

EROS INTERNATIONAL MEDIA LTD

Result Update: Q1 FY 13

BUY

CMP	167.30
Target Price	188.00

Sept 12th, 2012

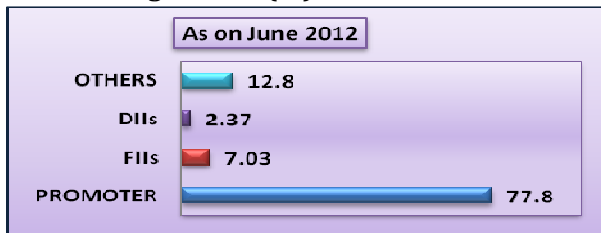
ISIN: INE416L01017

Stock Data	
Sector	Media&Entertainment
BSE Code	533261
Face Value / Div. Per Share	10.00
52wk. High / Low (Rs.)	277.00/158.20
Volume (2wk. Avg)	45000
Market Cap (Rs in mn)	15353.12

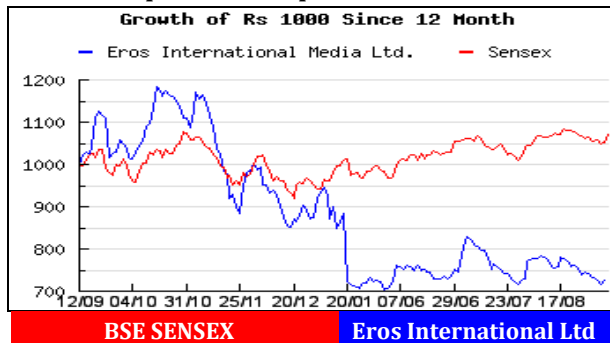
Annual Estimated Results (A*: Actual / E*: Estimated)

Years	FY12A	FY13E	FY14E
Net Sales	9438.80	11704.11	13886.93
EBITDA	2316.90	2794.92	3257.69
Net Profit	1478.40	1780.43	2082.55
EPS	16.12	19.40	22.69
P/E	10.38	8.62	7.37

Shareholding Pattern (%)



1 Year Comparative Graph



SYNOPSIS

- We initiated coverage of Eros International Media Ltd (EIML) and set a target price of Rs. 188.00 for Medium term Investment.
- EIML is a leading global company in the Indian filmed entertainment industry that acquires co-produces and distributes Indian language films in multiple formats.
- During the quarter, the robust growth of Net Profit is increased by 45.01% to Rs. 314.10 million.
- EIML announces the launch of its online music channel Eros Now Music on YouTube.
- EIML released 23 films during Q1FY13 in different languages; 5 Hindi, 18 Tamil & other regional language films.
- EIML recently signed a licensing agreement with colors' Viacom18 Media Pvt. Ltd.
- EIML has been honored with a Certificate of Excellence at the recently held Annual Inc. India Awards.
- Net Sales and PAT of the company are expected to grow at a CAGR of 25% and 21% over 2011 to 2014E respectively.

Peer Groups	CMP	Market Cap	EPS	P/E (x)	P/BV(x)	Dividend
Company Name	(Rs.)	Rs. in mn.	(Rs.)	Ratio	Ratio	(%)
Eros International Media Ltd	167.30	15353.12	16.12	10.38	1.84	0.00
PVR Ltd	181.50	4710.10	5.25	34.57	0.00	10.00
Prime Focus Ltd	48.40	7205.20	2.14	22.62	2.21	0.00
Tips Industries Ltd	55.75	885.70	3.55	15.63	1.05	20.00

