# Eros International Media Limited

October 03, 2018

**Ratings**

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

*Details of 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) factors in the ongoing stressed liquidity position marked by a higher utilization of working capital limits and stretched payment cycle. The revision also takes into account further weakening of the financial risk profile on account of increased borrowings. The same is expected to improve in the medium term with the increase in number of movie releases.

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 and the presence of a strong distribution network in India and overseas through its holding company (Eros Worldwide FZ-LLC (Dubai).The ratings also positively factors in the investments undertaken by Reliance Industries through acquiring a 5% stake in Eros International Plc. (parent company) for a cash consideration of $46.6 million with an option to acquire additional 5% stake by FY19 and the joint venture entered into with Reliance Industries 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 effectively manage its working capital requirements and mobilize funds to capitalize on the opportunities of acquiring/co-producing movie content constitutes the key rating sensitivities. Also, the company's ability to maintain a favorable capital structure and profitability going ahead 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 an 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 four 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 owns a content library of 2000+ films and music. However, due to liquidity constraints faced, the amount invested by EIML for producing/co-producing/acquiring content reduced during FY18 wherein the company only released 24 films (as compared to 44 films in FY17) wherein 1 was a high budget movie, 4 were of medium budgets and 19 were low budget films.With a change in the business model wherein EIML now focuses on producing/acquiring and distributing

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

medium to low budget movies, the business operations have revived wherein 14 movies were released during Q1FY19 (as compared to 5 movies during Q1FY18).

Reliance Industries and EIML are also in the process of creating a joint venture wherein both the parties will equally invest upto approx. $150 million in aggregate to produce and acquire Indian films and digital contents across all languages. These prospective investments are expected to improve the operations of the business going ahead.

***Diversified revenue source albeit increasing skewness towards catalogue sales***

Amongst the total revenue recorded during FY18, 57% was earned from non-theatrical sources. During FY18 and Q1FY19, the proportion of catalogue sales has increased to 70% of total revenue as compared to 50% during FY17. The credit period offered is higher (9 to 12 months) since the rights are licensed for a longer period of time (12 to 18 months).This has resulted in a higher collection period of 250 days in FY18 as compared to 133 days in FY17. The number of movie releases is expected to increase in FY19 from FY18 levels. Although the advances have again started flowing from the parent company, EIML's ability to fund these and also improve the liquidity position will be critical from the credit perspective.

***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 risk profile during FY18***

EIML's business model necessitates the availability of adequate liquidity to produce/co-produce or acquire movies. In addition to the internal accruals generated, the company also 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 and Rs. 151 crore in FY17 and FY18 respectively.Also, due to lower available funds, the amount that it could invest in content reduced. Accordingly, although the overall gearing ratio remained comfortable at 0.34x as on March 31, 2018 (0.36x as on March 31, 2017), the Total Debt/GCA deteriorated to 3.73x as on March 31, 2018 (2.79x as on March 31, 2017) while the interest coverage ratio also weakened to 4.93x during FY18 as compared to 8.69x during FY17. The number of movie releases is expected to increase in FY19 from FY18 levels. Although the advances have again started flowing from the parent company, EIML's ability to fund the content cost requirement and also improve the liquidity position will be critical from the credit perspective.

***Capital-intensive nature of the industry***

EIML has begun producing/co-producing movies through its in-house franchise label, Trinity Pictures and through 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.

***Deterioration in liquidity position***

Since EIML has to provide advances (in stages) for almost the entire cost of the movie under production while an outright payment needs to be done for the movies purchased, it has a higher dependence on short term debt to fund its liquidity requirements. On an average, the working capital limits have been fully utilised during the past 12 months. Also, due to increasing revenue skewness towards catalogue sales wherein the credit period offered is higher, the average collection period increased to 250 days in FY18 as compared to 133 days in FY17. Due to the liquidity constraints faced on account of reduced content advances from the parent company during FY18, the creditor's period has also increased from 117 days in FY17 to 207 days in FY18. Amongst the outstanding creditors, ~55% were amount payable to related parties while the remaining 45% pertained to payments due to content providers, whose credit cycle could be stretched on account of its long standing goodwill in the industry. Going forward, the improvement in the liquidity position expected from revival in business operations constitutes a key rating sensitivity.

