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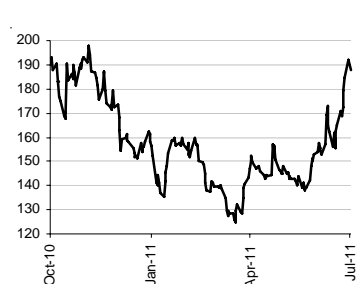
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# Eros International Media

**Emerging Star**
**Stock Update**
**Q1FY2012 earnings preview**
**Buy; CMP: Rs187**
**Company details**

Price target:	Rs247
Market cap:	Rs1,709 cr
52 week high/low:	Rs218/124
NSE volume: (No of shares)	1.4 lakh
BSE code:	533261
NSE code:	EROSMEDIA
Sharekhan code:	EROSMEDIA
Free float: (No of shares)	2.0 cr

**Shareholding pattern**

**Price chart**

**Price performance**

(%)	1m	3m	6m	12m
Absolute	24.1	29.7	20.6	-
Relative to Sensex	21.2	35.1	29.5	-

**Q1FY2012 earnings preview: Soft quarter...**

Q1FY2012 was a slow quarter in terms of Hindi films releases as the first two months had the IPL Season IV leading to very few releases. During the quarter, Eros International Media (EIML) had three Hindi film releases - "Ready" which was a blockbuster with a gross box office collection of more than Rs113 crore during the first weekend, "Always Kabhi Kabhi" and "Chalo Dilli".

For Q1FY2012, we expect revenues to be Rs130.3 crore up 3.2% on a year-on-year (Y-o-Y) basis and 14% on a quarter-on-quarter (Q-o-Q) basis. The revenue growth will be on the softer side as there was a big movie release "Housefull" in the corresponding quarter of last year ("Housefull" released on April 30, 2010), which grossed over Rs115 crore including domestic and worldwide collections, thereby resulting in a higher base while calculating Q1FY2012 revenue growth. Further, "Ready" was released during the fag end of the quarter whereas "Housefull" was released during the first month of Q1FY2011.

For Q1FY2012, the EBITDA margins are expected to remain stable at 19% on a Y-o-Y basis and higher by 730 basis points on a Q-o-Q basis. As EIML acquired the rights of "Ready" at a late stage, the acquisition cost would be relatively higher as compared to co-production. The net profit is expected at Rs16.7 crore, up 7.4% on a Y-o-Y basis and 22.5% on a Q-o-Q basis.

**Quarterly estimates**

Rs (cr)

Particulars	Q1FY2012	Q1FY2011	Q4FY2011	% yoY	% QoQ
Revenues	130.3	126.3	114.3	3.2	14.0
EBITDA	24.8	24.2	13.4	2.5	85.5
PAT	16.7	15.5	13.6	7.4	22.5
EPS	1.8	1.7	1.5	7.4	25.4
EBITDA Margins (%)	19.0	19.1	11.7		
PAT Margins (%)	12.8	12.3	11.9		

**Key monitorables:**

- ◆ Status on Rajnikanth starrer "Rana".
- ◆ Business traction in new media segments.
- ◆ New movie sign ups for FY2013.

**Valuation table**

Particulars	FY2009	FY2010	FY2011	FY2012E	FY2013E
Revenues (Rs cr)	626.5	640.9	707.0	867.9	1058.7
Net profit (Rs cr)	73.3	82.3	117.3	152.4	189.5
YoY growth (%)	78.3	12.2	42.8	29.7	24.3
EPS (Rs)	8.0	9.0	12.9	16.7	20.7
EV/EBITDA	16.7	16.6	11.3	8.4	6.4
P/E (x)	23.3	20.8	14.5	11.2	9.0
RoE (%)	59.7	40.8	25.6	20.6	21.1
RoCE (%)	35.6	26.6	22.3	22.2	24.0

## Strong releases on the anvil, will reflect in next two quarters' numbers

EIML has a strong slate of film releases on the anvil. In the next six-seven months, the company has at least six big releases including the much awaited big budget Shahrukh Khan film "Ra.One", slated for release in Diwali. As per the company's management, "Ra.One" will be the biggest among Hindi film releases with screening across more than 2500 screens.