Investment Highlights

Results updates- Q1 FY13,

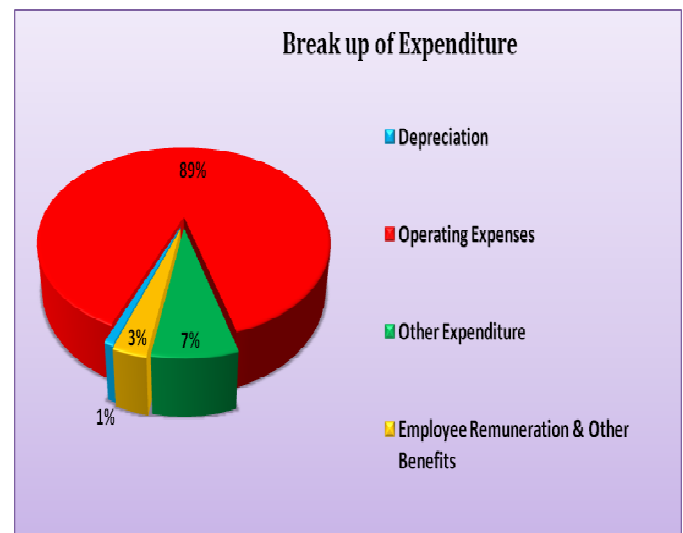
Eros International Media Ltd. is a global player within the Indian media and entertainment arena, reported its financial results for the quarter ended 30 June, 2012. Theatrical revenue growth driven by strong theatrical pre sales & box office performance of 'Housefull 2'; 'Teri Meri Kahaani'; 'Vicky Donor' & 'Ferrari Ki Sawaari'.

Months	June-12	June-11	% Change
Net Sales	2570.30	1538.10	67.11%
PAT	314.10	216.60	45.01%
EPS	3.42	2.37	44.44%
EBITDA	539.30	382.90	40.85%

The company's net profit jumps to Rs.314.10 million against Rs.216.60 million in the corresponding quarter ending of previous year, an increase of 45.01%. Revenue for the quarter rose 67.11% to Rs.2570.30 million from Rs.1538.10 million, when compared with the prior year period. Reported earnings per share of the company stood at Rs.3.42 a share during the quarter, registering 44.44% increase over previous year period. Profit before interest, depreciation and tax is Rs.539.30 millions as against Rs.382.90 millions in the corresponding period of the previous year.

Expenditure :

During the quarter variable cost rose by 67 per cent mainly on account of increase in operating expenses along with consideration of depreciation in the rupee impact. Total expenditure in Q1 FY13 was at 2114.80 million as against Rs.1263.20 million in Q1 FY12. Employee Remuneration & Other Benefits rose to Rs.61.10 million against Rs.55.10 millions in the corresponding period of the previous year. Other Expenditure stood at Rs. 150.40 million and operating expenses is Rs. 1886.50 million in Q1 FY13 is the primarily attributable to growth of expenditure.



Latest Updates

- Eros International Media Ltd has released 23 films during Q1FY13 in different languages (19 films in Q1 FY12); 5 Hindi, 18 Tamil & other regional language films.
- Theatrical revenue growth driven by strong theatrical pre sales & box office performance of **'Housefull 2'; Teri Meri Kahaani'; 'Vicky Donor' & 'Ferrari Ki Sawaari'**.
- The company has written a story of growth and positive start for Q2 FY13 with the successful release of **"Cocktail"** in July 2012, which has done a net box office collection of Rs. 100 crore worldwide.

- **Eros International announces satellite television licensing deal with COLORS' Viacom18**

Eros International Media Ltd has signed a licensing agreement with COLORS' Viacom18 Media Pvt. Ltd for new and forthcoming releases and library films to be shown exclusively on Viacom18's COLORS channel in India.

- **Eros International announces successful opening weekend box office gross of Rs 65 crore worldwide for COCKTAIL**

Eros International Media Ltd (Eros International), a leading global company in the Indian film entertainment industry has announced a gross opening weekend box office gross of Rs. 65 crore worldwide for its latest release *Cocktail*. The film has grossed over Rs. 50 crore in India (net collection: Rs. 35 crore) and Rs. 15 crore overseas. Produced by Eros International and Illuminati Films, directed by Homi Adajania and starring Saif Ali Khan, Deepika Padukone and debutante Diana Penty, Eros released *Cocktail* worldwide on 13th July 2012.

- **Eros International announces the launch of its online music channel Eros Now Music on YouTube**

Eros International Media Ltd (EIML) has announced the launch of its dedicated online music service, 'Eros Now Music' on YouTube. Eros has leveraged its wide reach and the subscriber base of its YouTube presence to launch a new channel Eros Now Music for established and emerging artists. Eros Now Music will feature established as well as emerging talent including Shaan, DJ Sheizwood, UK based pop artist Kimeli, Shweta Yogendra, Farhan Saeed, Gajendra, Simmy and Tippy, Rahul / Shah Rule among others. The content on the newly launched channel will include music videos and special behind the scenes footage.

