

Eros International

Listing Decisions

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Abstract

EROS International is a leading name in Indian motion picture production which co-produces, acquires and distributes Indian language films in multiple formats, worldwide. In 2006, Eros got listed in Alternative Investment Market (AIM) of the London Stock Exchange. The case study discusses the factors behind Eros's delisting from Alternative Investment Market (AIM) of the London Stock Exchange (LSE) and its subsequent listing on New York Stock Exchange (NYSE) in 2013. The case study, in essence, reflects on the listing choices in the international capital markets.

The case has been written on the basis of publically available published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Eros or any of its employees.

Keywords: Eros, AIM, NYSE, Listing, Delisting

INTRODUCTION

EROS International (Eros) is a leading name in Indian motion picture production which produces and distributes movies. The company was founded by Arjan Lulla in 1973. Eros operates in over 50 countries, with offices throughout India, the United Kingdom, USA, UAE, Singapore, Australia, Fiji and the Isle of Man.

group includes Beech Investments Limited, Olympus Foundation, Arjan Lulla, Kishore Lulla, Vijay Ahuja and Sunil Lulla. Beech Investments, a company incorporated in the Isle of Man, is owned by discretionary trusts that include Eros founder Arjan Lulla and Eros directors Kishore Lulla, Vijay Ahuja and Sunil Lulla as potential beneficiaries. (Exhibit 1 summarizes the corporate structure of Eros consolidated group of companies as of September 30, 2013.)

CORPORATE STRUCTURE OF EROS

The founders group holds approximately 59% of Eros issued share capital. Founders

Taxation Aspects

The applicable statutory tax rates in the primary jurisdictions in which Eros operate