***Part dependence on box office performance***

Approximately 43% of the total revenue generated during FY18 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 the past thirty years and EIML has its 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. It owns a content library of 2000+ films and music. 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%).
During the month of August 2018, Reliance Industries Limited acquired 5% stake in EIP for a cash consideration of $46.6 million. It also has an option to obtain an additional 5% stake that would be exercisable at any time until February 28, 2019.Reliance Industries and EIML are also in the process of creating a joint venture – Reliance Eros Productions LLP wherein both the parties will equally invest upto $150 million in aggregate, to produce and acquire Indian films and digital originals across all languages.

| Brief Financials (Rs. crore) | FY17 (A) | FY18 (A) |
|---|---|---|
| Total operating income | 1418 | 972 |
| PBILDT | 342 | 333 |
| PAT | 243 | 231 |
| Overall gearing (times) | 0.36 | 0.34 |
| Interest coverage (times) | 8.69 | 4.93 |

*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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**About CARE Ratings:**

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 |
|---|---|---|---|---|---|
| Non-fund-based - ST-Bank Guarantees | - | - | - | 1.00 | CARE A3 |
| Fund-based - LT-Cash Credit | - | - | - | 263.00 | CARE BBB-; Stable |
| 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 |

**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 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 |
| 1. | Non-fund-based - ST-Bank Guarantees | ST | 1.00 | CARE A3 | - | 1)CARE A3+ (31-Mar-18)<br>2)CARE A2 (10-Nov-17) | 1)CARE A1 (02-Sep-16) | 1)CARE A2+ (Under Credit Watch) (26-Nov-15)<br>2)CARE A1+ (23-Sep-15) |
| 2. | Fund-based - LT-Cash Credit | LT | 263.00 | CARE BBB-; Stable | - | 1)CARE BBB+; Stable (31-Mar-18)<br>2)CARE A-; Stable (10-Nov-17) | 1)CARE A+ (02-Sep-16) | 1)CARE A (Under Credit Watch) (26-Nov-15)<br>2)CARE AA- (23-Sep-15) |
| 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) |
| 4. | Fund-based - LT-Term Loan | LT | 300.00 | CARE BBB-; Stable | - | 1)CARE BBB+; Stable (31-Mar-18)<br>2)CARE A-; Stable (10-Nov-17) | 1)CARE A+ (02-Sep-16) | 1)CARE A (Under Credit Watch) (26-Nov-15)<br>2)CARE AA- (23-Sep-15) |
| 5. | Fund-based - ST-Packing Credit in Indian rupee | ST | 69.50 | CARE A3 | - | 1)CARE A3+ (31-Mar-18)<br>2)CARE A2 (10-Nov-17) | 1)CARE A1 (02-Sep-16) | 1)CARE A2+ (Under Credit Watch) (26-Nov-15)<br>2)CARE A1+ (23-Sep-15) |
| 6. | Fund-based - ST-Bills discounting/ Bills purchasing | ST | 116.50 | CARE A3 | - | 1)CARE A3+ (31-Mar-18)<br>2)CARE A2 (10-Nov-17) | 1)CARE A1 (02-Sep-16) | 1)CARE A2+ (Under Credit Watch) (26-Nov-15)<br>2)CARE A1+ (23-Sep-15) |
| 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)<br>2)CARE AA- (23-Sep-15) |
| 8. | Commercial Paper | ST | - | - | - | 1)Withdrawn (10-Nov-17) | 1)CARE A1 (02-Sep-16) | 1)CARE A2+ (Under Credit Watch) (26-Nov-15)<br>2)CARE A1+ (23-Sep-15) |
| 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)<br>2)CARE AA- (23-Sep-15) |
| 10. | Commercial Paper | ST | - | - | - | 1)Withdrawn (10-Nov-17) | 1)CARE A1 (02-Sep-16) | 1)CARE A2+ (Under Credit Watch) (26-Nov-15)<br>2)CARE A1+ (23-Sep-15) |
| 11. | Fund-based - LT/ ST-CC/Packing Credit | - | - | - | - | - | 1)CARE A+ / CARE A1 (02-Sep-16) | - |

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