

Press Release

Eros International Media Limited

September 21, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs. 465.00 Cr.
Long Term Rating	ACUITE B / Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE B**' (read as **ACUITE B**) on the Rs. 465.00 crore bank facilities of Eros International Media Limited (EIML). The outlook is '**Stable**'.

Eros International Media Limited (EIML) was incorporated in 1994, as Rishima International Private Limited, later, the name was changed to Eros Multimedia Private Limited in the year 2000 and was primarily engaged in home entertainment distribution in the domestic market. In 2008, the company was renamed Eros International Media Private Limited, and was further converted to a public limited company in 2009 and was listed on the BSE in 2010.

EIML and its subsidiaries (hereafter referred to as Eros India Group or the group) is engaged in sourcing of Indian Film content through acquisition, production or co-production and distribution of the content in India through the following mediums such as Theatrical distribution, music release, television licensing, Cable and DTH licensing. The company also trades and exports film rights to Dubai and USA among others. The group has a library of over 3000 films and digital rights of over 12,000 films.

Analytical Approach

Acuité has considered the consolidated business and financial risk profile of EIML and its subsidiaries to arrive at the rating.

*refer Annexure 2 for list of entities considered in consolidation

Key Rating Drivers

Strengths

- **Established Brand Position and diversified revenue mix**

EIML was incorporated in 1994 and has been engaged in sourcing and distribution of India Film content through acquisition, production, co-production through various mediums such as Theatrical distribution, music release, television licensing, Cable and DTH licensing. Thus the company has a track record of over two decades in the Indian Film Industry. The company is promoted by Mr. Sunil Lulla and family, who have over four decades of experience in the Indian Film Industry. The established brand position of 'EROS' along with experienced management, has helped the company own a large content library of over 3,000 movies and over 12,000 movies for digital content. Further, the ultimate parent, namely, Eros International PLC (EIP), has announced a merger with a Delaware, USA, based company STX Filmworks Inc. on 17 April, 2020. Thus, going ahead, the total content library and the outreach of the group is likely to significantly improve. Further, on account of this merger, EIP is likely to generate additional equity of USD 125 million of which USD 110 million is already generated and balance USD 15 million is expected to come in by 90 days from the date of merger (i.e. July 30, 2020).

With a wide range of content libraries, the company has successfully released 72 movies in FY2019 and 30 in FY2020. Further, the company has diversified revenues streams for FY2020 with a theatrical contribution to ~4%, ~31% from Television and Digital Rights, and ~65% from overseas operations.

However, on account of the outbreak of COVID – 19, the dependence on theatrical has drastically decreased in FY2020 and is likely to further impact in FY2021 on account of lockdowns and closure of theatres. Acuite believes the company will benefit from its large content library and ongoing revenues from its digital rights even though very limited theatrical releases are expected in FY2021. Thus, this is likely to impact the revenues of the group in FY2021. However, this is likely to offset from the equity infusion at EIP level and Acuite believes, EIP will support its Indian step down subsidiary, in case required.

Weaknesses

• Deterioration in Liquidity

The company operates in an elongated working capital nature of operations, with stretched receivable days of 248 days in FY2020 as against 281 days in the previous year. This has also led to intermittent overdrawn and delay in working capital and term loan repayment in the past. However, the company has availed for a moratorium as per the RBI guidelines, and the dues until February 2020 have been made good. Further, as per the RBI's revised guidelines, the lenders have also agreed upon converting the interest component into FITL which is payable until March 2021. However, the liquidity pressures are likely to offset on equity inflow in EIP and its willingness to support EIML in case required.

• Extension of Loans and Advances

The financial risk profile of the company is weak on account of one-time impairment expenses on its assets. The company has a tangible net worth of Rs.1249.15 crore as on 31 March 2020 as against Rs.2568.99 crore. Further, the net worth of the company stood at Rs. 1260.42 crore as on 31 March 2020. However, the company has extended loans and advances to its group companies to the tune of Rs.767.68 crore as on 31 March 2020 which has increased from Rs.434.68 crore in the previous year. When adjusted, the net worth stands at Rs.484.83 crore as on 31 March 2020. The adjusted gearing stands at 0.96 times as on 31 March 2020.