During Q2FY2012 another multi-starrer film "Zindagi Na Milegi Dobara" will be released. The company has pre-sold the film's satellite rights for around Rs25 crore. It has also acquired the global distribution rights for "Murder 2". Alongwith the box-office revenues, the company would be benefited by the television licensing revenues, which the company has already pre-sold for all these films. The company has already pre-sold television and music rights

of "Ra.One" for about Rs40 crore. We expect EIML to post strong numbers in the upcoming traditionally strong Q2 and Q3 FY2012 quarters, after a soft Q1FY2012.

## Valuation

EIML is well poised to immensely benefit from the growing population of moviegoers. In 2010, around 4 billion tickets were sold and the number is expected to grow significantly in the coming years. On the other hand, increasing demand for virtual content in the new media segment coupled with digitalisation will also lower the distribution cost and speed up the delivery mechanism. EIML is ideally positioned to reap the benefits of this shift. We continue to remain positive on EIML from a longer-term perspective. At the current market price of Rs187, the stock is trading at 11x and 9x FY2012E and FY2013E earnings respectively. We maintain our Buy recommendation on EIML with a price target of Rs247.

## Upcoming major Hindi films releases

Name	Star cast	Tentative release period	Status
"Murder 2"	Emraan Hashmi, Jacqueline Fernandez	8-Jul-11	Completed
"Zindagi Na Milegi Dobara"	Hrithik Roshan, Katrina Kaif, Farhaan Akhtar, Abhay Deol	15-Jul-11	Completed
"Bol"	Atif Aslam, Iman Ali	**	Completed
"Mausam"	Shahid Kapoor, Sonam Kapoor	22-Jul-11	Completed
"Rockstar"	Ranbir Kapoor	Sep-11	Post production
"Ra.One"	Shahrukh Khan, Kareena Kapoor, Arjun Rampal	Oct-11	Post production
"Desi Boyz"	Akshay Kumar, John Abraham, Deepika Padukone	Nov-11	Post production
"Agent Vinod"	Saif Ali Khan, Kareena Kapoor	Dec-11	Principal photography
"Rana" (Hindi, Tamil and Telugu)	Rajnikanth, Deepika Padukone	FY2013	Pre- production
"Cocktail"	Saif Ali Khan, Deepika Padukone	FY2013	Pre- production
Untitled; by Kunal Kohli	Shahid Kapoor, Priyanka Chopra	FY2013	Principal photography

Source: Company

The author doesn't hold any investment in any of the companies mentioned in the article.

## Sharekhan Special

### Q1FY2012 Banking earnings preview

#### Key points

- ♦ In Q1FY2012 banks are expected to post a moderate growth in their top-line due to modest credit offtake and pressure on margins led by rising rates. Though banks have increased lending rates, the lag impact of rise in funding costs and increase in savings deposit rates will impact margins. In addition the higher non performing asset (NPA) provisions (due to revised norms) and higher employee expenses (due to amortisation of pension expenses) would hit profit growth on a year-on-year (Y-o-Y) basis.
- ♦ **Slow credit growth and dip in margins to impact NII growth:** The net interest income (NII) for the banks under our coverage is expected to remain flattish on a sequential basis (19% growth Y-o-Y). The public sector

unit (PSU) banks are likely to report a decline of 1.2% in their NIIs on a quarter-on-quarter (Q-o-Q) basis while private banks are expected to report a marginal growth of 1% QoQ in their NIIs. Since Q1 is traditionally a slack period for credit growth, the advances growth is likely to be muted. In addition, an increase in the funding costs (both retail and wholesale) will compress margins and hence impact NII growth.

- ♦ **Earnings growth likely to be muted:** Led by increased NPA provisioning and slower NII growth, the earnings growth will remain muted both on a Y-o-Y and Q-o-Q basis. For banks under our coverage we expect earnings to degrow by approximately 2.5% sequentially (ex State Bank of India [SBI]) and 3% year on year (YoY) mainly due to a subdued growth in PSU banks' earnings during the quarter.

