

11 August 2011

Produced by: The Royal Bank of Scotland N.V., (India) Office

Buy

Target price
Rs220.00

Price
Rs204.50

Equity | India | Media

Flashnote

Eros International Media

Strong start to FY12

Revenues of Rs1.5bn were 25% above our estimates, while EBIT margin of 18.5% was largely in line with our estimate of 19.3%, driven by the success of Ready. We are bullish on Eros given the strong release slate for FY12 and improving TV realizations.

1Q12 results: top line ahead of our expectations, margins broadly in line

- Eros reported consolidated revenues of Rs1.5bn, up 21.8% yoy (+34.6% qoq). This was 25% ahead of our estimates of Rs1.2bn. The top line growth was driven by blockbuster movie, Ready (biggest hit in FY12 till date), as well as the success of Chalo Dilli and regional films released during the quarter. Contribution from catalogue sales also remained strong during the quarter.
- EBIT margin was stable at 18.5%, flat yoy and up 774bp qoq, broadly in line with our estimate of 19.3%. Despite solid growth in top line, margins were flat yoy largely due to higher operating expenses (up 24.7% yoy). In absolute terms, EBIT was up 21.9% yoy to Rs285m, 20% above our forecast of Rs237m.
- Non-operating income was higher than we expected at Rs53m, vs RBS estimate of negative Rs9.9m, thanks to sharp jump in other income from Rs3.9m in 1Q11 to Rs84.1m, including Rs25m related to lapse of stock options granted to a director on resignation.
- Driven by strong growth at EBIT level and higher other income, PAT grew by 39.8% yoy and 59.4% qoq to Rs217m. This was 34% ahead of our estimate of Rs162m. Tax rate for the quarter was at 31.0% versus our estimates of 28.2%. EPS was up 9.2% yoy to Rs2.37, beating our forecast of Rs1.75.

Outlook looks robust with strong release pipeline

- Following the success of Ready, Eros witnessed successful releases of big-budget movies – Zindagi Na Milegi Dobara (grossed Rs525m in its opening weekend) and Murder 2 (Rs350m in its opening weekend).
- Further, we believe the revenue visibility for FY12 is significantly high as the release pipeline remains strong, with as many as four big-budget films slated for release in 3Q12 (Ra.One, Agent Vinod, Rockstar and DesiBoyz).
- Management noted that Eros has recovered significant portion of its FY12 release slate through pre-licensing of TV and music licensing contracts. With the largest ever film pipeline, improving TV realizations and costs largely locked in, we believe Eros is well on track to meet

(Continued on page 2)

1Q12 results summary

Rs m	1Q11	4Q11	1Q12	QoQ %	YoY %	RBS est	Var %
Revenues	1263	1143	1538	34.6%	21.8%	1228	25.2%
EBIT	234	123	285	131.3%	21.9%	237	20.0%
EBIT margin	18.5%	10.8%	18.5%	774bp	1bp	19.3%	-81bp
Non-operating income	-4	11	53	404.8%	nm	-10	nm
Profit before taxes	230	137	338	146.8%	46.9%	228	48.5%
Provision for tax	85	-4	105	nm	23.8%	64	62.8%
Net income	155	136	217	59.4%	39.8%	162	34.2%
Basic EPS	2.17	1.49	2.37	59.1%	9.2%	1.75	35.2%

Source: Company data, RBS forecasts

Important disclosures can be found in the Disclosures Appendix.

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our expectations of strong revenue growth (31% yoy) and EBIT margin expansion (262bp yoy) in FY12.

- The stock currently trades at 12.4x our FY12F EPS.

Income statement

Rsm	FY10A	FY11A	FY12F	FY13F	FY14F
Revenue	6409	7070	9225	10329	11551
Cost of sales	-4468	-4960	-6349	-6885	-7589
Operating costs	-830.4	-548.7	-594.4	-693.3	-779.1
EBITDA	1110	1561	2282	2751	3184
DDA & Impairment (ex gw)	-43.9	-38.2	-53.1	-62.9	-71.8
EBITA	1066	1523	2229	2688	3112
Goodwill (amort/impaird)	0.00	0.00	0.00	0.00	0.00
EBIT	1066	1523	2229	2688	3112
Net interest	-90.2	-33.9	-74.1	-16.0	24.4
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	146.5	29.5	0.00	0.00	0.00
Reported PTP	1122	1519	2155	2672	3136
Taxation	-294.5	-336.7	-608.5	-772.4	-927.2
Minority interests	-5.04	-9.80	-7.15	-16.6	-28.5
Exceptionals (post-tax)	n/a	n/a	n/a	n/a	n/a
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	822.9	1172	1539	1883	2180
Normalised Items Excl. GW	0.00	0.00	0.00	0.00	0.00
Normalised net profit	822.9	1172	1539	1883	2180

Source: Company data, RBS forecasts

year to Mar

Balance sheet

Rsm	FY10A	FY11A	FY12F	FY13F	FY14F
Cash & market secs (1)	1072	1508	1964	2512	3197
Other current assets	6177	6786	7056	7384	8116
Tangible fixed assets	2723	3796	4858	6088	7532
Intang assets (incl gw)	n/a	n/a	n/a	n/a	n/a
Oth non-curr assets	80.7	1562	1562	1562	1562
Total assets	10053	13652	15440	17545	20407
Short term debt (2)	4856	4183	4491	4789	5119
Trade & oth current liab	106.1	42.4	42.4	42.4	42.4
Long term debt (3)	2175	1986	1698	1436	1523
Oth non-current liab	498.8	684.8	1014	1397	1851
Total liabilities	7636	6896	7245	7665	8535
Total equity (incl min)	2416	6756	8195	9880	11872
Total liab & sh equity	10053	13652	15440	17545	20407
Net debt	5959	4661	4225	3714	3445