- Eros International collaborates with Anurag Kashyap Films Pvt Ltd & Sikhya Entertainment to present Peddlers in the International Critics' Week, Cannes 2012.
- EIML has been honored with a Certificate of Excellence at the recently held Annual Inc. India Awards.



Company Profile

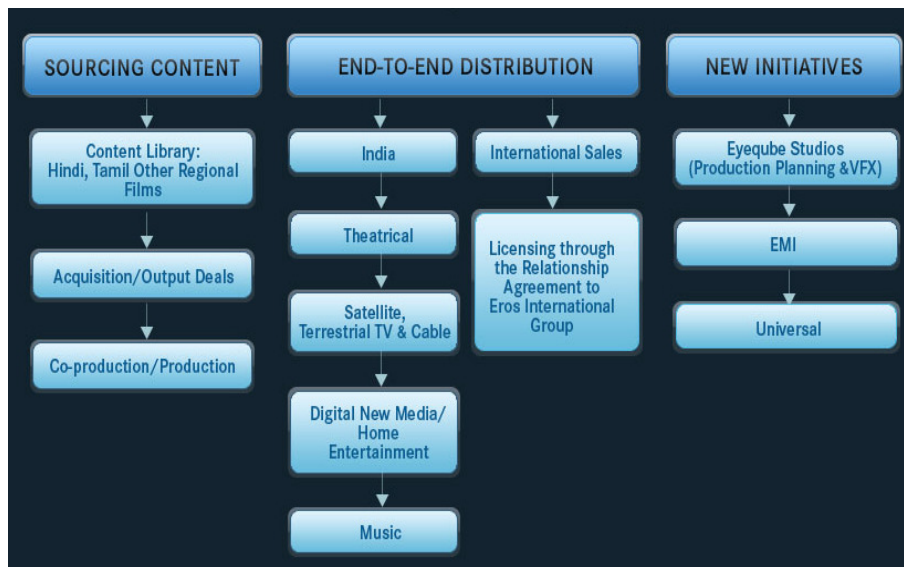
Eros International Media Limited is a leading global company in the Indian filmed entertainment industry that acquires co-produces and distributes Indian language films in multiple formats.

The company is a part of the Eros International Group. It is a leading global company in the Indian film entertainment industry, and co-produces, acquire and distribute Indian language films in multiple formats worldwide including; theatrical, television syndication & digital platforms. .

The success is built on the relationships we have cultivated over the past 30 years with leading talent, production companies, exhibitors and other key participants in our industry. Leveraging these relationships, the company has aggregated rights to over 1,900 films in our library, plus an additional 700 films for which we hold digital rights only.

In 2006, Eros International Plc, the holding company of the Eros Group, became the first Indian media company to list on the Alternative Investment Market (AIM) of the London Stock Exchange.

Business Group Model



Market Place

The distribution capabilities enable us to target a majority of the 1.2 billion people in India, primary market for Hindi language films. The company has distribution offices in Mumbai, Delhi, Punjab, Mysore

and Chennai. The group has a distribution network that spans over 50 countries, with offices in India, UK, USA, Dubai, Australia, Fiji, Isle of Man and Singapore.

Organization Chart



Diversified Global Distribution Channels: Digital/Home Entertainment and New Media

- **Home Entertainment**
 - ✓ Home video release after 4 - 12 weeks of theatrical release
 - ✓ Blue Ray releases and 3D DVD opportunity
- **Music catalogue and music rights**
 - ✓ Bundling model whereby it realizes better value for films
 - ✓ Tie up with T-Series in a strategic alliance to co-distribute Eros's forthcoming music slate
 - ✓ Eros has its own music label
- **Airborne**
 - ✓ License airborne rights to certain airlines for in-flight viewing
- **SVOD / VOD**
 - ✓ Content providers for: AKSH Fibre networks, Digital cable
 - ✓ Number of SVOD cable and Ayngaran TV subscribers > 50,000
 - ✓ Deals with Short format for monetization on mobile platforms.
- **Internet**
 - ✓ YouTube hits to generate advertising revenue from short form content
 - ✓ YouTube now delivers over 600 million video views each year
- **Mobile:**
 - ✓ Over 500 million mobile subscribers in India
 - ✓ Launch of 3G & 4G platforms in India – clips and music videos