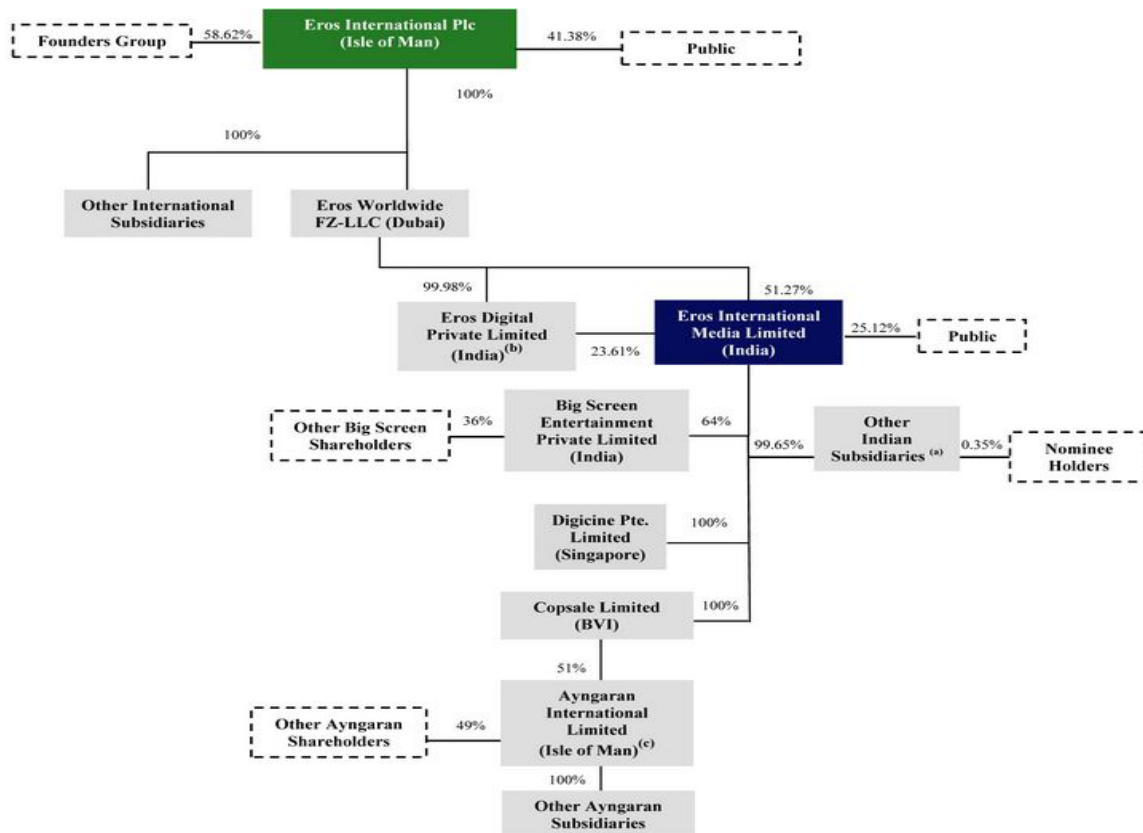


Exhibit 1: Capital Structure of Eros

varies from 0% in the United Arab Emirates and the Isle of Man to 28% to 35% in India, the United States and the United Kingdom. Deferred tax liability principally arises on temporary differences between the tax bases of film content assets and their carrying amount as a result of taxation laws in India.

Exchange Rates and Translations

Reporting currency of Eros is USD. Transactions in foreign currencies are translated at the exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities in foreign currencies are translated into U.S. Dollars at the exchange rates at the date of the applicable statement of financial position. For the purposes of consolidation, all income and expenses are translated at the average rate of exchange during the period covered by the applicable statement of income. Assets and liabilities are translated at the exchange rate prevailing on the date of the applicable statement of financial position.

THE REVENUE MODEL

As per Figure 1, Eros gets only 42% of its revenue from theatrical when the industry standards are at almost 60%. It gets almost 22% from its satellite rights and 27% from overseas. Thus the dependence on the theatrical revenue is greatly reduced. This reduction is primarily due to the relationship

agreement that the parent company and EROS Plc has got with each other.

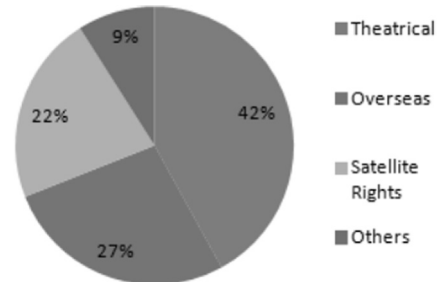


Figure 1: The Revenue Model

Source: TAM, ICICIdirect.com Research

As per the media reports, the IPO for EROS would have make them raise USD 200–250 million. The company could allocate some of these as advances and loans to EROS International media, as this would be comparatively cheaper than the market debts. In this de-risking model where EROS International media produces, EROS Plc bears 30% cost. For instance, if a INR 100 crore movie is produced by EROS international media, then INR 30 crore would be given by the parent company. If the movie makes revenue of say INR 50 crore, then the investment by the parent company is recovered first and then 30% of profit will be received by Eros International media.

The Exchanges: Alternative Investment Market (AIM) & New York Stock Exchange (NYSE)

Exhibit 2 given below discusses a brief description about both the markets.

<i>AIM</i>	<i>NYSE</i>
Established in 1995	Established in 1817
Allows smaller companies to float shares with a more flexible regulatory system than is applicable to the main market.	World's largest stock exchange in terms of market capitalization
Less Tax Burden Compared to main market.	Market capitalization of its listed companies at US\$ 25.3 trillion as of December 2014
Major Indices are FTSE AIM UK 50 Index, FTSE AIM 100 Index and FTSE AIM Allshare index.	Major Indices are Dow Jones Industrial Average, S&P 500 and NYSE Composite

Exhibit 2

The Listing Fee in AIM and NYSE is mentioned in Exhibit 3 below:

<i>Exchange</i>	<i>Sub-exchange</i>	<i>Listing Fee</i>
NYSE	Main	Fee per share: Up to and including 75 million shares: US\$ 0.0048 Over 75 million shares up to and including 300 million shares: US\$ 0.00375 Over 300 million shares: US\$ 0.0019
LSE	AIM	Flat fee of £4,340 (US\$ 8,641)

Exhibit 3

Eros has offered 5 million shares in NYSE, which leads to a listing fee of US\$ 24000. This is more than 2.5 times the listing fee of LSE.

