Recommendation: Subscribe

Issue Highlights

Issue Opens – 17 Sept 2010
Issue Closes – 21 Sept 2010
Face value – Rs 10
Price Band – Rs 158-175
Bid Size – 40 and in multiple thereof

Issue Type

100% Book Built Issue

Issue Size: 350 cr

Pre-Issue equity Capital: Rs 71.4 Cr
Post-Issue equity Capital: Rs 89.9 Cr

Issue Structure

Total No. of shares: 1.85 cr shares

QIB: 9691140 shares (60% of Net issue size)
Retail: 6645570 shares (30% of Net issue size)
HNI: 2215189 shares (10% of Net issue size)

Shareholding Pattern(%)

	Pre-Issue	Post-Issue
Promoters	100	77.32
Public	-	22.7

Grade

Crisil Rating - 4 out of 5

Book Running Lead Managers

Enam Securities Private Ltd.
Kotak Mahindra Capital Company Ltd.
Morgan Stanley India Company Private Ltd.
RBS Equities (India) Limited

Registrar

Link Intime India Pvt Ltd

Listing

NSE, BSE

Object of the Offer

Acquiring and co-producing Indian films, - including primarily Hindi language films as well as certain Tamil and other regional language films.

Investment Rationale

Well developed content distribution network
The company has an extensive distribution network which is a key strength and competitive advantage, which enhances its ability to monetize its film content without solely relying on sub-licensing to third parties.

Expanding content library
The Eros India Library, comprising over 1,000 film titles is a key competitive advantage and positions well to exploit the increasing number of existing and new distribution channels in the Indian entertainment market. The extent and nature of the Eros India Library allows it to follow a distribution strategy of combining its new releases with films from its existing catalogue.

Future Strategy

- The company's vision is to emerge as a leading entertainment house that balances diverse platforms in a dynamically changing media environment.
- Its strategy is to further strengthen its competitive advantage by building on and augmenting the Eros India Library and further leveraging its portfolio approach to film content.
- The company intends to expand further into regional language film markets, such as the Marathi, Punjabi, Telugu and Kannada markets, and increase the scale of its presence in these markets.
- The company also intend to explore further digital distribution opportunities based on the experience of the Eros International Group in international markets including opportunities in mobile, DTH, digital cable and IPTV to further monetise value from the Eros India Library.
- Consolidation of music catalogues in order to exploit growth from radio, mobile, public performances and internet is another key strategy.

Expansion of multiplex screens to drive domestic theatrical revenues:
The number of multiplex screens in India is estimated to increase to 1045 in 2013 from 747 in 2008.This increase is expected to translate into higher revenues for the Indian film industry as occupancy rates and average ticket prices tend to be higher than in the case of smaller and single screen cinemas. In addition, multiplexes provide greater transparency in reporting box office revenues. The following table sets forth certain information in relation to the number of multiplexes in India.

Revenue streams
It earns revenue through end-to-end exploitation and distribution of Indian film content in India, Nepal and Bhutan through multiple formats such as theatres, home entertainment, principally in the form of DVDs, VCDs & audio CDs, television syndication, which primarily involves licensing the broadcasting rights to major satellite television broadcasting channels, cable television channels & terrestrial television channels, mobile ring tones, wallpapers & downloads, internet protocol television (IPTV), direct-to-home and other internet channels. It also licenses films to airlines for in-flight viewing.

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Industrial Overview

The Indian media and entertainment industry which principally comprises film, television, printed media, radio and music was estimated to be worth Rs. 584 billion during calendar year 2008 and is projected to grow at a compound annual growth rate of 12.5% between 2009 and 2013 to reach Rs. 1,052 billion.

Media-content sector's sales are expected to grow by 14 per cent in 2010-11 as against a 15.6 per cent fall a year ago. New movie releases from companies are expected to drive the sector's sales. New programme launches by companies along with higher realizations will also aid the sector's sales growth. The aggregate expenses are expected to rise at a slower pace of 4.8 per cent compared to growth in sales. The sector's net profit is expected to rise by a huge 146.2 per cent. Thus, PAT margin is expected to expand by 6.1 percentage points to 11.3 per cent in 2010-11. The media content sector's sales increased by a healthy 33.1 per cent in the June 2010 quarter. The sector's net profit grew by a whopping 406.5 per cent, Sales of the media software sector grew by 47.5 per cent during the June 2010 quarter. However, the aggregate expenses fell by 2.2 per cent. Thus, the sector turned profitable in the quarter as compared to losses reported a year ago. The sector's net profit margin stood at 12.5 per cent during the quarter.

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 company, including from vertically integrated competitors that own their own theatres and/or television networks. Unlike some of company's major competitors, which are part of larger diversified corporate groups, company derive substantially all of its revenue from its new films and exploitation of its library of films. If company's films fail to perform to its expectations company is likely to face a greater adverse impact than would a more diversified competitor, which may have a material adverse effect on co's business, prospects, financial condition and results of operations.

Limited experience in making own productions
Company have released one own 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. Given its limited experience in creating content without the involvement of a co-producer, to the extent company undertake further own productions in future company may be exposed to greater risks in relation to such productions than would be faced by a more experienced solo producer.

Financial Performance

Particulars (in Cr)	Mar-09	Mar-10	June. 2010
	FY '09	FY '10	1Q FY'11
Net Revenue	626.5	640.9	126.3
Sales Growth	*N/A*	*2.29%*	*N/A*
EBIDTA	113.7	111.0	24.2
EBIDTA Margins	*18.15%*	*17.32%*	*19.13%*
Depreciation	5.0	4.4	0.8
Other Income	1.3	14.7	1.7
EBIT	108.7	106.6	23.4
EBIT Margins	*17%*	*16.63%*	*18.51%*
Interest	6.1	9.0	2.1
PAT	73.7	82.3	15.51
PAT Margins	*11.77%*	*12.84%*	*12%*
Shares Outstanding (cr)	5.1	71.4	71.4
EPS (Rs)	144.61	11.52	2.17

Annually
Net revenue of the company increased by 2.29% to Rs 641 cr in the year ended FY'10 as compared to Rs 626.5 cr in the year ended FY'09. Net profit increased by 12% to Rs 82.3 cr in FY'10 as compared to 73.7 cr in the year ended FY'09.

Quarterly
Net revenue of the company stood at 126 cr in the quarter ended June'10. Net profit of the company stood at Rs 15.51 cr in quarter ended June'10.

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Peer Comparison

Company	LTP	M.Cap.(Rs. In Cr.)	P/E(x)	RONW(%)
Eros International	175*	12495*	15.2	43.76
UTV Software Ltd	551.6	2241	19	3.3
HT Media	156	3834	30.3	14.7
Sh. Ashtavinayak	27.8	2070	92.8	2

** Higher price of the band*

Direct listed peer available to this company is UTV Software Ltd. At Rs 175, the higher price of the band, the issue is available at a P/E of 15.2x at post issue EPS on FY0 basis of Rs 9.06

Recommendation

Eros International Media, part of the Eros Group, is entering the capital market on September 17, 2010, with an initial public offer of Rs 350 crore. We recommend subscribing as the company is undervalued as compared to its peers.

About the company

Eros International Media (EIML), promoted by Eros Worldwide, a 100% subsidiary of Eros plc, purchases, sells, assigns film distribution rights for Hindi and regional language and also undertakes co-production.. It exclusively sources all Indian film content for the Eros Group and exploits such content across formats within India, Nepal and Bhutan. Currently, its focus is predominantly on Hindi and Tamil language film content. However, it is foraying into other regional language films such as Marathi and Punjabi, both new releases and catalogue.

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