Financial Highlight

Balance Sheet

(A*- Actual, E* -Estimations & Rs. In Millions)

Column1	FY-11A	FY-12A	FY-13E	FY-14E
	<i>Rs. In Millions</i>			
SOURCES OF FUNDS				
1.Shareholder's Funds				
a) Capital	914.07	917.40	917.70	917.70
b) ESOP	55.34	-	-	-
c) Reserves and Surplus	5735.34	7428.70	9209.13	11291.68
Total Net worth	6704.75	8346.10	10126.83	12209.38
2.Loan Funds				
a) Secured Loans	1786.28	2281.30	2851.63	3536.02
b) Unsecured Loans	200.00	2081.10	2663.81	3383.04
c) Minority Interest	51.45	64.10	80.13	98.55
d) Deferred Tax Liability	684.83	1036.80	1575.94	2348.14
Total Liabilities (1+2)	9427.31	13809.40	17298.32	21575.13
APPLICATION OF FUNDS				
1.Fixed Asset				
a) Gross block	13093.69	5572.60	5209.55	5189.72
b) Less: Depreciation	9773.81	269.80	283.29	297.45
c) Net Block	3319.88	5302.80	4926.26	4892.27
d) Capital Work in Progress	476.57	4265.00	7037.25	9711.41
Total Fixed Assets	3796.45	9567.80	11963.51	14603.67
2.Deferred Tax Asset (net)	7.43	-	-	-
3.Investments	1554.73	515.00	576.80	634.48
4.Current Assets, Loans and Advances				
a) Inventories	54.34	70.30	87.87	108.96
b) Sundry Debtor	1452.17	2449.70	3552.07	4901.85
c) Cash and Bank Balances	1507.65	3003.60	3664.39	4397.27
e) Loans and Advances	5279.40	1135.10	794.57	603.87
Total Current Assets	8293.56	6658.70	8098.90	10011.95
Less: Current Liabilities and Provisions				
a) Liabilities	4185.31	2889.40	3293.92	3623.31
b)Provisions	39.55	42.70	46.97	51.67
Net Current Assets	4068.70	3726.60	4758.01	6336.98
Total Assets (1+2+3+4)	9427.31	13809.40	17298.32	21575.13

Annual Profit & Loss Statement for the period of 2011 to 2014E.

Value(Rs.in.mn)	FY11	FY12	FY13E	FY14E
Description	12m	12m	12m	12m
Net Sales	7069.70	9438.80	11704.11	13886.93
Other Income	89.50	193.00	220.02	244.22
Total Income	7159.20	9631.80	11924.13	14131.15
Expenditure	-5508.30	-7314.90	-9129.21	-10873.47
Operating Profit	1650.90	2316.90	2794.92	3257.69
Interest	-93.90	-134.40	-161.28	-183.86
Gross profit	1557.00	2182.50	2633.64	3073.83
Depreciation	-38.20	-60.00	-68.40	-75.24
Profit Before Tax	1518.80	2122.50	2565.24	2998.59
Tax	-336.70	-631.40	-769.57	-899.58
Profit After Tax	1182.10	1491.10	1795.67	2099.01
Minority Interest	-9.80	-12.70	-15.24	-16.46
Net Profit	1172.30	1478.40	1780.43	2082.55
Equity capital	914.10	917.40	917.70	917.70
Reserves	5775.00	7428.70	9209.13	11291.68
Face value	10.00	10.00	10.00	10.00
EPS	12.82	16.12	19.40	22.69