LISTING BY FIRMS SIMILAR TO EROS

EROS can be compared with the following peer group as mentioned in Exhibit 4.

<i>Local Players</i>	<i>Global Players</i>
PVR Ltd	Walt Disney
Prime Focus Ltd	Time Warner
Reliance Broadcast Network Ltd	Twenty First Century Fox
Balaji Telefilms Ltd	Lions Gate Entertainment
Media Matrix Worldwide Ltd	UTV Media Plc
Shree Ashtavinayak Cine Vision	Dreamworks Animation
Tips Industries Ltd	

Exhibit 4

Eros Listing in AIM

About 40% of the revenue of Eros came from India and the remaining 60% came from different part of the world like US, UK, The Middle and The Far East. Therefore, the company was keen to list in any international market but they had chosen Alternative Investment Market of the London Stock exchange. The major reason for listing in AIM were:

- The requirements on Alternative Investment market of the London stock exchange seemed to be less cumbersome than the NASDAQ in New York, United States.
- London Stock Exchange market was preferable than Indian Stock market as

there was not any peer group companies in India that have option for comparable.

- The chairman and CEO of Eros International, Kishore Lulla was based in UK over the period of 20 years.

Voluntary Delisting from AIM

Prior to Eros Ltd., companies like UTV Software communications which were listed in London's AIM through its subsidiary UMP Plc. got itself voluntarily delisted. Similarly, Network 18's subsidiary Indian Film Company also got delisted from AIM. The Alternative Investment Market also witnessed shrinking numbers due to multiple reasons like financial insolvency, mergers & acquisitions. This clearly shows how much of an impact has the prolonged recession has caused on the small capitalized firms.

Eros International wanted to list the A ordinary shares on NASDAQ, New York stock exchange. Therefore their ordinary shares which had been trading on the Alternative Investment Market on London Stock exchange had to be filed for the cancellation as if their shares were traded on the both market then there are significance chance of price fluctuation in the ordinary share prices on either of the market which is independent of the on the other market.

From this, investors could easily take the advantages of selling or buying of the shares on the basis of the price differential between two markets through a method of arbitrage. Thus it creates unnecessary volatility in the shares

prices in either of the market. So on April 24, 2012, shareholders approved a resolution authorizing Eros to cancel admission of ordinary shares from AIM following the listing of A ordinary shares on the NYSE.

Eventually company got delisted from AIM of London Stock exchange as it was difficult for company in the long term to maintain a dual listing on both AIM and NYSE in terms of complexity as well as cost effectiveness. And one more thing is that it will be more difficult or tedious process for the company to take the approval of listing on NYSE from the different stock exchange shareholders at the same time.

With the firms delisting voluntarily from the London's Alternative Investment Market, it is evident that they were not able to raise equity with limited growth and profitability. The companies voluntarily delist. In contrast, firms which moves to the NYSE market generates positive return and high growth. Thus the probability for the company to raise money through external financing was easier, though it entailed them some additional regulatory costs. The board had decided that the US listing is more appropriate and delisted from AIM because the cost of dual listing is prohibitive.

Post Listing Performance of EROS

On Nov 13,2013, Eros International Plc, Eros International's parent Company, got listed on the New York Stock Exchange (NYSE) with an initial public offering of 5,000,000 shares of common stock to the public at a price of

\$11.00 per share, raising \$55 million in new capital in Q3FY14. The net proceeds from this offering was approximately \$55 million (~ Rs 341 cr) based on an initial public offering price of \$11.00 per share. Net proceeds from this offering is likely to help the company to increase its film content base and strengthen its books to bid for aggressive movie content acquisitions. As on Feb 20, 2015, Shares of Eros Plc are trading at \$15.77.

