

Eros International Media Ltd.

5th January, 2011

BSE Code	533261
FV	Rs. 10
Equity Capital (Rs in mn)	714
Reserves (Rs in mn)	2,359
Networth (Rs.in mn)	3,073
Market Capitalization (Rs in mn)	11,281
CMP	Rs. 158
Target Price	Rs. 200
Upside	27%

A) About the company

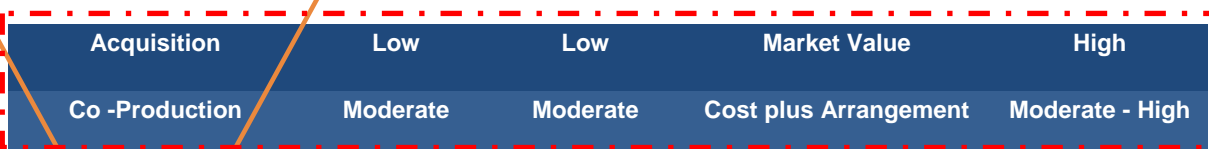
Background


EIML is one of the market leaders in the Indian film industry. Being part of the prestigious Eros group, it enjoys strong parentage. Eros group has ~three decades of experience in its domain. The group went public, through Eros plc, (the holding company of the Eros Group), through Alternative Investment Market (AIMs) of the London Stock Exchange. Eros Plc is a promoter of EIML and enjoys a market capitalization of ~US\$310mn.

The company has an extensive film library and is engaged in sourcing Indian and other film content. It exploits its content globally, through its offices in India, UK, USA, UAE, Singapore, Australia, the Isle of Man and Fiji. Its distribution formats includes theatres, home entertainment, television and digital new media. The company produces and distributes Tamil films through its 51% subsidiary Ayngaran International, having strong presence in the overseas distribution of Tamil films.

Business Model:

	Execution Role	Creative Control	Cost	Scalability
Acquisition	Low	Low	Market Value	High
Co -Production	Moderate	Moderate	Cost plus Arrangement	Moderate - High
Own Production	High	High	At cost (can overrun)	Low





EIML's core competencies

Source: Red Herring Prospectus

Summary: Acquisitions, Co-production and Own Productions

No. of Films released	2008	2009	2010	June 2010
Hindi	23	20	4	4
Regional	1	1	1	1
Tamil	41	73	9	9
Total	65	94	14	14
Acquisition	62	85	13	13
Co- Production	3	6	1	1
Production	-	3	-	-

Source: Red Herring Prospectus

Investment Rationale

- 1) Diversified and derisked business model:** The company has a unique business model as it realizes upfront costs on pre sales of various rights like international film rights, music rights and broadcasting rights (on television and other emerging delivery channels like broadband and 3G) and in film advertisements. ~40% of EIML's revenue is accounted by theatrical rights, 25-30% from overseas sales, 20-25% from satellite rights, 5-10% from music and the balance from ancillary segments.

EIML has an exclusive tie-up with its overseas parent company for international distribution rights that covers 39% of the cost (30% of total cost with a 30% mark-up, i.e. 39% of the total cost). It also has an arrangement with T-Series for music rights (wherein it gets 10-15% of the total cost) while television rights cover additional 20-25% of the total cost, thereby taking care of 80-90% of the investment.

- 2) Strong content library:** The group has rights of over 1,000 films, comprising of previously released films and music videos. EIML adds to the Eros India Library by regularly sourcing new and catalogue films for exploitation within India, Nepal and Bhutan as well as overseas.

Strong pipeline of Hindi Film Content with prominent starcast

Film	Cast	Production/Acquisition	Genre
RA. One	Shahrukh Khan	Acquisition from Red Chillies Entertainment Pvt. Ltd.	Family Entertainment
Agent Vinod	Saif Ali Khan	Co-Production with Illuminati Films Pvt. Ltd.	Action



Rockstar	Ranbir Kapoor	Acquisition	Romance
Desi Boyz	Akshay Kumar, John Abraham	Co-Production	Youth
Mausam	Shahid Kapoor, Sonam Kapoor	Co-Production	Romance

Source: Red Herring Prospectus

- 3) **End to end distribution network:** EIML is one of the few companies within the Indian media and entertainment sector to have an end-to-end (all format) distribution capability. The chain includes national theatrical distribution network, in-house music distribution capability with its own music record label, Eros Music, an in-house television syndication team, and its own home entertainment distribution division
- 4) **Aggressive capex plans:** The company has planned a huge capex of Rs.10 bn in co-production and acquisition of film rights over the next 18-24 months in order to more than double its existing gross block of Rs. 10.16 bn by FY12 to achieve a targeted revenue CAGR of ~20% over FY10-12E.
- 5) **Healthy OPM:** EIML enjoys high OPM on account of exploitation of its content library. In the past, the company has witnessed significant improvement in OPM. Over the period FY06-10, OPM has shown a significant improvement to touch 26% in H1FY11.
- 6) **Sound sector fundamentals:** The Indian Media and Entertainment Industry was ~Rs587bn in CY09. The industry is expected to clock a CAGR of 13% over the next four to five years driven by increasing regionalization, digitization through new distribution platforms like Digital Cable, DTH, IPTV, distribution and sale of media content online. Indian film industry, part of Indian Media and Entertainment industry is one of the largest in the world, producing more films and selling more tickets than US film industry. Considering factors like increasing multiplex screens, improving penetration of home video segment; the industry is expected to witness a CAGR of 9% over the period FY10-FY14 to Rs137bn.
- 7) **Strong H1FY11 performance:** During H1FY11, 39 films were released, highest by any player. The company witnessed robust box office collections for several Eros International's Hindi and regional films such as Housefull, Anjaana Anjaani, Paathshaala and overseas release of Dabangg and Endhiran (Tamil and Telugu), Ravanaan, Singham, Sura (in Tamil) and Haapus in Marathi. It also signed a multi – film content licensing deal worth Rs.640 mn for broadcast on Zee Entertainment Network. H1FY11 PAT witnessed yoy increase of 29.5%.

Outlook and Valuation

The company registered revenue CAGR of 58% over the period FY06-10 while PAT CAGR over the same period was 45%. As on H1FY11; the company had healthy OPM of 26% and PAT margin of 19.3%. At CMP, the stock currently trades at a P/E of 12.4x at annualized H1FY11 EPS. We believe that the company is a major beneficiary of the opportunity present in Indian Media and Entertainment sector. With due consideration to factors like a) strong sector fundamentals, b) rights of over 1,000 films, c) unique business model, d) end to end distribution network, e) strong regional presence, we recommend a **'BUY'** with a target price of Rs.200 (15.7x at annualized FY11 EPS) for investors with a six months horizon.



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