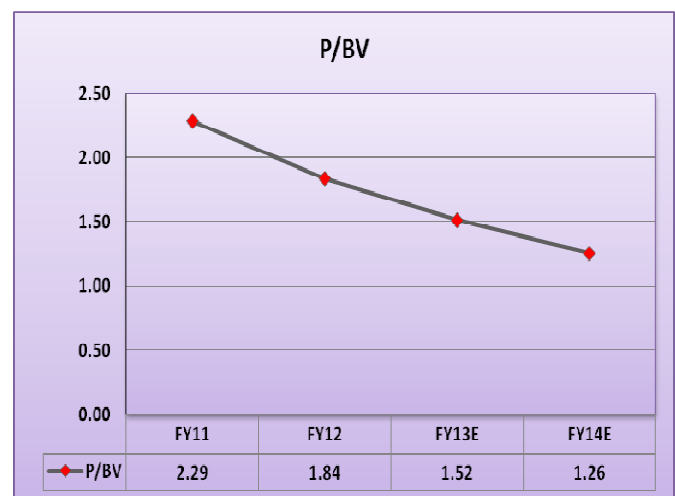
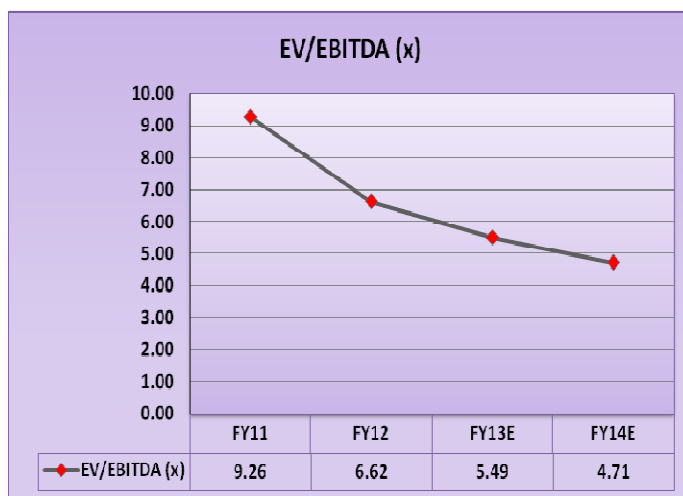
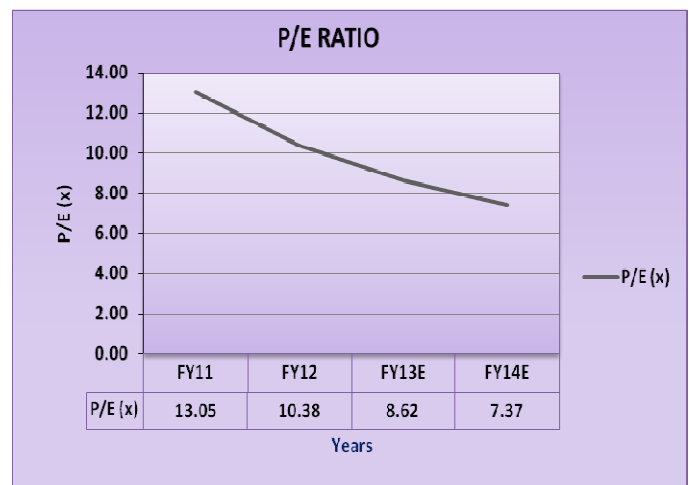
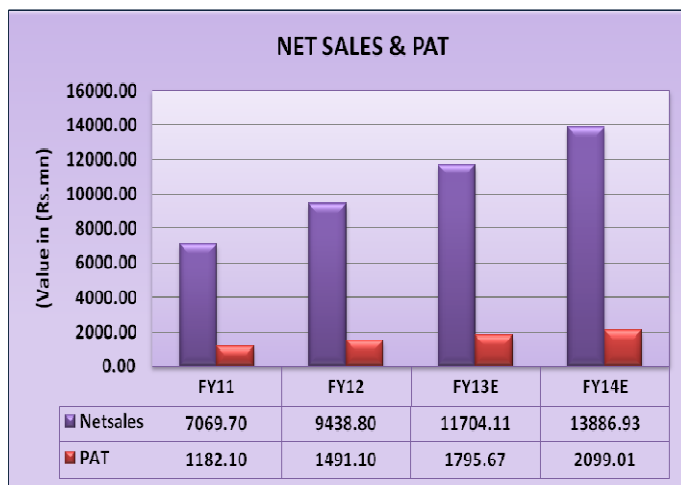
Quarterly Profit & Loss Statement for the period of 31 Dec, 2011 to 30 Sep, 12E