#### Q1FY2012 estimates

(Rs crore)

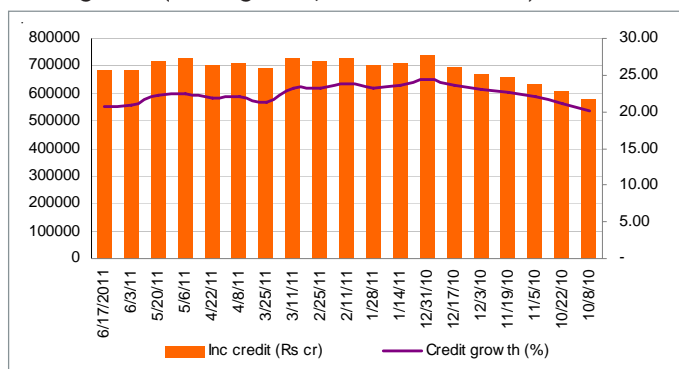
Banks	NII				PPP				PAT			
	Q1FY12	Q1FY11	% YoY	% QoQ	Q1FY12	Q1FY11	% YoY	% QoQ	Q1FY12	Q1FY11	% YoY	% QoQ
Axis Bank	1746.1	1513.8	15.3	2.7	1650.4	1450.3	13.8	-9.4	914.7	742.1	23.3	-10.3
Federal Bank	452.4	413.3	9.5	1.0	369.8	335.3	10.3	5.5	177.2	131.9	34.4	3.1
HDFC Bank	2878.1	2401.1	19.9	1.4	2053.4	1748.7	17.4	-2.1	1073.2	811.7	32.2	-3.7
ICICI Bank	2500.9	1991.1	25.6	-0.4	2371.0	2188.1	8.4	2.9	1472.7	1026.0	43.5	1.4
Yes Bank	345.4	262.1	31.8	-0.9	340.2	249.0	36.6	-2.5	194.9	156.4	24.6	-4.2
<b>Private bank total</b>	<b>7923.0</b>	<b>6581.4</b>	<b>20.4</b>	<b>1.0</b>	<b>6784.8</b>	<b>5971.3</b>	<b>13.6</b>	<b>-2.0</b>	<b>3832.5</b>	<b>2868.0</b>	<b>33.6</b>	<b>-3.3</b>
Allahabad Bank	1147.8	850.3	35.0	-0.3	855.4	704.6	21.4	9.7	401.8	347.1	15.7	56.0
Andhra Bank	846.2	736.2	14.9	-1.8	636.9	510.4	24.8	-10.5	298.1	320.4	-6.9	-4.7
Bank of Baroda	2502.7	1858.0	34.7	-4.3	1941.7	1527.9	27.1	-0.2	1043.1	859.2	21.4	-19.4
Bank of India	2038.0	1740.5	17.1	-11.7	1516.2	1410.6	7.5	25.8	700.5	725.1	-3.4	41.9
Corporation Bank	754.8	697.6	8.2	-0.9	663.3	620.4	6.9	-11.1	318.6	333.8	-4.5	-7.7
IDBI Bank	1077.5	851.2	26.6	-2.8	1093.4	831.2	31.6	-6.3	448.8	250.9	78.9	-13.1
Punjab Nat. Bank	3088.0	2618.6	17.9	1.9	2262.0	2098.2	7.8	-9.8	1051.9	1068.3	-1.5	-12.4
State Bank of India	8216.2	7303.7	12.5	2.0	6481.2	6134.4	5.7	6.6	1814.9	2914.2	-37.7	-
Union Bank of India	1680.1	1347.8	24.6	-2.1	1228.1	1043.5	17.7	41.2	651.9	601.2	8.4	9.1
<b>PSU bank total</b>	<b>21351.3</b>	<b>18004.0</b>	<b>18.6</b>	<b>-1.2</b>	<b>16678.2</b>	<b>14881.0</b>	<b>12.1</b>	<b>4.2</b>	<b>6729.8</b>	<b>7420.2</b>	<b>-9.3</b>	<b>33.5</b>
<b>Banks Total</b>	<b>29274.3</b>	<b>24585.3</b>	<b>19.1</b>	<b>-0.6</b>	<b>23463.0</b>	<b>20852.3</b>	<b>12.5</b>	<b>2.3</b>	<b>10562.3</b>	<b>10288.3</b>	<b>2.7</b>	<b>17.3*</b>
NBFC	NII				Operating profit				PAT			
	Q1FY12	Q1FY11	% YoY	% QoQ	Q1FY12	Q1FY11	% YoY	% QoQ	Q1FY12	Q1FY11	% YoY	% QoQ
HDFC	1187.0	935.3	26.9	-13.1	1218.7	981.6	24.2	-22.8	859.5	694.6	23.7	-24.7

\*Ex-SBI 2.5% growth

### Credit growth—signs of moderation

Based on Reserve Bank of India (RBI) data the credit growth till mid June was 20.7% YoY while the year till date (YTD) growth was approximately 1.6%. Since Q1 is traditionally a slack season, the credit growth has declined from 21.5% YoY in Q4FY2011 to 20.7% YoY in Q1FY2012. However, the fresh credit proposals are diminishing due to high interest rates which could impact the credit growth for the sector. In addition the external commercial borrowings (ECB) data suggests the borrowings from overseas markets are inching up due to high domestic rates and hence could weaken the credit growth of local banks. We expect banks under our coverage to post a flattish growth in credit on a sequential basis.

