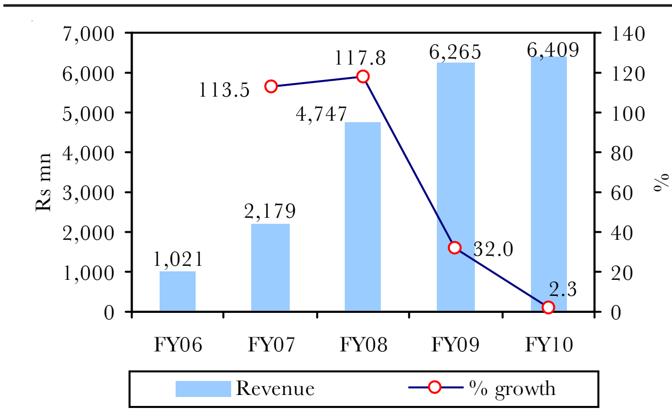
Eros International Media Limited (Eros) business model involves procuring of film rights and generation of revenue from distribution (exploitation) of content across various platforms. Domestic theatrical rights account for ~40% of revenue and international rights contribute ~30%. Satellite (broadcasting) and other rights contribute ~25% and 5%, respectively.

Further, Eros recently started a visual effect facility (EyeQube) and entered into a joint venture with Universal Music India for identification and promotion of musical and film talent.

Consolidated revenue break-up for FY10

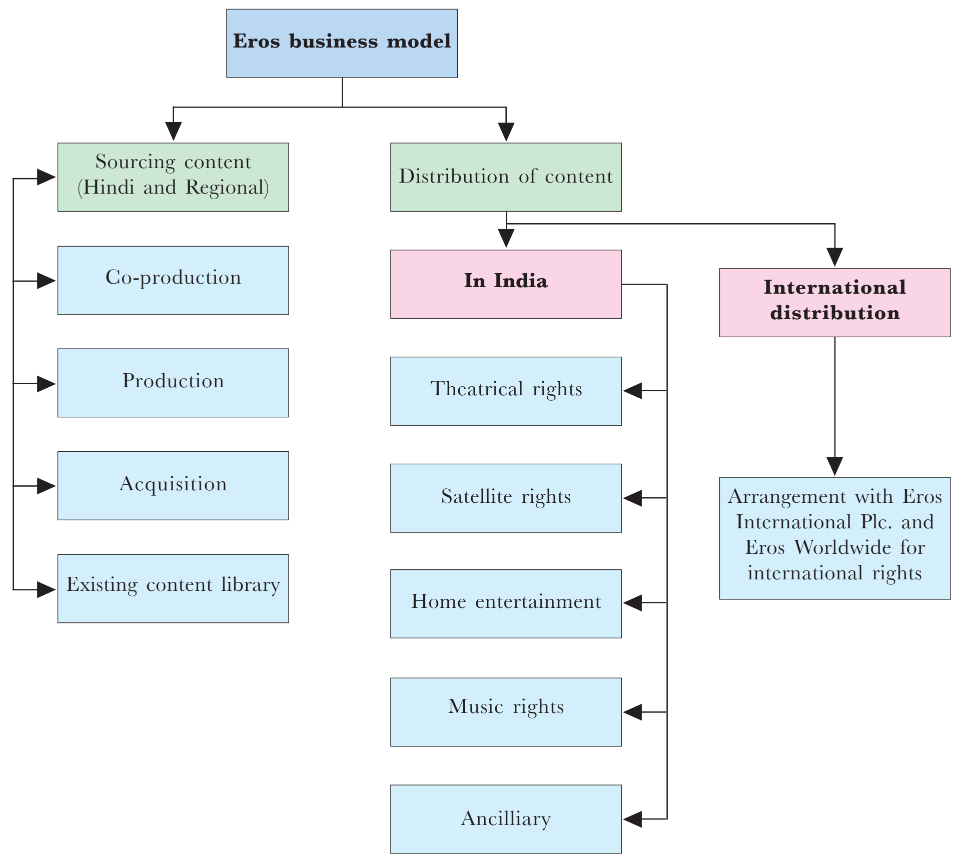


Revenue growth over the years



Source: Company, B&K Research

Eros' business model



Source: Company, B&K Research

1) Sourcing of content

Eros sources content via co-production (~60%), acquisitions (~30%) and own production. A team of 8-10 members (management committee) select the projects with inputs from other senior employees and business heads. Currently, the management's focus is primarily on Hindi and Tamil film content. It plans to enter regional films in Marathi and Punjabi. Eros generates funds for content (film projects) from internal accruals, advances from Eros International Plc., its parent (more explanation on page 13) and bank advances.

(a) Co-production

Eros acquires ~60% of a film though a co-production agreement. It enters into various agreements with producers and decides on the script, cast, shooting schedule, budget and other revenue sharing terms and conditions. The company undertakes funding and the co-producer is responsible for execution of the project. Subject to specific terms and conditions, Eros gets intellectual property rights (IPR) in exchange for funding.