• Risks related to film industry

The film is exposed to event-based risks like agitations against actors, producers, which can influence the release date and cash flows of the project. During the period under production, funds are invested in it which will be released only after realization of advances. Any unexpected delay in releases will have a material effect on profitability and fund flow. The performance of the film is dependent on the script, reception of the film by the audience. Acts of piracy can also impact the cash flows of the project.

Liquidity Position: Stretched

Eros International Media Limited's liquidity is stretched, marked by high receivable days which stood at 248 days in FY2020 as against 281 days in the previous year. Further, the company also extended loans and advances of Rs. Rs.764.32 crore as on 31 March 2020 which is ~61 percent of its net worth as on 31 March 2020. This has led to intermittent overdrawn in its working capital facility and delays in term loan repayment in the past. Currently, the company has availed moratorium in repayments until August 2020 as per the RBI Guidelines.

Rating Sensitivities

- Higher than expected deterioration in revenues and profitability margins
- Deterioration in working capital management leading to stretched liquidity

Material Covenants

No major covenants apart from financial covenants.

Outlook: Stable

Acuite believes EIML will maintain a 'Stable' business risk profile over the medium term. The company will continue to benefit from its established brand position and large content library. The outlook may be revised to 'Positive' in case the liquidity position of the company is significantly improved. Conversely, the outlook may be revised to 'Negative' in case of a decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile, liquidity position coupled with an increase in working capital intensity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	813.60	1,047.48
PAT	Rs. Cr.	(1,401.21)	266.48
PAT Margin	(%)	NA	25.44
Total Debt/Tangible Net Worth	Times	0.37	0.23
PBDIT/Interest	Times	(21.72)	4.15

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure 1 – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	230.00	ACUITE B/ Stable (Assigned)
Working Capital Term Loan	Not Available	Not Applicable	Not Available	38.77	ACUITE B/ Stable (Assigned)
Export Bill Discounting	Not Applicable	Not Applicable	Not Applicable	58.50	ACUITE B/ Stable (Assigned)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	69.50	ACUITE B/ Stable (Assigned)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE B/ Stable (Assigned)
Term Loan	Dec-16	12.85%	Dec-21	36.64	ACUITE B/ Stable (Assigned)

Term Loan	Dec-15	14.45%	Dec-20	4.11	ACUITE B/ Stable (Assigned)
Term Loan	Oct-15	11.95%	Oct-20	3.50	ACUITE B/ Stable (Assigned)
Term Loan	Feb-16	13.15%	Feb-21	5.00	ACUITE B/ Stable (Assigned)
Term Loan	Aug-15	12.45%	Aug-20 [^]	4.50	ACUITE B/ Stable (Assigned)
Proposed Bank Facilities	Not Applicable	Not Applicable	Not Applicable	0.48	ACUITE B/ Stable (Assigned)

[^]the company has availed moratorium for repayment as per RBI Guidelines

***Annexure 2 – List of entities in consolidation**

Sr. No.	Name of Entity	Relationship
1.	Eros International Films Private Limited	Subsidiary
2.	Eyeqube Studios Private Limited	Subsidiary
3.	EM Publishing Private Limited	Subsidiary
4.	Eros Animation Private Limited	Subsidiary
5.	ErosNow Private Limited (Formerly known as Universal Power Systems Private Limited)	Subsidiary
6.	Colour Yellow Productions Private Limited	Subsidiary
7.	Big Screen Entertainment Private Limited	Subsidiary
8.	Copsale Limited	Subsidiary
9.	Digicine PTE Limited	Subsidiary
10.	Eros International Distribution LLP	Subsidiary
11.	Reliance Eros Production LLP	Joint Venture

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President – Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294021 varsha.bist@acuite.in
Kashish Shah Assistant Manager - Rating Operations Tel: 022-49294042 kashish.shah@acuite.in	

About Acuite Ratings & Research: Acuite Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuite rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuite ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and

information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.