Credit growth (credit growth, incremental credit)

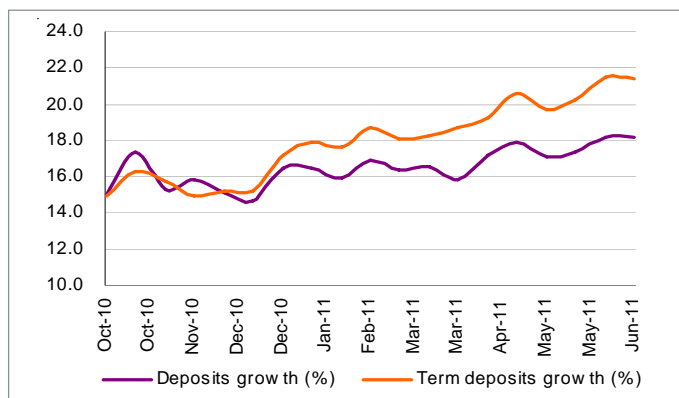


Source: RBI

### Deposits picking up but rates remain high

Deposit mobilisations have improved compared to previous year as aggregate deposits grew by 18.2% YoY (approximately 16% in FY2011) and 2.7% YTD. The growth in deposits has been mainly driven by the term deposits which grew 21.4% YoY till June 17, 2011. The banks have

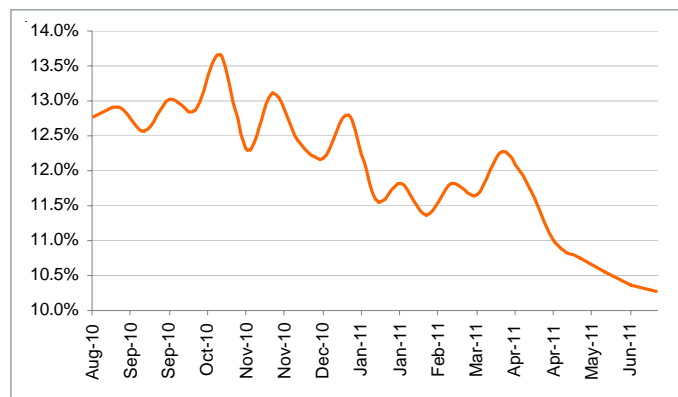
Deposits and term deposits growth



Source: RBI

increased the rates on term deposits by 200-250 basis points in the past two quarters which contributed to an increase in term deposits. However, demand deposits have declined by 3.8% YoY and constitute 10.3% of the total deposits (compared to 12.3% in Q4FY2011). This is likely to deteriorate the current account-savings account (CASA) ratio of banks in Q1FY2012.