How does a co-production deal work?

The producer receives an upfront production fee (~5%) and Eros charges distribution commission at 10-20% for a movie. Until its cost of production (including distribution and marketing) is recovered from various rights, it does not share any revenue with the co-producer. Any surplus flow is then shared in a pre-agreed ratio.

Example of a co-production deal

Particular	Amount (Rs mn)
Pre-determined budget of movie	500
Add: Upfront fee paid to producer @ 5%	25
Total cost of movie	**525**
Revenue realisation from exploitation of all rights (assumption)	1,000
Less: Commission to Eros International for distribution of movie (@ 20%)	200
Revenue after deduction of Eros distribution commission	800
Less: Print and advertising cost (assumed)	125
Less: Cost of movie acquisition	525
Net proceeds	150
Shared in the pre-agreed ratio (50:50, 70:30, 30:70 or any other ratio)	–

Source: Company, B&K Research

Prominent co-production partners

Excel Entertainment (Ritesh Sidhwani and Farhan Akhtar), Red Chillies Entertainment (Shah Rukh Khan and Gauri Khan), Illumanati (Saif Ali Khan), Dharma Production (Karan Johar), Nadiadwala Grandson Entertainment Private Limited (Sajid Nadiadwala).

(b) Acquisitions

Eros also acquires films produced by third parties either at the concept stage or during the course of production. Under this mode, it makes 50-65% upfront payment and the rest is paid close to the delivery date of the movie.

(c) Own production

Eros produced only one movie (Aa Dekhen Zara) so far and most of its movies are either acquired or co-produced. Considering limited scalability and the creative and challenging nature of film making, the Eros management does not intend to focus much on this for content procurement.

Content procurement in the past

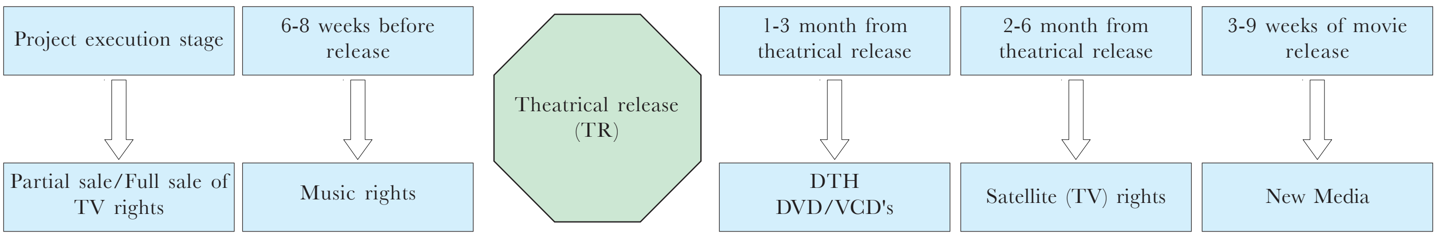
	2008	2009	2010
Acquisition	**62**	**85**	**100**
Hindi and regional films	21	16	12
Tamil films	41	69	88
Co-production	**3**	**6**	**12**
Hindi and regional films	3	3	6
Tamil films	0	3	6
Production	**0**	**3**	**3**
Hindi and Regional films	0	1	0
Tamil films	0	2	3
Total films procured	**65**	**94**	**115**

Source: B&K Research

2) Content monetisation (distribution)

Eros generates revenue from exploitation of rights for film content in India and the international market. A typical content monetisation window works as follows:

Content monetisation window



Indian distribution

(a) Satellite rights

Prior to October 2009, Eros licenced satellite rights to third parties. It now retains all television rights for India, Nepal and Bhutan. Satellite licencing may be under any of the following formats:

I) Television/broadcast licencing

A licencing agreement with broadcasters can be entered either as a syndication deal or as a pure licencing model. *In the syndication deal*, the licence is sold to a group of broadcasting channels, which in turn share broadcast rights of a specified set of films in a pre-arranged order between them. *Under pure licencing*, film broadcasting rights are sold to a specific channel for a specified period. The management uses a combination of these models. At present, the pure licensing model is in vogue.

In an attempt to reduce its dependence on box office collections from movies, Eros pre-sells its television syndication rights to various broadcasters. *In a pre-sale deal*, the company signs a multi-film deal (old, old + new, new) with broadcasters for a specific period. Such deals offer ample time for the broadcasters to market the advertisement slots on their television networks, and at the same time, they help big advertisers plan their ad expenditure well in advance.

II) DTH and cable TV licencing

Direct-to-home service providers (such as Dish TV, Tata Sky, Reliance Big TV and Bharti Telemedia) enter into a licencing deal with Eros. The deal may include lump sum payment, revenue sharing (pay per view) or a mix of both. Similarly, cable operators (MSOs and LCOs) licence content from Eros for broadcasting it on their cable channels.

