Eros International Media Limited

March 31, 2018

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	563.00	**CARE BBB+; Stable [Triple B Plus; Outlook: Stable]**	Revised from CARE A- [Single A Minus]
Short-term Bank Facilities	187.00	**CARE A3+ [A Three Plus]**	Revised from CARE A2 [A Two]
Total Facilities	**750.00 (Rs. Seven hundred fifty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Eros International Media Limited (EIML) takes into account the further weakening of the operating and financial risk profile on account of increased borrowings.

The ratings positively factor in the established track record and experience of the promoters in the domestic and global distribution market for Indian films, long standing relationship with movie production houses and star cast, the ownership of a large and diversified content library of film titles, presence of a strong distribution network in India and overseas through its holding company (Eros Worldwide FZ-LLC (Dubai) and the partnership of Reliance Industries with Eros Group that is expected to improve the operations of the business going ahead.

The rating strengths are, however, tempered by EIML's presence in a capital-intensive co-production/production business model with investment in intellectual property rights, higher dependence on short term debt to maintain liquidity, long gestation period in recovering the entire cost, part dependence on box office performance and competition from domestic as well as foreign production and distribution players.

EIML's ability to manage the working capital efficiently, mobilize funds to capitalize on the opportunities for the acquisition of movies to enhance its library as well as meet investment requirement for its projects under co-production/production constitute the key rating sensitivities. Also, the company's ability to maintain favorable capital structure and profitability will also be crucial from the credit perspective.

Detailed description of the key rating drivers

Key Rating Strengths

Established track record and rich experience of promoters in the film industry

The Eros Group was established in 1977 and has considerable experience in the Indian film industry. EIML, a step-down subsidiary of Eros International Plc (EIP) is headed by Mr Sunil Lulla, the executive vice chairman and managing director of EIML. Besides, the promoters are supported by professionals having experience of more than a decade in the relevant fields.

Long standing relationship with movie production houses and star cast

The promoters Mr. Kishore Lulla and Mr. Sunil Lulla have long-standing relationships with various production houses and talent pool in the Indian film industry for over three decades which enables timely execution of talent deals, thereby providing a competitive edge.

Ownership of a large and diversified content library of film titles

EIML has released 170+ films in the last 3 fiscal years. It now owns a content library of 2000+ films and music. During FY17, the company released 44 films (63 films in FY16) wherein 5 were high budget, 10 were of medium budget and 29 low budget films. Amongst the total 44 films released, 33 films were in regional languages. However, due to ongoing liquidity constraints faced, the amount invested by EIML for producing/co-producing/acquiring content has reduced

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

wherein it can be seen that EIML has released only 16 movies (1-High Budget, 3-Medium Budget, 12-Low Budget) during 9MFY18 as compared to 39 movies (5-High Budget, 9-Medium Budget, 25-Low Budget) released during 9MFY17. However, Reliance and EIML have agreed to partner in India to jointly produce and consolidate content from across India. For the same, the parties will equally invest upto approx. $150 million in aggregate to produce and acquire Indian films and digital contents across all languages. The theatrical distribution rights of the content created by the JV would be owned by Eros, while the digital rights would be owned by both Jio (OTT platform owned by Reliance) and Eros Now (OTT platform owned by Eros Group). Accordingly, these prospective investments are expected to improve the operations of the business going ahead.

Presence of a strong distribution network in India and overseas

EIML with its significant track record has established its own distribution offices in five key circles namely Mumbai, Delhi, East Punjab, Tamil Nadu and Mysore. Besides, it has presence in balance nine theatrical territories through agents. The overseas group companies have their own distribution network in North America, the United Kingdom, etc., which adds to EIML's distribution strength. It has a multi-channel global distribution set-up in 50+ countries.

Key Rating Weaknesses

Weakening of the financial and operating risk profile

EIML's business model necessitates availability of adequate liquidity to produce/co-produce or acquire movies. The company relies on advances from group companies and debt to fund the requirement. During FY17 since the holding company had its own financial commitments, the funds it could advance to EIML substantially reduced. Hence, in order to meet its business requirements, EIML had to borrow additional funds amounting to Rs. 245 crore from the external market, thus increasing the overall gearing ratio to 0.36x as on March 31,2017 (as compared to 0.25x as on March 31, 2016).

In the month of December 2017, the parent company i.e. Eros International Plc had entered into a definitive agreement with institutional investors for an investment of $100 million. However, the funds were utilized to pay off the company's outstanding RCF facility while the remaining amount was retained to meet its operational/financial requirements. Accordingly, no funds have been transferred to EIML.

Due to constrained liquidity position, the amount EIML could invest for producing/co-producing/acquiring content has substantially reduced during FY18 which can be reflected by the decline in operating revenue which has declined by 40% y-o-y basis to Rs. 721 crore earned as compared to Rs. 1219 crore earned during 9MFY17 and is substantially lower than expectations.

Capital-intensive nature of the industry

EIML has begun producing/co-producing movies through its in-house franchise label, Trinity Pictures and undertaking key partnerships with producer - director, Aanand L. Rai (Colour Yellow Production). EIML is required to provide advances in stages for almost the entire cost of the movie under production which typically takes around 10-12 months to complete. Concurrent investment in multiple films for the acquisition/co-production demands huge requirement of funds. The growing scale of operations has resulted in increase in debt levels.

Long gestation period in recovering the entire cost

EIML acquires the intellectual property rights (IPRs) of a movie through co-production or an acquisition agreement for perpetuity or a fixed-term (generally more than 15 years) from various production houses, which are subject to expiration. EIML monetizes the film rights through theatrical releases, licensing of overseas rights, first leg of TV satellite rights, music rights etc. over an elongated time period.