Demand deposit to total deposit

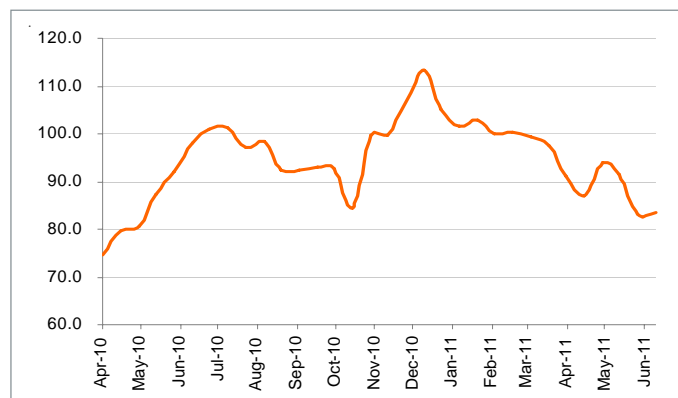


Source: RBI

### Margins set to decline

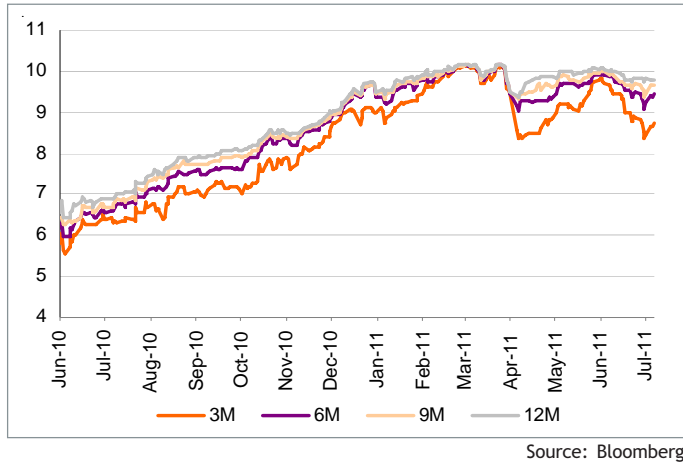
An increase in the funding costs due to increase in savings & term deposit rates and slower credit offtake will compress margins. Banks have raised term deposit rates over the past two quarters whereas intake of bulk deposits had also increased during Q4FY2011. The same could impact margins. In addition, the incremental credit to deposit ratio has declined to approximately 84% compared to 98% in Q4FY2011 due to slower credit growth and that will add pressure on margins. For banks under our coverage we expect margins to decline by 15-20 basis points with SBI showing the lowest decline of 5 basis points sequentially.

Incremental CD ratio



Source: RBI

### CD rates



### 10 year G-sec yields



### Provision expenses to remain high

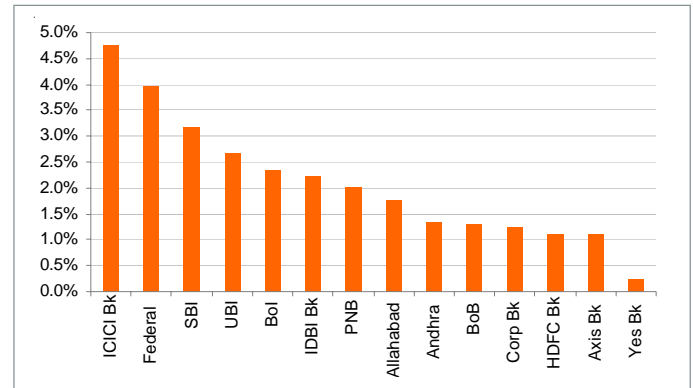
The provisions are expected to remain high for banks due to revised provision guidelines (announced in May) whereby banks would be required to make higher provision on NPAs and restructured loans. Also the slippages are expected to remain high in Q1FY2011 requiring additional provisioning. Therefore, the reduction in operating expenses on accounts would be offset by higher NPA provisions and hence impact growth in profits.

### NPAs could rise for PSU banks

As banks are required to fully implement the system based NPA recognition by Q2FY2012, there could be an increase

in the NPAs for PSU banks especially from the smaller accounts. Most banks have already implemented system based recognition for the larger accounts (above Rs1 crore). On the contrary private banks have reported an improvement in asset quality over the past three quarters and hence we do not expect any surprises in terms of NPAs for private banks.

### Gross NPA



### Sector outlook

The sector is witnessing pressure from the weak macro environment, regulatory overhang and margins pressures. Due to a sharp rise in the interest rates, credit growth is slowing which could impact the top line of banks. Secondly, given the high inflationary scenario, the RBI could continue tightening rates which could add pressure on margins. On the regulatory front the RBI plans to deregulate the savings deposit rates while demand for fresh restructuring (of advances to state electricity boards, micro finance institutions, aviation sector etc) has dampened the outlook.

Given the weak earnings outlook due to a dip in margins, slower credit offtake and higher provisioning, the banking sector is likely to continue to underperform in the near term. However the stock prices partly factor the same and continue to trade at reasonable valuations. While commodity prices seem to be easing, the peaking of inflation and monetary tightening are the key things to watch. We therefore maintain a neutral view on the sector. ICI Bk, Federal Bank and Bank of Baroda remain our top picks in the sector.