(b) Music rights

In addition to acquiring IPR rights for movies, Eros acquires music rights and releases music albums six-eight weeks prior to theatrical releases. Music rights can be exploited via formats such as digital rights (mobile ring tones, downloads and wallpapers with the help of telecom partners), physical rights (audio cassette, CDs) and licencing (to radio and television channels). Furthermore, the company receives royalty payment from public performance of the songs of its movies.

(c) Theatrical distribution

Eros distributes film content via multiplexes and single screen theatres through various distribution centres. The company's Mumbai office handles the Maharashtra, Goa and Gujarat territories and the Delhi centre takes care of New Delhi, Uttar Pradesh and Punjab. For West Bengal, Eros has an exclusive distribution agent. Its subsidiary, Anygaran, undertakes distribution of all Tamil movies in India and abroad. A well-spread distribution network results in better collection of revenue for Eros.

(d) Home Entertainment

Within one-three months of theatrical release of a movie, Eros releases it via DVDs and VCDs through various retail outlets. The company bundles new movies with old ones and sells it through various outlets. It also enters into specific deals with FMCG companies for bundling its DVDs/VCDs with their products as a free gift. Eros has distributed movies (such as Om Shanti Om and Hey Babyy) in the emerging Blu-ray platform as well. All these initiatives enable better monetisation of the company's movie library.

(e) New media rights

New media rights include generation of revenue from emerging media such as mobile platforms (downloads), the Internet (*youtube*), and IPTV services. This revenue stream is quite small at the moment, but with expansion of telecom services (3G) along with increasing Internet penetration in the country, it has significant potential for growth.

International distribution

Eros distributes all Hindi films in the international markets (USA, UK, Spain and Germany) through Eros International Plc. and Eros Worldwide FZ LLC under a relationship agreement. (Details of Eros International's business on page 13).

Key features of the relationship agreement:

(a) Eros International Plc. will unconditionally acquire exclusive international distribution rights for all movies for which Eros holds distribution rights.

(b) The parent will pay a minimum guarantee of 30%, plus a mark-up of 30%, of the production/acquisition cost to Eros.

(c) Gross proceeds (net of minimum guarantee fee, commission of 20% and distribution expenses) received by Eros International Plc. would be shared with Eros in a 70:30 ratio.

(d) Eros International PLC will not produce/co-produce/acquire film rights in Indian films (including Tamil films) for India, Nepal and Bhutan territories without giving rights first to the company.

(e) This agreement may be reviewed annually. It is initially valid for five years and is automatically renewable for a successive two-year term.

Note: *International distribution of Tamil movies is done though Eros' subsidiary, Ayngaran, and the above-mentioned relationship agreement does not apply to it.*

Historical movie distribution break-up

	2008	2009	2010
Global distribution (India and Overseas)	**18**	**22**	**25**
Hindi and regional films	15	15	16
Tamil films	3	7	9
Overseas only	**47**	**72**	**90**
Hindi and regional films	9	5	2
Tamil films	38	67	88
Total movies distributed	**65**	**94**	**115**

Source: B&K Research

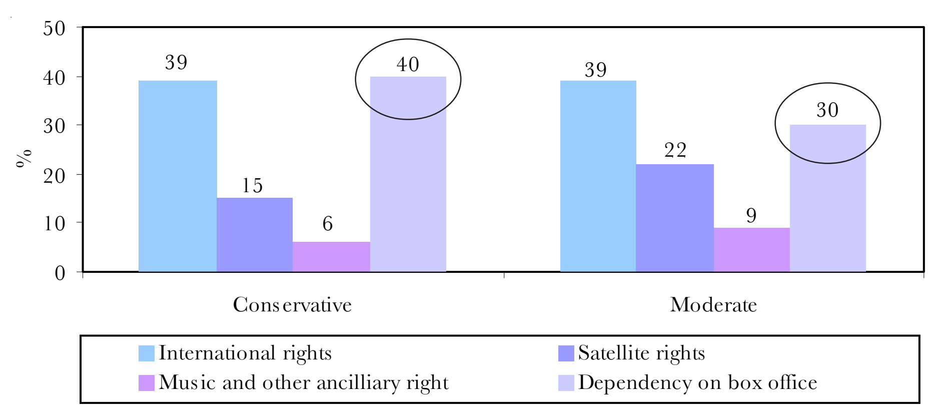
How is Eros different from other production houses?

We list here a few parameters differentiating Eros from a pure production house:

(a) Lower dependence on box office compared with other players

Eros sells international broadcasting right to Eros International Plc. at 30% of cost, plus 30% mark-up, and receives advances from Eros International Plc. It recovers another 15-25% from pre-sale of satellite rights and 6-10% from sale of music and ancillary rights. Under a conservative scenario, Eros is able to reduce its dependence on the box office to 40% for achieving break-even; under a moderate scenario this reduces further to 30%. This robust recovery model differentiates Eros to a great extent from other production houses. Not only does this model provide revenue visibility, but it also enables recovery of cash locked in projects and working capital requirements reduce.

