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Eros International Media Ltd. (EIML)



Research By,

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Issue Details	
Sector	Film Production, Distribution & Entertainment
Issue Size	₹ 350Crore
QIBs *	12,000,000
Non-Institutional*	2,000,000
Retail*	6,000,000
Face Value	₹ 10
Price Band	₹158 - ₹ 175
BRLMs	1. Enam Securities Pvt Ltd. 2.Kotak Mahindra Capital Company Ltd. 3.Morgan Stanley India Company Pvt Ltd.
Registrar	Link Intime India Private Ltd,
Company Address: Registered Office : 201, Kailash Plaza, Plot No. A-12, opposite Laxmi Industrial Estate, Off New Link Road, Andheri (W), Mumbai 400 053 Phone: + (91 22) 6691 8500 Fax: + (91 22) 2673 2586 Email: compliance.officer@erosintl.com Website: http://www.erosintl.com	

* Minimum allotment

RATINGS: CARE has given an IPO rating of GRADE 4 to the issue suggesting above average fundamentals for the company.

Eros International Media was incorporated as a private limited company under the name Rishima International Private Limited on August 19, 1994 and got its present name on November 20, 2008. The **company is a part of the Eros Group.**, which has an **extensive film library** and is in the business of sourcing Indian and other film content and exploiting it worldwide through its offices in India, UK, USA, UAE, Singapore, Australia, the Isle of Man and Fiji across formats such as theatres, home entertainment, television and digital new media.

The international rights for distribution of Indian film content for the entire world excluding India, Nepal and Bhutan are licensed to the Eros International Group in accordance with the terms of the Relationship Agreement with effect from October 1, 2009 between the company and its Promoters, Eros Worldwide and Eros plc. The company was incorporated to carry on, in all parts of the world, the business of exhibiting, distributing and otherwise exploiting cinematograph and television films and motion pictures of all kinds, including advertisement commercial films.

Eros International sources all Indian film content for the Eros Group and exploits such content across formats within India, Nepal and Bhutan. It has **various rights to over 1,000 films which include Hindi, Tamil and other regional language films**, including films such as **Mughal-e-Azam, Om Shanti Om, Lage Raho Munnabhai and Love Aaj Kal**, which it considers to be a key competitive advantage and an integral part of its business model. It also owns rights to certain English language films for home entertainment distribution within India. The Hindi, Tamil, other regional and English language films together form the Eros India Library.

The company sources content primarily through acquisitions from third parties and through co-productions and, occasionally, through its own productions. It mainly acquire films from third party producers at various stages of a film's production for an agreed contractual value, and also co-produce films from inception with certain producers for a pre-agreed fixed budget.

Eros International so far has only a single own production to date, namely Aa Dekhen Zara as it relies more on acquisitions and co-productions to source content. The company

exploits and distribute end-to-end Indian film content within India, Nepal and Bhutan through multiple formats such as theatres, home entertainment, principally in the form of DVDs, VCDs and audio CDs, and television syndication, which primarily involves licensing the broadcasting rights to major satellite television broadcasting channels, cable television channels and terrestrial television channels. It also exploits and distributes content via digital new media such as mobile ring tones, wallpapers and download, IPTV, DTH and other internet channels and we also license films to airlines for in-flight viewing.

Subsidiaries:

- Eros International Films Private
- Copsale
- Big Screen Entertainment Private
- EyeQube Studios Private
- Eros Music Publishing Private
- Eros Animation Private
- Ayngaran International
- Ayngaran International (UK)
- Ayngaran International (Mauritius)
- Ayngaran International Media Private
- Ayngaran Anak Media Private

History of the Company:

- 1994 - Incorporation of the company and subsidiary of Eros International Films
- 1999 - Acquired business and assets of Jupiter Enterprises. Commenced selling home entertainment, for instance VCDs and DVDs
- 2005 - Release the 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 VFX operations under the Subsidiary EyeQube. Entered into a shareholder's agreement for acquisition of 64% in Big Screen Entertainment.
- 2008 - Entry into Tamil film industry pursuant to the assignment of the Ayngaran SHA to Copsale, by Eros plc. Incorporation of the Subsidiary Eros Music Publishing for signing lyricists and composers. Joint venture agreement with Universal Music India for talent management. India theatrical distribution expansion through offices in Mumbai and

- Delhi. First release on Blu-Ray high-definition disc format, Heyy Babyy, followed by Om Shanti Om.
- 2009 - India theatrical distribution expansion through offices in Punjab and exclusive arrangement for West Bengal. Execution of Settlement Agreements with various film exhibitors. Conversion to a public limited company

Source: ACE Equity

The net issue proceeds will be used for following objectives:

The following table summarizes the intended use of the proceeds of the Issue:

Expenditure Items	Amount to be utilized (₹ In lakhs)
Acquiring and co-producing Indian film rights including primarily Hindi language films as well as certain Tamil and other regional language films, thereby expanding our presence in the Indian film industry	₹ 28,000.00
General corporate purposes*	₹ [•]
Total	₹ [•]

Source: Company RHP

POSITIVES AND CONCERNS ABOUT THE COMPANY

Positives

Strong parent company

EIML is the holding company of Eros Group, for the Indian operations. The company is a subsidiary of M/s Eros Worldwide FZ LLC, Dubai and a step down subsidiary of Eros International PLC, Isle of Man , listed on the Alternative Investment Market of the London Stock Exchange. M/s Eros Worldwide FZ-LLC, Dubai holds 69.6% and Eros Digital Pvt. Ltd. Holds 30.39%

Strong Management with good corporate governance practice

The company EIML has a strong management team with Mr. Sunil Lulla working as Executive Vice Chairman and Managing Director, Mr. Kishore Lulla , Executive Director has over 20 years of experience in Media and Entertainment Industry. EIML's board comprises of seven directors of which four are Executive director and comprising of three independent directors.

Financial assistance from the group companies

EIML in the past has received interest free advances from the group companies for acquisition and co-production activities as a result of which EIML had to rely less on external borrowing

Strong film library

EIML has a strong library of 1000+ hindi and tamil films. The Eros India Library includes Hindi film titles such as Mother India, Devdas, Hum Dil De Chuke Sanam, Rangeela, 1942 Love Story, Om Shanti Om, Heyy Babyy, Namastey London, Lage Raho Munna Bhai, Love Aaj Kal, De Dana Dan and Housefull. Tamil titles in its library include Alaipayuthey, Kandukondain Kandukondain, Boys, Sivaji, Billa, Aegan and Aadhavan. The company believe that the Eros India Library will be able to generate stable revenue streams as new distribution platforms continue to evolve.

Well developed content distribution network

For theatrical distribution within India company has established its own distribution offices in some of the key markets in India such as Mumbai, Delhi and Punjab. EIML distributes Hindi and Tamil films in South India through Ayngaran's distribution offices. Key benefits of having its own well established distribution network is that it allows EIML greater control, transparency and flexibility over the distribution process as well as higher revenue margins as a result of direct exploitation instead of using sub-distributors.

Portfolio approach to films and a strong regional presence

EIML's portfolio of new releases includes a mix of big, medium and small budget films, both with established talent within the film industry and new and upcoming talent including actors, directors or co-producers.

Low cost of production due to co-production method

As per EIML's CFO, company employs co-production method in which the actor are paid a nominal fee upfront and then they are given revenue sharing in the profit. This is a win win situation for both the company and actors. For the company the cost of producing a film is reduced to great extent and for actors they have a life time annuity from the revenue sharing model which they would receive every time the rights of the films are exploited in the future.

Source: Company RHP, ANS Research

Concerns

Stiff Competition

Company faces intense competition from both Indian and foreign competitors, many of which are substantially larger and have greater financial resources than EIML, including from vertically integrated competitors that own their own theatres and/or television networks. The company derives its substantial revenues from its new films and exploitation of its library unlike some of its major competitors which are part of larger diversified corporate groups.