Part dependence on box office performance

Approximately 42.5% of the total revenue generated during FY17 was derived from domestic theatrical releases. Theatrical performance of movies has a very low shelf life wherein majority of the revenue is earned in the first week of movie release. Any timing mismatch in relation to the release of a movie or competition from other releases severely affects the revenue. To mitigate such risks, every year EIML secures distribution or intellectual property rights to a diverse portfolio of around 60-70 films, comprising 10-20 mainstreams Hindi and the rest regional language films such as Tamil, Telugu, etc. Moreover, a portion of theatrical revenues is also assured by minimum guarantee arrangement (10-15%) with theatres/exhibitors before the release of the movie. Nonetheless, the high dependence on the performance of box-office constitutes a credit weakness.

Analytical approach: Consolidated

The consolidated financials of EIML have been considered for analytical purposes. The consolidated financials include financials of EIML and its 15 subsidiaries (including 10 direct subsidiaries and 5 indirect subsidiaries).

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology: Factoring Linkages in Ratings]
[Rating Methodology - Service Sector Companies]
[Financial ratios – Non-Financial Sector]

About the Company

Eros International Media Ltd (EIML), a step-down subsidiary of Eros International Plc (EIP) is headed by Mr. Sunil Lulla, the Executive Vice Chairman and Managing Director of EIML. Eros group has been present in the Indian film industry since past thirty years and EIML has distribution network in all the theatrical territories (total 14) in India. EIML is engaged in acquisition/production/co-production and distribution of Indian films across various formats. The international and digital rights for the new film content for the entire world excluding India are licensed to Eros Worldwide FZ-LLC (Dubai) (holding company of EIML), in accordance with the terms of the relationship agreement on cost-plus basis (i.e. at an additional margin of 20%). Reliance Industries Limited, through its wholly owned subsidiary – Reliance Industrial Investments and Holdings Limited, has agreed to subscribe to a 5 per cent equity stake in Eros International Plc at a price of $15 per share, thereby investing funds amounting to $48.75 million in Eros. The funds are expected to be infused by May'18.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1620	1440
PBILDT	982	814
PAT	263	239
Overall gearing (times)	0.25	0.36
Interest coverage (times)	30.27	20.68

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	September 2021	300.00	CARE BBB+; Stable
Fund-based - ST-Packing Credit in Indian rupee	-	-	-	69.50	CARE A3+
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	116.50	CARE A3+
Non-fund-based - ST-Bank Guarantees	-	-	-	1.00	CARE A3+
Fund-based - LT-Cash Credit	-	-	-	263.00	CARE BBB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Non-fund-based - ST-Bank Guarantees	ST	1.00	CARE A3+	1)CARE A2 (10-Nov-17)	1)CARE A1 (02-Sep-16)	1)CARE A2+ (Under Credit Watch) (26-Nov-15) 2)CARE A1+ (23-Sep-15)	1)CARE A1+ (26-Aug-14)
2.	Fund-based - LT-Cash Credit	LT	263.00	CARE BBB+; Stable	1)CARE A-; Stable (10-Nov-17)	1)CARE A+ (02-Sep-16)	1)CARE A (Under Credit Watch) (26-Nov-15) 2)CARE AA- (23-Sep-15)	1)CARE AA- (26-Aug-14)
3.	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (10-Nov-17)	1)CARE A+ (02-Sep-16)	1)CARE A (Under Credit Watch) (26-Nov-15) 2)CARE AA- (23-Sep-15)	1)CARE AA- (26-Aug-14)
4.	Fund-based - LT-Term Loan	LT	300.00	CARE BBB+;	1)CARE A-; Stable (10-Nov-17)	1)CARE A+ (02-Sep-16)	1)CARE A (Under	1)CARE AA- (26-Aug-14)

				Stable			Credit Watch) (26-Nov-15) 2)CARE AA- (23-Sep-15)	
5.	Fund-based - ST-Packing Credit in Indian rupee	ST	69.50	CARE A3+	1)CARE A2 (10-Nov-17)	1)CARE A1 (02-Sep-16)	1)CARE A2+ (Under Credit Watch) (26-Nov-15) 2)CARE A1+ (23-Sep-15)	1)CARE AA- (26-Aug-14)
6.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	116.50	CARE A3+	1)CARE A2 (10-Nov-17)	1)CARE A1 (02-Sep-16)	1)CARE A2+ (Under Credit Watch) (26-Nov-15) 2)CARE A1+ (23-Sep-15)	1)CARE AA- (26-Aug-14)
7.	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (10-Nov-17)	1)CARE A+ (02-Sep-16)	1)CARE A (Under Credit Watch) (26-Nov-15) 2)CARE AA- (23-Sep-15)	1)CARE AA- (26-Aug-14)
8.	Commercial Paper	ST	-	-	1)Withdrawn (10-Nov-17)	1)CARE A1 (02-Sep-16)	1)CARE A2+ (Under Credit Watch) (26-Nov-15) 2)CARE A1+ (23-Sep-15)	1)CARE A1+ (26-Aug-14)
9.	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (10-Nov-17)	1)CARE A+ (02-Sep-16)	1)CARE A (Under Credit Watch) (26-Nov-15) 2)CARE AA- (23-Sep-15)	1)CARE AA- (26-Aug-14)
10.	Commercial Paper	ST	-	-	1)Withdrawn (10-Nov-17)	1)CARE A1 (02-Sep-16)	1)CARE A2+ (Under Credit Watch) (26-Nov-15) 2)CARE A1+ (23-Sep-15)	1)CARE A1+ (26-Aug-14)
11.	Fund-based - LT/ ST-CC/Packing Credit	-	-	-	-	1)CARE A+ / CARE A1 (02-Sep-16)	-	-

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