Dependence on box office under conservative and moderate scenarios



Source: B&K Research

(b) Financial strength and scalability

Over the past few years (FY08-10), Eros invested ~Rs 8 bn for acquisition of movies. It generated ~Rs 8 bn in cash internally during the period. Pre-sales of various rights release cash locked in projects, providing ample scope for Eros to scale up its movie slate through acquisitions. Currently, the company distributes six-eight big Hindi movies (Hindi content revenue contribution: 80-85%). It has plans to increase this level to 10-12 in FY11 and 12-15 in FY12. The management intends to invest ~Rs 9-12 bn over the next two years, funded via internal accruals and debt.

Pure-production houses always find it difficult to scale up film projects as their cash gets locked in the project. Shooting of a film is an extremely cumbersome task and a creative challenge, which takes up a lot of time. A pure-production house cannot grow beyond a certain scale especially because of limited management bandwidth and creative challenges in film making. In Eros' co-production model, the co-producer is responsible for shooting and completion of a movie and Eros focuses on financing, distribution and better monetisation, which brings in scale in its business model.

(c) Portfolio approach to content acquisition and a strong movie library

Eros adopts a portfolio approach (a mix of big, medium and small budget movies) for acquisition of movies and works with established and new talent. This reduces dependence on the success of a particular movie and helps the company scale up significantly. A portfolio approach provides competitive advantages in term of movie acquisition and content exploitation as an existing movie library can be bundled with new releases for generating revenue.

In the past 3-4 years, the company has been on a strong acquisition spree, acquiring more than 300-400 movies. It now has a movie library of over ~1,000 films, accumulated over the past 30 years; Hindi movies comprise ~50% of this. Monetisation of film library entails high margins and Eros aims to achieve 15-20% of its overall cost through this. The management estimates its entire movie library to be digitised at a cost of Rs 40-50 mn. It can then be leveraged well over various emerging platforms.

(d) Strong distribution network and excellent understanding of the industry

Eros is involved in film distribution for more than 30 years now and it enjoys excellent relationships with various talented artist/companies in the industry. It is the largest distributor of Indian films in the international market and distributes Indian content in ~27 languages across more than 50 countries. A strong presence in the international market through offices and distribution centres not only allows the company to monetise its content well, but it also helps it understand the risk-return matrix of a particular market. The management is able to generate a recovery matrix for every movie based on its excellent understanding and relationship in a particular market.

International markets (USA, UK, Germany, Australia and others) offer much better scope for content monetisation via media such as mobile, Internet, DTH and other emerging platforms. In these markets, Eros monetises its content in emerging formats such as video-on-demand on cable by entering into distribution agreements with players such as Comcast Communication, Cablevision and Rogers Broadcasting in USA and other developed markets.

(e) Movie amortisation schedule

Eros' movie amortisation schedule is slightly different from that of other production houses. It transfers 30% of the cost of a movie at 30% mark-up to Eros International Plc. It amortises 60% of the balance cost at the time of theatrical release, thus, amortising ~72% of the total cost during the first release. The remaining 28% is amortised over nine years. Production houses such as UTV Software amortise ~60% of the cost at the time of first release and the balance over four years.

Risks in film production and distribution and Eros' risk mitigation strategies

(A) Production risk/execution risk

Production risks include unavailability of artistes; equipment shortage; dispute and disruption in shooting; labour dispute; cost overruns; delay and abandonment of projects (due to unavailability of funds); non-completion of projects; and delay in or abandonment of release.

Eros' strategy: Eros undertakes 100% funding for projects under production, co-production and acquisition models and keeps a strong check on the overall budget of a film. It keeps a contingency fund of 5-7% for overruns or other lapses. Eros releases funds to the producer when certain milestones of movie completion are achieved; this ensures timely completion of a film project. Eros has planned a capex of Rs 9-12 bn over the next two years. For a list of its upcoming movies, please see Annexure I.

(B) Distribution risk

Many films do not hit the box office due to lack of marketability and distribution arrangements. Sometimes, due to budget overruns, films are released with limited prints, restricting wider distribution; consequently, revenue collection is impacted.

Eros' strategy: Eros has been distributing movies for more than 30 years now and it has strong presence in India and the international markets with own offices and distribution centres. A well-established distribution network allows greater control, flexibility and understanding of various markets. In addition to its own projects, Eros handles distribution of big production houses in various markets. The company has an arrangement with UFO, which facilitates digital distribution at a much cheaper cost (~Rs 3,000 per unit) as against Rs 45,000 under the traditional (physical print) distribution method.

(C) Performance risk

The success of a film is determined in the first two weeks (more so in the first week of release of late). Industry estimates peg first-week box office collections at 70-80% of overall Indian box office collections. This shortens the monetisation window and makes it difficult for producers/distributors to maximise their collections from the box office. Until recently, if a movie did not do well at the box office, takers for satellite rights and other rights such as DVDs/VCDs were few, making the production/distribution model quite risky.