Value(Rs.in.mn)	31-Dec-11	31-Mar-12	30-Jun-12	31-Sep-12E
Description	3m	3m	3m	3m
Net sales	4084.20	2068.40	2570.30	2724.52
Other income	31.70	128.00	22.20	23.31
Total Income	4115.90	2196.40	2592.50	2747.83
Expenditure	-3074.30	-1726.10	-2053.20	-2165.99
Operating profit	1041.60	470.30	539.30	581.84
Interest	-44.90	-24.70	-21.00	-23.10
Gross profit	996.70	445.60	518.30	558.74
Depreciation	-14.90	-16.90	-16.80	-17.30
Profit Before Tax	981.80	428.70	501.50	541.43
Tax	-330.90	-88.60	-204.90	-167.84
Profit After Tax	650.90	340.10	296.60	373.59
Minority Interest	40.00	-43.00	17.50	7.40
Net Profit	690.90	297.10	314.10	380.99
Equity capital	915.70	917.40	917.70	917.70
Face value	10.00	10.00	10.00	10.00
EPS	7.55	3.24	3.42	4.15

Ratio Analysis

Particulars	FY11	FY12	FY13E	FY14E
EBITDA Margin (%)	23.35%	24.55%	23.88%	23.46%
PBT Margin (%)	21.48%	22.49%	21.92%	21.59%
PAT Margin (%)	16.72%	15.80%	15.34%	15.12%
P/E Ratio (x)	13.05	10.38	8.62	7.37
ROE (%)	17.67%	17.87%	17.73%	17.19%
ROCE (%)	19.47%	18.70%	19.47%	19.58%
Debt Equity Ratio	0.30	0.52	0.45	0.39
EV/EBITDA (x)	9.26	6.62	5.49	4.71
Book Value (Rs.)	73.18	90.98	110.35	133.04
P/BV	2.29	1.84	1.52	1.26

Charts



Outlook and Conclusion

- At the current market price of **Rs.167.30**, the stock P/E ratio is at 8.62 x FY13E and 7.37 x FY14E respectively.
- Earning per share (EPS) of the company for the earnings for FY13E and FY14E is seen at Rs.19.40 and Rs.22.69 respectively.
- Net Sales and PAT of the company are expected to grow at a CAGR of 25% and 21% over 2011 to 2014E respectively.
- On the basis of EV/EBITDA, the stock trades at 5.49 x for FY13E and 4.71 x for FY14E.
- Price to Book Value of the stock is expected to be at 1.52 x and 1.26 x respectively for FY13E and FY14E.
- We expect that the company surplus scenario is likely to continue for the next three years, will keep its growth story in the coming quarters also. We recommend '**BUY**' in this particular scrip with a target price of **Rs.188.00** for Medium to Long term investment.

Industry Overview

The Indian Media & Entertainment (M&E) sector is a sunrise industry. The momentum of spends on leisure and entertainment is higher than the economic growth, owing to favorable demographics and rising disposable incomes. With new media, or rather digital media, making a rage, the Indian M&E industry is standing at a new inflection point.

Rise in digital content consumption, launch of innovative content delivery platforms, higher penetration in tier II and tier III cities, enhancing reach of regional media and regulatory shifts are major factors that are driving the growth of the sector.

The entire M&E landscape is witnessing a shift; thanks to cable digitisation, wireless broadband penetration, increasing direct-to-home (DTH) penetration, digitisation of film distribution and growing internet usage.

Television

With an estimated value of Rs 329 billion (US\$ 5.76 billion) in 2011, the overall television (TV) industry is expected to expand at a compounded annual growth rate (CAGR) of 17 per cent through 2011-16 to reach Rs 735 billion (US\$ 13 billion) by then, according to report jointly prepared by KPMG and an industry body. While the current level of penetration is estimated at around 60 per cent, there is still a lot of room for expansion on Indian TV landscape. The report further estimates that pay-TV subscription revenue will increase from 65 per cent in 2011 to 69 per cent by 2016.

Radio

The radio industry in India has around 36 FM radio operators and is estimated at Rs 1,200 crore (US\$ 210 million).

Taking into account listenership in both metros and non-metros, the overall radio industry registered a growth of 15 per cent to reach Rs 11.5 billion (US\$ 201.33 million) in 2011 as against Rs 10 billion (US\$ 175.10 million) in 2010. The growth, as per the analyses, was driven by volume increases in certain markets and rate increases for the leaders in metros.