## Valuation table

Particulars	Reco	RoA (%)			RoE (%)			P/BV (x)	
		FY2011	FY2012	FY2013	FY2011	FY2012	FY2013	FY2012	FY2013
<b>Private banks</b>									
Axis Bank	Buy	1.4	1.4	1.4	19.3	20.0	20.7	2.4	2.0
Federal Bank	Buy	1.1	1.2	1.3	12.0	13.8	15.3	1.4	1.2
HDFC Bank	Hold	1.4	1.5	1.6	16.7	18.6	19.5	4.0	3.7
ICICI Bank	Buy	1.3	1.5	1.5	9.6	11.2	12.0	2.7	2.4
Yes Bank	Buy	1.5	1.4	1.3	21.1	19.9	18.6	2.1	1.8
<b>PSU banks</b>									
Allahabad Bank	Buy	1.0	1.1	1.2	18.7	20.1	21.6	1.0	0.9
Andhra Bank	Hold	1.3	1.2	1.1	23.2	20.0	19.6	1.0	0.9
Bank of Baroda	Buy	1.3	1.2	1.2	23.5	21.3	22.1	1.5	1.3
Bank of India	Buy	0.8	0.8	0.9	15.8	17.4	19.0	1.2	1.0
Corporation Bank	Buy	1.1	1.0	1.0	21.9	20.5	22.0	0.9	0.8
IDBI Bank	Buy	0.7	0.8	0.8	13.8	15.5	15.5	0.9	0.8
Punjab National Bank	Buy	1.3	1.3	1.4	22.6	22.6	23.2	1.5	1.2
State Bank of India	Hold	0.7	0.9	0.9	12.6	18.1	19.3	2.1	1.8
Union Bank of India	Buy	1.0	1.0	1.0	18.0	18.1	19.6	1.2	1.0
<b>NBFC</b>									
HDFC	Hold	2.8	2.7	2.7	20.4	21.0	21.7	5.3	4.6

The author doesn't hold any investment in any of the companies mentioned in the article.

## Evergreen

Housing Development Finance Corporation  
HDFC Bank  
Infosys Technologies  
Larsen & Toubro  
Reliance Industries  
Tata Consultancy Services

## Apple Green

Aditya Birla Nuvo  
Apollo Tyres  
Bajaj Auto  
Bajaj FinServ  
Bajaj Holdings & Investment  
Bank of Baroda  
Bank of India  
Bharat Electronics  
Bharat Heavy Electricals  
Bharti Airtel  
Corporation Bank  
Crompton Greaves  
Divi's Laboratories  
GAIL India  
Glenmark Pharmaceuticals  
Godrej Consumer Products  
Grasim Industries  
HCL Technologies  
Hindustan Unilever  
ICICI Bank  
Indian Hotels Company  
ITC  
Mahindra & Mahindra  
Marico  
Maruti Suzuki India  
Lupin  
Piramal Healthcare (Nicholas Piramal India)  
PTC India  
Punj Lloyd  
Sintex Industries  
State Bank of India  
Tata Global Beverages (Tata Tea)  
Wipro

## Cannonball

Allahabad Bank  
Andhra Bank  
IDBI Bank  
Madras Cements  
Phillips Carbon Black  
Shree Cement

## Emerging Star

Axis Bank (UTI Bank)  
Cadila Healthcare  
Eros International Media  
Greaves Cotton  
IL&FS Transportation Networks  
IRB Infrastructure Developers  
Max India  
Opto Circuits India  
Patels Airtemp India  
Thermax  
Yes Bank  
Zydus Wellness

## Ugly Duckling

Ashok Leyland  
CESC  
Deepak Fertilisers & Petrochemicals Corporation  
Federal Bank  
Gayatri Projects  
Genus Power Infrastructures  
India Cements  
Ipca Laboratories  
ISMT  
Jaiprakash Associates  
Kewal Kiran Clothing  
NIIT Technologies  
Orbit Corporation  
Polaris Software Lab  
Pratibha Industries  
Provogue India  
Punjab National Bank  
Ratnamani Metals and Tubes  
Selan Exploration Technology  
Shiv-Vani Oil & Gas Exploration Services  
Subros  
Sun Pharmaceutical Industries  
Torrent Pharmaceuticals  
UltraTech Cement  
Union Bank of India  
United Phosphorus  
V-Guard Industries

## Vulture's Pick

Mahindra Lifespace Developers  
Orient Paper and Industries  
Tata Chemicals  
Unity Infraprojects

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