Eros' strategy: A strong monetisation model reduces its dependence to a large extent on the success of a film at the box office. Eros sells international distribution rights at 39% (30% cost + 30% mark-up) of the cost of a movie. In addition, it enters into pre-release syndication deals with Hindi General Entertainment Channels (GECs) such as Zee TV, Colors and Star and sells satellite rights to them. This covers another 15-25% of the cost of its movie. Moreover, music and other ancillary rights fetch another 6-10%. Thus, Eros is able to recover 60-65% of the cost of a movie before its release; this reduces its dependence on box office collections. Eros, however, aims to recover 80-85% of the cost of a movie though pre-sales of various distribution rights.

Pre-sales of satellite rights becoming an industry norm

Major Hindi GECs are signing deals with producers/distributors for acquisition of satellite rights of a movie much before its box office release. This is due to the relevance of showing movies to drive up weekly GRPs, huge movie acquisition costs later and high competition. This model benefits both the producers and satellite TV channels.

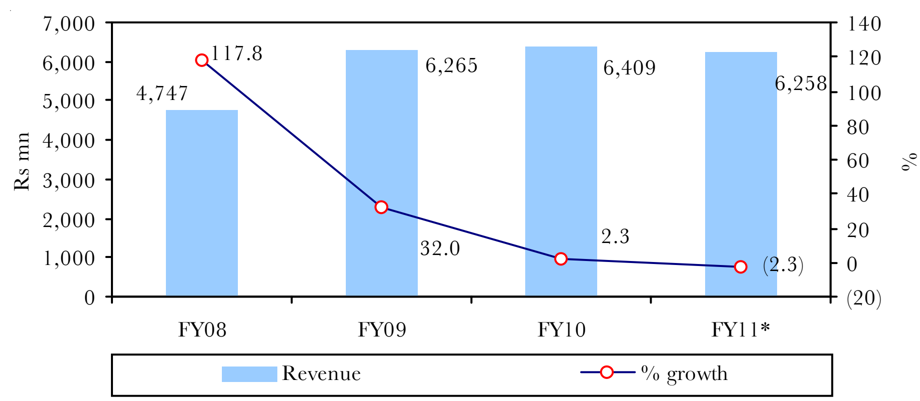
Advantage of pre-sales to various parties

- Producers are able to pre-sell movies and recover a part of the cost.
- Channels have longer time to create buzz around the product, to achieve good monetisation.
- Advertisers also lock in advertisement slots in advance and seek ad slots at better rates.

How will Eros' top line grow? Where will scalability come from?

Eros' revenue has stagnated over the past two years. Last year, due to the strife between film producers and multiplex owners, no movies were released from March 2009 to June 2009. This impacted Eros' performance. This year too, the annualised revenue run rate appear low and revenue growth seems to be stagnating.

Revenue growth stagnating at the moment...



Source: Company, B&K Research
*FY11E annualised

But scalability is relatively easy for Eros...

Eros is well placed to scale up due to a number of factors: healthy cash generation; portfolio approach towards movie acquisition (co-production); and unique monetisation model, which implies lower dependence on the box office. Box office revenue is sensitive to success/failure of a movie; nevertheless, television syndication deals are less vulnerable, as most of them are done before theatrical releases and are normally driven by star cast, production house and movie genre. Eros, due to its model of pre-sales and advances from Eros International Plc., experiences reduction in cash requirement to a great extent as cash locked into projects gets released faster.

Eros currently produces/distributes 6-8 big Hindi films. It intends to raise this level to 10-12 in FY11 and 12-15 in FY12. The company plans to invest ~Rs 9-12 bn over the next two years, with funding through a mix of internal accrual and debt. Increase in number of big Hindi movies releases (budget in excess of Rs 400 mn per movie) would help Eros grow revenue, supported by increase in multiplexes and average ticket prices. Further, pure production houses always find it difficult to scale up their businesses due to high gestation period in the movies business, complexity of film making, and limited management time. Eros' co-production model places the responsibility of finishing a movie on the co-producer and Eros focuses on financing, distribution and monetisation, which helps it bring scale into the business.

Risks associated with Eros

Dependence on box office to remain for better profitability

Pre-selling of satellite and music rights is prudent, as it de-risks the business model, but it does not guarantee profitability. In this regard, Eros would have to depend on box office collections, which remain unpredictable. In addition, the movie exhibition window has narrowed to one-two weeks, where more than 80-85% of revenue from a movie is collected. Any failure of films at the box office will result in losses and have an adverse impact on Eros' financials.

Furthermore, pre-sales of satellite and other rights of a block-buster movie (which cannot be pre-estimated) will deprive Eros from potential upside that might accrue from success of a movie. The conservative approach may cap potential upside from exploitation of movie rights and may not necessarily result in increased profitability.

