

Eros International Media : Very Good Issue

**IPO Note: Lowest P/E Ratio compared to other Peer companies
Rating*****



Issue details

Price band (Rs)	Rs.158-175
IPO Opening Date	17/09/10
IPO Closing Date	21/09/10
Issue Size	Rs.350.00 Crore

Valuations & Recommendation

At the lower price band of Rs 158 per equity share of Rs 10 face value, the P/E works out to 18 times the EPS of Rs 8.8 (on post-IPO equity) for FY 2010. At the upper band of Rs 175, P/E works out to 19.4 times the EPS of Rs 9 (on post-IPO equity) for FY 2010, while the industry composite P/E stands at 64.55x. The company has achieved 59 per cent CAGR growth over five years and its topline revenues were Rs 655 crore for the last fiscal. The company intends to use up to Rs 280 crore from the net proceeds, to fund Hindi, Tamil and other regional language film projects that it intends to release in fiscal 2011 and 2012. Though the line of business is highly competitive but the company is having a proven track record and the valuation too sounds good. We recommend to invest at cut-off.

Highlights

- ◆ It has various rights to over 1,000 films including Hindi, Tamil and other regional language films.
- ◆ Credit Analysis and Research (CARE) has assigned Grade 4/5 to the issue.
- ◆ The company has achieved 59 per cent CAGR growth over five years and its topline revenues were Rs 655 crore for the last fiscal.

Company Introduction

Company Profile

It is part of the Eros Group, which is a global player within the Indian media and entertainment sector that has been in the business close to three decades. Eros plc, the holding company of the Eros Group, is a promoter of the company and is listed on the Alternative Investment Market of the London Stock Exchange. The company exclusively 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, which it consider to be a key competitive advantage and an integral part of its business model. It also own rights to certain English language films for home entertainment distribution within India.

It exploit 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.

Financial Summary

Particulars	1003(12)	0903(12)	0803(12)
Sales	640.88	626.53	474.71
OPM (%)	17.3	18.2	11.6
Net Profit	82.29	73.34	41.14
EPS* (Rs)	9.0	8.0	4.5

* Annualised on post-issue equity of Rs 91.41 crore..

RANKING METHODOLOGY

WEAK	*
AVERAGE	**
GOOD	***
VERY GOOD	****
EXCELLENT	*****

Industry Overview

The industry is expected to grow at a compound annual growth rate (CAGR) of 13% between 2009 and 2014. The estimated growth in the Indian M&E industry going forward is expected to be driven by a variety of factors, including digitization, regionalization, convergence and impact of new media, consolidation, competition, growing importance of pay markets and Focus on 360 degree connect with consumers. As per the FICCI-KPMG Report 2010, the Indian film industry is one of the largest in the world, producing more films and selling more cinema tickets than the US film industry, although Indian cinema continues to trail Hollywood in overall revenues. While cheaper admission prices and the relative lack of multiplexes are two reasons that explain this gap, poor monetization of revenue streams and inefficiencies across the value chain have also contributed to lower revenues. According to the FICCI-KPMG Report 2010, lack of good sustainable content also affected the success ratio and overall performance of the industry. During the four years ended December 31, 2009, the Indian film industry is estimated to have grown at a CAGR of 4.6%, reaching an estimated market size of Rs 8,930 crore in 2009.

Developed content distribution network

The company has extensive distribution network, which enhances its ability to monetize its film content without solely relying on sub-licensing to third parties. The company is one of the few companies within the Indian media and entertainment sector to have an end-to-end (all format) distribution capability through a 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. The distribution network of the company is a key advantage as it is able to offer a global end-to-end distribution solution to its content partners or co-producers. This allows it to effectively have a simultaneous worldwide co-ordinated release.

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