Performance of Eros Plc for the nine months ending December 2014 are provided below in Exhibit 5.

<i>(Figures in US \$ million)</i>	<i>Nine Months Ended Dec 31,</i>	
	<i>2014</i>	<i>2013</i>
Revenue	195.7	172.2
Gross Profit	87.9	80.8
Operating Profit	54	52.3
Adjusted EBITDA	71.2	67.2

Exhibit 5

For the nine months ended December 31, 2014, revenue increased by 13.6% to \$195.7 million, compared to \$172.2 million in the nine months ended December 31, 2013. Eros released 43 new films in the nine months ended December 31, 2014, compared to 41 in the nine months ended December 31, 2013.

Cost of sales increased 17.9% to \$107.8 million in the nine months ended December 31, 2014, compared to \$91.4 million in the nine months ended December 31, 2013, primarily due to an increase in amortization costs from \$71.6 million in the nine months ended December 31, 2013 to \$82.3 million

in the nine months ended December 31, 2014, reflecting additions to the catalogue films and prior released content. In addition, the Company incurred content impairment charges of \$2.8 million in the nine months ended December 31, 2014 as compared to no charges in the nine months ended December 31, 2013.

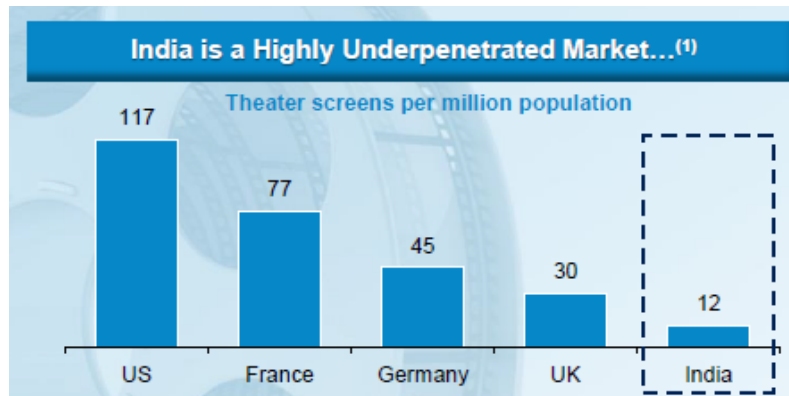
THE VERDICT

With this as a background, Eros International (NYSE:EROS) promises to be a good stock to consider for investors with a 3-5 year investment horizon. If the economy does well and the middle class prospers, the media and entertainment industry is bound to do well as an investment opportunity.

The Indian entertainment industry is growing and Eros International is the global leader in Indian filmed entertainment. The company has a leading 43% and 40% market share in the United States and in UK respectively. A growing market and industry leadership position is a great combination to have for any company.

As far as the penetration of the entertainment industry in India is concerned, the theatre screens per million population in the country is 12 as compared to 30 for UK, 45 for Germany, 77 for France and 117 for the United States.

Eros has been in a continued growth stage and to continue this growth the company should have considered various stock markets which would be beneficial for listing of the company's share capital. These benefits would



Source: "India Entertainment and Media Outlook 2011," PWC

Source: Eros International Presentation

be in terms of providing a more relevant peer group of similar companies, broader prospects on financial analyst coverage, increased liquidity. The most important factor is an efficient access of additional equity capital market on more favourable terms and conditions. Eros had delisted from AIM and got listed in NYSE in 2013. Was it a right move by Eros to get delisted from AIM and get listed in NYSE?. Or should Eros would have done better by being listed on both the exchanges? On what all parameters is the listing and the delisting choices made by Eros?

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