Movie acquisition/production to become costly

The lucrative Indian market has enticed many deep-pocket international players such as Disney, Warner Brothers and Sony Pictures. This has increased cost of talent and overall production and created shortage of such talent (director, actors, etc.) as they are tied up in demanding projects. Consequently, cost of production/acquisition increases and more money would be required for scalability, forcing production houses to pre-sell movies, sometimes at much lesser values; this might limit profitability.

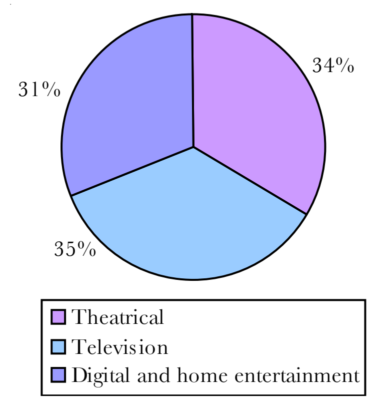
Emergence of alternative entertainment platform

Movies compete for entertainment time of audiences who have alternatives such as television, radio, mobile (3G launch is pending), sports (especially cricket in India), Internet, music, travelling and many more. Further penetration of emerging media will lead to consumer fragmentation and can negatively impact demand for films.

Piracy a big threat to the film industry

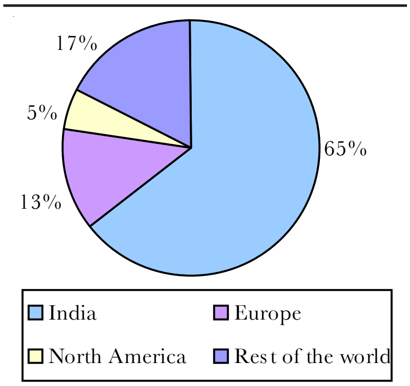
Nowadays with emergence of quality digital copying format (Camcorders), high quality piracy is possible. Illegal movie download and peer sharing result in easy accessibility to movies and force patrons to skip multiplexes. Piracy is a big threat to the film industry; as per FICCI-KPMG estimates, it losses ~Rs 20 bn annually due to piracy. If piracy is controlled, the revenue earning potential of the industry can improve significantly.

Break-up of Eros International Plc's revenue



Source: Company, B&K Research

Geographical break-up of Eros International Plc's revenue



Source: Company, B&K Research

Brief on Eros International Plc.

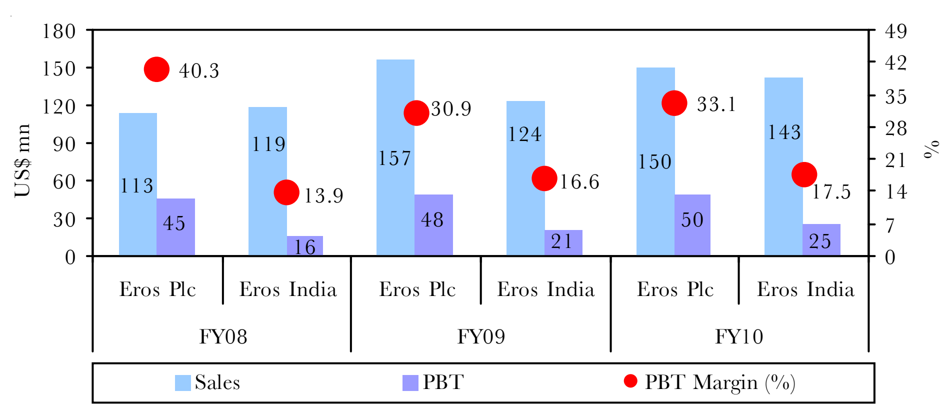
Eros International Plc. derives revenue from exploitation of theatrical rights, television syndication, music publishing and digital and home entertainment (SVOD/VOD, Internet IPTV, Mobile, Blue ray) in all markets except India (handled by subsidiary, Eros Media International Limited). Exploitation of rights in the international market is quite robust and profitable with non-theatrical rights generating ~65% of total revenue. A strong distribution network along with developed emerging platforms ensures better monetisation of movie content acquired for international distribution.

India accounts for ~65% of total revenue of Eros International Plc. We believe that its deal with Eros Media International Limited for acquiring international distribution rights at 39% is fair considering that only 35% of its business is from the non-Indian territory.

Profitability of Eros International Plc.

At the consolidated level, inter-company sale (sale of 30% content at 30% mark-up to Eros International Plc.) is adjusted and currency conversion comes into the picture. Hence, there is some inconsistency in sales of Eros Media International Limited and Eros International Plc. However, looking at the profitability of these two entities separately indicates a stark difference between them. Due to maturity of markets abroad, business dynamics are quite different in terms of content exploitation via exhibition, television syndication and digital and home entertainment. Cost of distribution is low due to presence of a large number of digital screens and marketing and publicity cost are subsidised via strategic tie-ups with leading brands. Moreover, as Eros distributes the movies itself (due to robust presence in the international territory), it saves on sub-distributors costs.