Source: Company data, RBS forecasts

year ended Mar

Cash flow statement

Rsm	FY10A	FY11A	FY12F	FY13F	FY14F
EBITDA	1110	1561	2282	2751	3184
Change in working capital	178.9	-1346	38.3	-29.6	-402.6
Net interest (pd) / rec	-5.13	0.00	0.00	0.00	0.00
Taxes paid	-83.9	-157.4	-279.6	-388.8	-473.9
Other oper cash items	2100	2460	3497	3840	4308
Cash flow from ops (1)	3300	2517	5538	6173	6615
Capex (2)	-2564	-4987	-4612	-5132	-5823
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	n/a	n/a	n/a	n/a	n/a
Cash flow from invest (3)	-2564	-4987	-4612	-5132	-5823
Incr / (decr) in equity	0.00	3158	0.00	-0.00	0.00
Incr / (decr) in debt	68.1	-189.0	-288.6	-261.2	86.8
Ordinary dividend paid	0.00	0.00	-107.4	-215.5	-216.8
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	-92.9	-63.3	-74.1	-16.0	24.4
Cash flow from fin (5)	-24.8	2905	-470.0	-492.8	-105.5
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	711.3	435.3	455.8	548.0	685.7
Equity FCF (1+2+4)	736.1	-2470	925.9	1041	791.2

Lines in bold can be derived from the immediately preceding lines.
Source: Company data, RBS forecasts

year to Mar

Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. The trading recommendation time horizon is 0-60 days.

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and, except as follows, only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. For UK-based Investment Funds research, the recommendation structure is not based on upside/downside to the target price. Rather it is the subjective view of the analyst based on an assessment of the resources and track record of the fund management company. For research on Australian listed property trusts (LPT) or real estate investment trusts (REIT), the recommendation is based upon total return, ie, the estimated total return of capital gain, dividends and distributions received for any particular stock over the investment horizon.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Distribution of recommendations

The tables below show the distribution of recommendations (both long term and trading). The first column displays the distribution of recommendations globally and the second column shows the distribution for the region. Numbers in brackets show the percentage for each category where there is an investment banking relationship. These numbers include recommendations produced by third parties with which RBS has joint ventures or strategic alliances.

Long term recommendations (as at 11 Aug 2011)

	Global total (IB%)	Asia Pacific total (IB%)
Buy	825 (12)	541 (4)
Hold	421 (7)	230 (3)
Sell	82 (6)	51 (0)
Total (IB%)	1328 (10)	822 (4)

Source: RBS

Trading recommendations (as at 11 Aug 2011)

	Global total (IB%)	Asia Pacific total (IB%)
Trading Buy	1 (0)	1 (0)
Trading Sell	0 (0)	0 (0)
Total (IB%)	1 (0)	1 (0)

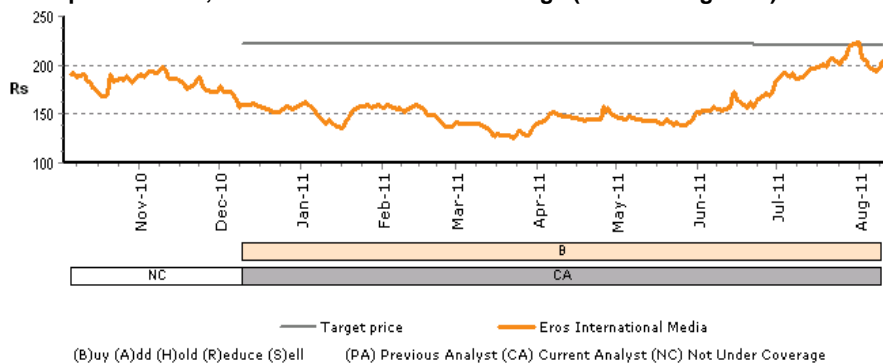
Source: RBS

Valuation and risks to target price

Eros International Media (RIC: EROS.BO, Rec: Buy, CP: Rs204.50, TP: Rs220.00): Key downside risks to our DCF-based valuation are: 1) lower cost allocation to parent for overseas rights; 2) adverse change in revenue-sharing agreement with multiplex chains; 3) any downturn in broadcasting that could impact TV licensing revenues; 4) competition bidding up talent cost; 5) a pandemic outbreak, affecting box-office collections; 6) currency risks on overseas revenues; and 7) any adverse change to indirect tax regime. A key upside risk is lower indirect taxes post transition to GST.

Eros Intl Media coverage data (EROS.BO, EROS IN)

Stock performance, recommendations and coverage (as at 11 Aug 2011)



Srinivas Seshadri started covering this stock on 9 Dec 10. Moved to new recommendation structure between 1 November 2005 and 31 January 2006. Source: RBS

Trading recommendation history

Date	Rec	Analyst
n/a	n/a	n/a

Source: RBS

Price perf (at Close 10 Aug 2011)

	(1M)	(3M)	(12M)
Price (Rs)	186.8	145.2	n/a
Absolute (%)	9.5	40.8	n/a
Rel market (%)	20.5	52.2	n/a
Rel sector (%)	9.5	40.8	n/a

Source: Bloomberg
Market: Sensex
Sector: Broadcasting & Ent

Regulatory disclosures

RBS was a lead manager of a public offering of securities for this company in the previous 12 months.: **EROS.BO**

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