Growth in the Indian film industry in recent years has attracted new industry participants and competitors, including corporates operating as standalone operators or aligned with internationally diversified film companies such as Sony Pictures and Warner Bros.

Piracy affects the revenue

EIML's business is highly dependent on maintenance of intellectual property rights in the entertainment products and services it creates. Piracy of media products, including digital and internet piracy and the sale of counterfeit consumer products, may decrease revenue received from the exploitation of its products. Consumer awareness of illegally accessed content and the consequences of piracy are lower in India than in Western countries and the move to digital formats has facilitated high-quality piracy in particular through the internet and cable television. Industry loses as much as Rs. 200,000 lakhs per year due to piracy (source: FICCI-KPMG Report 2009).

Delays, cost overruns, cancellation or abandonment of the completion or release of films may have an adverse effect on its business.

Actual film costs may exceed their budgets and factors such as labour disputes, unavailability of a star performer, equipment shortages, disputes with production teams or adverse weather conditions may cause cost overruns and delay or hamper completion of a production

Limited experience in production

The company has limited experience in producing a film and has released one production to date, Aa Dekhen Zara, which failed to recover its costs, in its first year of theatrical release, due to the failure to reach an agreement with certain multiplex chains currently operating in India over revenue sharing terms.

Reliance MF has withdrawn its application as anchor investor

According to media reports Reliance MF has withdrawn its application as anchor investor due to differences over quantity and pricing of allotment. However on our meeting with the CFO he stated that the Reliance MF's application was reject on technical grounds.

Source: Company RHP, ANS Research

FINANCIAL HIGHLIGHTS

Balance Sheet		(Consolidated Results)			
		(₹ In lakhs)			
Particulars	June,2010	Mar 2010	Mar 2009	Mar 2008	
Share Capital	7140.70	7140.70	510	510	
Net Worth	25,566.66	23,748.39	15,801.50	8,141.88	
Total Debts	23,555.05	21,752.59	21,181.53	12,387.61	
Cash & Bank Bal	4052.68	10,724.29	3,611.02	11,821.89	
Total Assets	102,711.98	100,527.12	112,080.25	80,500.77	
Book Value	35.80	33.26	22.13	11.40	

Profit & Loss		(Consolidated Results)			
		(₹ In lakhs)			
PARTICULARS	June,2010	Mar 2010	Mar 2009	Mar 2008	
Income	12,797.17	65,553.42	62,778.50	49,018.54	
Other Income	166.81	1,465.21	125.71	1,547.35	
Total Expenditure	10,497.31	54,328.93	52,390.87	42,420.03	
Dep. & Amortization	78.48	439.30	507.96	178.72	
Finance cost (Net)	204.60	901.86	610.51	281.81	
Tax	844.75	2,945.03	2,912.47	2,325.31	
PAT	1,455.11	8,279.46	7,475.16	4,273.20	

Source: Company RHP

RECOMMENDATIONS

At the lower and upper end of the price band, the issue quotes at P/E of 13.8X-15.28X its pre IPO structure and it trades at P/E of 17.5X-19.4X based on its fully diluted post IPO EPS of ₹ 9.05. The Indian Media & Entertainment industry was estimated to be worth ₹ 587 billion during calendar year 2009 and recorded a modest growth of around 1.4% in that year, compared to a 12.0% percent growth in 2008. The industry is projected to grow at a compound annual growth rate ("CAGR") of 13% between 2009 and 2014 (Source: FICCI- KPMG Report 2010). Looking at its strong promoter group, its 1000+ strong library, growing prospects of India Media and Entertainment industry and strong business model we recommend a **SUBSCRIBE** on this IPO for investors.

Source: Company RHP, ANS Research

Valuations				
Price Band	EPS#	BV#	P/E	P/B.V.
158	11.45	33.26	13.80	4.75
175	11.45	33.26	15.28	5.26

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