Comparison of profitability of Eros International Plc. and Eros Media International Ltd.



Source: Company, B&K Research

Annexure I

Major Hindi movie pipeline

Film name	Star Cast	Director	Tentative release
Toonpur Ka Superhero	Ajay Devgan, Kajol	Kireet Khurana	FY11
Game	Abhishek Bachchan, Kangana Ranaut	Abhinay Deo	FY11
Always Kabhi Kabhi	Zoa Morani	Roshan Abbas	FY11
Mausam	Shahid Kapoor, Sonam Kapoor	Pankaj Kapur	FY12
Chalo Dilli	Lara Dutta, Vinay Pathak	Prashant Shah	FY12
RA.One	Shah Rukh Khan, Kareena Kapoor, Arjun Rampal	Anubhav Sinha	FY12
Zindagi Na Milegi Dobara	Hrithik Roshan, Katrina Kaif, Farhaan Akhtar, Abhay Deol	Zoya Akhtar	FY12
Agent Vinod	Saif Ali Khan, Kareena Kapoor	Sriram Ragha van	FY12
Desi Boyz	Akshay Kumar, John Abraham, Deepika Padukone, Chitrangada Singh	Rohit Dhavan	FY12
Rockstar	Ranbir Kapoor	Imtiaz Ali	FY12
Bangkok Blues	Irfan Khan, Deepal Shaw, Ranbir Shorey		FY12
Untitled (2) (Boney Kapoor Productions)			FY12/13
Untitled (Prabhu Deva)			FY12

Source: Company, B&K Research

Annexure II

Prominant movies from Eros' stable

Income Statement

Yr end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10
Net sales	**2,179**	**4,747**	**6,265**	**6,409**
Growth (%)	*113.5*	*117.8*	*32.0*	*2.3*
Operating expenses	(2,017)	(4,196)	(5,127)	(5,299)
Operating profit	162	551	1,138	1,110
EBITDA	**162**	**551**	**1,138**	**1,110**
Growth (%)	127.4	239.6	106.5	(2.5)
Depreciation	(9)	(18)	(51)	(44)
Other income	68	155	13	147
EBIT	**221**	**688**	**1,100**	**1,213**
Interest paid	(52)	(28)	(61)	(90)
Pre-tax profit (before non-recurring)	169	660	1,039	1,122
Pre-tax profit (after non-recurring)	169	660	1,039	1,122
Tax (current + deferred)	(34)	(233)	(291)	(295)
Net profit (before Minority Interest, Pref. Dividend, etc.)	135	427	748	828
Reported PAT	135	427	748	828
Adjusted net profit	**135**	**427**	**748**	**828**
Growth (%)	*621.1*	*215.8*	*74.9*	*10.8*

Balance Sheet

Yr end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10
Cash & Marketable securities	331	1,182	361	1,072
Other current assets	2,571	5,389	8,571	6,177
Investments	40	60	80	80
Net fixed assets	718	1,419	2,195	2,723
Other non-current assets	15	0	1	1
Total assets	**3,675**	**8,050**	**11,208**	**10,053**
Current liabilities	2,569	5,887	7,189	4,962
Total debt	686	1,239	2,118	2,175
Other non-current liabilities	0	88	281	499
Total liabilities	**3,255**	**7,214**	**9,588**	**7,636**
Share capital	51	51	51	714
Reserves & surplus	362	763	1,529	1,661
Shareholders' funds	**413**	**814**	**1,580**	**2,375**
Minorities interests	6	22	40	42
Total equity & liabilities	**3,675**	**8,050**	**11,208**	**10,053**
Capital employed	**1,106**	**2,164**	**4,019**	**5,091**

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10
Pre-tax profit	169	660	1,039	1,122
Depreciation	9	18	51	44
Change in working capital	910	500	(1,880)	168
Total tax paid	(47)	(130)	(99)	(77)
Cash flow from oper. (a)	**1,042**	**1,048**	**(890)**	**1,257**
Capital expenditure	(1,317)	(2,777)	(3,060)	(2,326)
Change in investments	(40)	(20)	(20)	0
Others	720	2,058	2,233	1,754
Cash flow from inv. (b)	**(638)**	**(739)**	**(847)**	**(572)**
Free cash flow (a+b)	**404**	**309**	**(1,736)**	**686**
Equity raised/(repaid)	0	0	0	663
Debt raised/(repaid)	(199)	552	879	57
Others	3	16	17	2
Cash flow from fin. (c)	**(196)**	**568**	**897**	**722**
Net chg in cash (a+b+c)	**208**	**877**	**(840)**	**1,408**

