

17 August 2012

Eros International Media

1QFY13 review – Strong start to the year; Buy

Rating: **Buy**

Target Price: ₹240

Share Price: ₹173

With revenue and net profit recording respectively 67% and 45% yoy growth, Eros' 1QFY13 results were strong. Results were mainly driven by the strong box-office performances of *Housefull 2* and *Vicky Donor*. Forex losses and a lack of big budget Tamil movie releases by subsidiary Ayngaran dragged down the net profit growth. We recently initiated coverage on Eros, with a Buy and a Sep'12e target of ₹240.

- **Hindi films fared well at the box office.** In 1QFY13 Eros released 23 films (19 in 1QFY12), including five in Hindi (seven in 1QFY12). Revenues were driven by strong box-office collections from multi-starrer *Housefull 2* (net worldwide box office of ₹1.5bn), as well as small/mid-budget films – *Vicky Donor* (₹0.45bn) and *Ferrari Ki Swaari* (₹0.4bn). The company had sold off the rights of *Teri Meri Kahaani*, which had generated weak theatre revenues.
- **Profit growth trailed top-line growth.** The company's profit growth was dragged down by: (1) a 94% yoy increase in 'other expenses', reflecting forex losses during the quarter; (2) an 84% drop in 'other income', possibly from lower realized income on treasury investments; (3) the lack of major Tamil film releases by its subsidiary Ayngaran. This resulted in losses (due to the fixed nature of amortization charges pertaining to library films) and a high effective tax rate (40%).
- **Content pipeline.** While the company has a decent film slate for the next 12-18 months, lack of meaningful additions to the film pipeline was a frame disappointing. Meanwhile, it had a good start to 2QFY13, with its film *Cocktail* crossing the ₹1bn revenue-mark worldwide.
- **Valuations.** The stock trades at 8.4x FY13 P/E, ~15% lower than its average one-year-forward P/E since listing. Our DCF-based Sep'13 target implies an FY13/14 P/E of 11.6x/9.4x.

Key data	EROS IN / EROS.BO
52-week high / low	₹277 / ₹158
Sensex / Nifty	17558 / 5320
3-m average volume	US\$0.5m
Market cap	₹15.9bn / US\$288m
Shares outstanding	91.7m

Shareholding pattern (%)	Jun '12	Mar '12	Dec '11
Promoters	77.8	77.8	78.0
- of which, Pledged	-	-	-
Free Float	22.2	22.2	22.0
- Foreign Institutions	7.0	7.9	8.5
- Domestic Institutions	2.4	2.4	3.0
- Public	12.8	11.9	10.5

Consol. financials (YE: Mar)	FY13e	FY14e
Sales (₹m)	11,505	13,822
Net profit (₹m)	1,895	2,339
EPS (₹)	20.7	25.5
Growth (%)	28.2	23.4
PE (x)	8.4	6.8
EV/EBITDA (x)	2.8	2.2
RoE (%)	20.6	21.1
RoCE (%)	14.7	15.8
Net gearing (%)	13.6	3.5

Source: Anand Rath Research

Consol. results (YE: Mar)	1QFY12	1QFY13	% yoy	FY11	FY12	% yoy
Sales (₹m)	1,538	2,570	67.1	7,070	9,439	33.5
EBIT (₹m)	285	500	75.6	1,523	2,064	35.5
EBIT margin (%)	18.5	19.5	94bps	21.5	21.9	32bps
Interest (₹m)	31	21	(32.9)	94	134	43.1
Other income(₹m)	84	22	(73.7)	89	193	115.6
PBT (₹m)	338	502	48.4	1,519	2,123	39.8
Tax (₹m)	105	205	95.9	337	631	87.5
Tax rate (%)	31.0	40.9	990bps	22.2	29.7	758bps
Minority interest	17	(18)	NM	10	13	29.7
PAT (₹m)	217	314	44.9	1,172	1,478	26.1

Source: Company

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Mid/Small Caps (<US\$1bn)	>30%	10-30%	<10%

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