Digitisation

Rapid growth of DTH, cable digitisation and launch of new digital platforms for content delivery have revolutionised media distribution in India in past few years. This has not only facilitated development of targeted media content, but has also enhanced effective and wider reach across diverse markets.

Moreover, there is increased proliferation and consumption of digital media content through newspapers and magazines, digital film prints, and online video and music or entirely new categories such as social media. As a result, spends on online advertising is also on upsurge as against the conventional modes.

Digital advertising is anticipated to grow at a CAGR of 30 per cent during 2011-16. Digital ads spend accounted for about 5 per cent of total M&E industry revenue in 2011 wherein the growth was largely boosted by higher internet penetration and development of new devices.

Music & Films

Indian M&E industry is largely represented by the country's music and films. Where on one hand, the year 2010 saw structural shift from physical formats to digital ones, the year 2011 witnessed a wider range of viable options for music consumption through different digital platforms, on the other. The Indian music industry registered a growth of 5 per cent in 2011 over 2010, achieving revenues of Rs 9 billion (US\$ 158.66 million) in the year.

Hindi film industry is also getting experimental and international in its approach. The momentum gained in 2011 is expected to continue in 2012 wherein several high budget releases are lined up for viewers. The Indian film industry is anticipated to grow at a CAGR of 10.1 per cent to touch Rs 150 billion (US\$ 2.63 billion) by 2016. The industry is estimated to have garnered revenues of around Rs 93 billion (US\$ 1.63 billion) in 2011, reflecting a growth of 11.5 per cent vis-à-vis 2010.

Print

Rising literacy levels and low print media penetration offer significant potential for growth in Indian newspaper industry. Growing regional markets are driving the pace of print media that registered a growth of 10 per cent in 2010 and is expected to follow the similar pace till 2015.

Overall, the print industry grew by 8.3 per cent from Rs 193 billion (US\$ 3.47 billion) in 2010 to Rs 209 billion (US\$ 3.66 billion) in 2011.

Investments

- Ybrant Digital- an Indian digital marketing and advertising firm has announced acquisition of three US-based firms that belong to UK-based company Experian for US\$ 175 million. The three firms bought include PriceGrabber into online comparison shopping, LowerMyBills into personal finance and ClassesUSA into educational services.
- Anil Ambani's Reliance Broadcast Network Ltd (RBNL) is set to roll its first action entertainment channel, Thrill, during April-June 2012 quarter. The company had recently entered an equal joint venture (JV) with Luxembourg-based RTL Group SA. RTL is a part of Europe's largest media firm, Bertelsmann AG that operates 40 television channels and 33 radio stations across 10 countries in Europe.
- The Aditya Birla Group is set to buy a stake of 27.5 per cent in Living Media India. Considering the media sector an investment-oriented industry, Kumar Mangalam Birla, the chairman of the group, intends to leverage on opportunities for growth and value creation that Living Media offers.
- Videocon and Philips are focussing to rage Indian markets with new models that can receive and broadcast TV signals without a set-top box. The two companies are ready to launch light-emitting diode (LED) TVs that would not require a set-top box (a device otherwise necessary to receive digital signals in the new regime). Digital direct broadcast (DDB) is the technology that is being used in these new LEDs.

Government Initiatives

All India Radio (AIR) has proposed to set up 385 new FM transmitters in the Twelfth Plan in the country to increase the FM coverage to 90 per cent population. The proposal is yet to gain nod and funds from the Planning Commission. Currently AIR reaches out to 41.43 per cent population.

The Government has also decided to initiate e-auctions for Phase III of FM radio from December 2012. Spread over a period of three years, the auction would increase the number of private FM radio channels from the present 245 to around 839, covering another 227 cities having population of over 0.1 million.

Meanwhile, 25 FM radio broadcasting companies have applied for upgrading from FM Radio Phase II to FM Radio Phase III.

Road Ahead

The recent KPMG report anticipates the market size of Indian M&E sector to touch Rs 1,457 billion (US\$ 25.51 billion) by 2016. There is increased penetration in Indian markets, which is expected to even intensify further, owing to a revolution brought in by digital technology. Wireless broadband, growing internet usage, cable digitisation and higher DTH adoption would drive Indian M&E industry. The report also noted that smart phones, tablets, gaming devices have laid the foundation of a new wave in the industry.

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E-mail: info@firstcallindiaequity.com

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