Key Ratios

Yr end 31 Mar (%)	FY07	FY08	FY09	FY10
Adjusted EPS (Rs)	26.5	83.8	146.6	11.6
Growth	621.1	215.8	74.9	(92.1)
Book NAV/share (Rs)	82.2	164.0	317.6	33.8
Tax	20.0	35.2	28.0	26.2
EBITDA margin	7.4	11.6	18.2	17.3
EBIT margin	10.2	14.5	17.6	18.9
RoCE	19.4	42.1	35.6	26.6
Net debt/Equity	84.7	6.8	108.5	45.6

Valuations

Yr end 31 Mar (x)	FY07	FY08	FY09	FY10
PER	5.8	1.8	1.0	13.2
PCE	5.4	1.8	1.0	12.5
Price/Book	1.9	0.9	0.5	4.5
EV/Net sales	6.9	3.2	2.4	2.4
EV/EBITDA	93	27.4	13.3	13.6

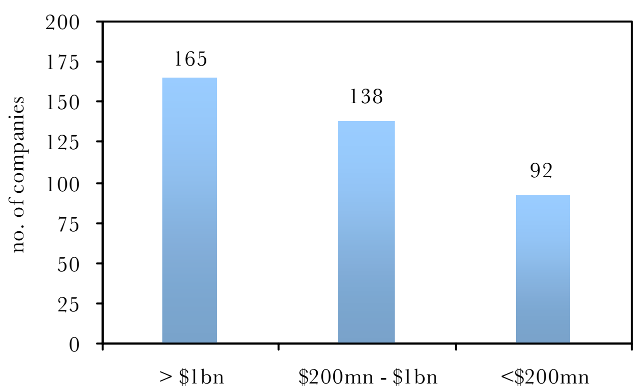
Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY07	FY08	FY09	FY10
Net margin (%)	6.2	9.0	11.9	12.9
Asset turnover	0.8	0.8	0.7	0.6
Leverage factor	7.3	9.3	7.8	5.3
Return on equity (%)	38.4	68.0	60.9	41.0

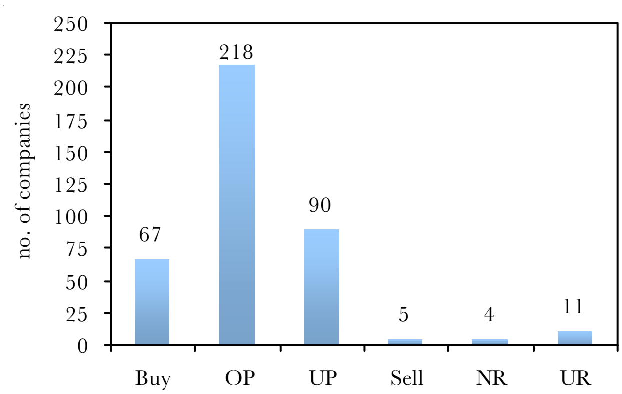
B&K Research
research.equities@bksec.com
+91-22-4031 7000

B&K Universe Profile

By Market Cap (US$ mn)



By Recommendation



B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

B&K Investment Ratings:

1. **BUY:** Potential upside of > +25% (absolute returns)
2. **OUTPERFORMER:** 0 to +25%
3. **UNDERPERFORMER:** 0 to -25%
4. **SELL:** Potential downside of < -25% (absolute returns)

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, print, publishing, photocopying, recording or otherwise without the permission of Batlivala & Karani Securities India Pvt. Ltd. Any unauthorized act in relation to all or any part of the material in this publication may call for appropriate statutory proceedings.

The information contained herein is confidential and is intended solely for the addressee(s). Any unauthorized access, use, reproduction, disclosure or dissemination is prohibited. This information does not constitute or form part of and should not be construed as, any offer for sale or subscription of or any invitation to offer to buy or subscribe for any securities. The information and opinions on which this communication is based have been complied or arrived at from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to their accuracy, correctness and are subject to change without notice. Batlivala & Karani Securities India P Ltd and/ or its clients may have positions in or options on the securities mentioned in this report or any related investments, may effect transactions or may buy, sell or offer to buy or sell such securities or any related investments. Recipient/s should consider this report only for secondary market investments and as only a single factor in making their investment decision. The information enclosed in the report has not been vetted by the compliance department due to the time sensitivity of the information/document. Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when the investment is realized. Those losses may equal your original investment. Some investments may not be readily realizable and it may be difficult to sell or realize those investments, similarly it may prove difficult for you to obtain reliable information about the value, risks to which such an investment is exposed. Neither B&K Securities nor any of its affiliates shall assume any legal liability or responsibility for any incorrect, misleading or altered information contained herein.

B & K SECURITIES INDIA PRIVATE LTD.
Equity Research Division: City Ice Bldg., 298, Ground/1st Floor, Perin Nariman Street, Behind RBI, Fort, Mumbai - 400 001, India. Tel.: 91-22-4031 7000, Fax: 91-22-2263 5020/30.
Registered Office: Room No. 3/4, 7 Lyons Range, Kolkata - 700 001. Tel.: 91-33-2243 7902.

B&K Research is also available on Bloomberg <BNKI>, Thomson First Call & Investext.