EROS INTERNATIONAL
Moderator: Jyoti Deshpande
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8:30 a.m. ET

Operator: Good morning, ladies and gentlemen, and welcome to the Eros International's Third Quarter 2015 Earnings conference call. This call is being broadcast live on the internet and a replay of the call will be made available on the company's website.

This morning, the company furnished its earnings press release on its website, www.ErosPLC.com. The company would like to remind everyone listening that during this call, it will be making forward-looking statements under the Safe Harbor Provisions of the Federal Securities laws.

The company's actual results might differ materially from those projected in the forward-looking statements. Additional information concerning factors that could cause actual results to materially differ from those in these forward-looking statements that's contained in today's press release.

During the call, the company will also discuss non-GAAP financial measures in talking about its performance. You can find the reconciliation of these measures through GAAP financial measures in the company's press release.

I will now turn the call over to Jyoti Deshpande, CEO of Eros PLC. Please go ahead.

Jyoti Deshpande: Good morning, everyone. Thank you for taking the time to attend Eros International's -- Eros International PLC's earnings call for the third quarter ended December 31, 2014.

Eros International is the leading global company that co-produces, acquires and disputes (inaudible) across diversified distribution channels across 50 different countries and in over 25 different languages worldwide.

We have both a unique and valuable (inaudible) of over 2,300 (inaudible), which is a key competitive advantage along with our dominant market share. We have grown our EBITDA almost 20 times in the last 10 years with focus on building scale and market share.

We now see our business as 3 strategic verticals: Build entertainment, paid television and digital with the latitude growing from near fund revenue streams to full-blown business opportunities and participates as a significant player within the rapidly growing $20 billion Indian media and entertainment industry, of which television from 45 percent and (inaudible) of further 15 percent.

I'm very pleased to report that we have delivered strong (federal) results this important quarter, which reinforces our leadership division within the Indian media and entertainment sector. The performance also reflects the success of our strategy to invest in a portfolio of high-quality (fund) content and monetizing it across existing and imaging revenue streams including strong contributions from our library.

Moving onto the results for the 3 months ended 31st December 2014, revenues increased by 15.1 percent (per dollar), 100.4 million compared to $87.2 million in the prior year period. Adjusted EBITDA increased by 8.6 percent to $49.2 million compared to $45.2 million in the prior year period.

And for the 9-month ended December 31, 2014, revenues increased by 13.6 percent to $195.7 million compared to $172.2 million in the prior period. Adjusted EBITDA increased by 6 percent to $71.2 million compared to $67.2 million in the prior year period.

During third quarter, we released a total of (inaudible). The major (inaudible) during the quarter included (Linga), (Action Jackson), Happy Ending, and also important contributions came from (inaudible) and other medium and smaller budget releases.

The fourth quarter has already seen the release of (Favor) and (Shamita) with (inaudible) on track to follow. In addition, we have a few smaller releases like we do every quarter. We have remained truly excited about our fiscal 2016 (inaudible) of Hindi and regional language books.

(India Sleeps) has much of (inaudible) such as (inaudible), the hit franchise, (Sergeant) (Inaudible) to name a few. (Inaudible) is an (evil) wild budget (inaudible) Christmas release. So we are making most of the holiday release weekend next year.

We have committed -- we are committed to expanding the regional (inaudible) and we have (inaudible) and (Rojney Morgan) (inaudible) that broadly covers the Tamil and teleco markets as well.

We're also excited to announce that in (inaudible) to the (inaudible) market with (inaudible). We've appointed (Ajib Packard) to spearhead our motion pictures production division, (Inaudible) Pictures, where we want to invest in the (inaudible) intellectual property in-house.

While our acquisition and co-production model is all about scale portfolio and market share, the (trendy) label is all about quality success rate and building franchises with lasting value. Not unlike the holiday model, but within Bollywood budgets.

Now, to the part that we are very excited about. Eros Now is (inaudible) a remarkable growth trajectory as it continues to expand its reach through various strategic collaborations. I promised you some numbers on the last call. So here they are:

We're pleased to announce that Eros Now has over 14 million registered users worldwide, which comprises of 3 transactional and premium users. As of this, just over 10 million are mobile users mainly transactional app users in India who will be able to successfully convert through our (inaudible) relationships.

We kindly have less than 1 percent premium monthly subscribers, but our focus at the moment is to get as many registered users as possible and monetize the free traffic through advertising, as well as, monetize the transaction users and take a share of their mobile wallet.

The strategy is also to systematically upsell the benefits of the premium offerings through the free and transactional base. With over 860 million mobile subscribers in India and 25 percent of them smartphone users, we are excited about the prospects this holds for Eros Now.

In terms of (traffic) outlook for fiscal 2016, our first (inaudible) and expansion CAPEX is expected to be around the $200 million market with an additional $50 million CAPEX to enter the highly lucrative paid television market in India and another (inaudible) $5 million of content and other investment for Eros Now.

As we move from being a (pure) film entertainment company to a (true) media and entertainment conglomerate, we are extremely excited about the opportunities that our future holds and thank you for the confidence you have invested in this company and its management.

With that, let me turn the call over to (Andrew Heffernan), our group CFO, who will walk you through our financial performance in more detail. We will then open the call to your questions.

Andrew Heffernan: Thank you, Jyoti. Good morning and thank you for joining us today. Our performance in the third quarter in this fiscal year ended March 31, 2015 was strong with revenues for the 9 months ended December 31, 2014, increasing by 13.6 percent to 195.7 million with currency comparable revenues increasing by 15.3 percent.

The 3 months ended December 31, 2014. Revenues increased by 15.1 percent to 104 million from the prior year comparative period with currency comparable revenues increasing by 14.5 percent.

These increases reflect the mix and performance of the film slate released during the periods, along with a strong contribution from our valuable catalog of films. In the third quarter, we released 13 films, 3 of which were high-budget films, 1 was medium-budget and 9 were lower budget films.

While in the quarter ended December 31, 2013, 15 films were released, 3 of which were high-budget, 2 medium-budget and 10 being lower budget.

Adjusted EBITDA has increased steadily across both reportable periods increasing by 8.6 to 49.2 million in the quarter compared to 45.3 million in the year ago period, and increasing by 6 percent to 71.2 million in 9 months ended December 31, 2014, from 67.2 in 2013.

At this stage, I would draw your attention to the notes regarding the use of non-GAAP measures and the uses and limitations contained within our holdings release.

Our primary revenue streams have derived from 3 channels: Theatrical, television syndication and digital ancillary. For the third quarter, the aggregate revenues from each segment were 42.8 million, 36.3 million and 21.3 million respectively.

For the 9 months ended December 31, 2014, the aggregate revenues were 79.1 million from the theatrical segment, 75.4 million for the television syndication, and 41.2 million for digital and ancillary revenues.

(Turning to the effect) of foreign exchange, our constant currency comparable revenues for 3 and 9 months ended December 31, 2014 are 87.7 million and 169.8 million respectively based on the average rates of exchange for the periods then ended.

On this basis, the revenues for the 3 and 9 months ended December 31, 2014 increased by 14.5 percent and 15.3 percent respectively compared to the prior year comparative period. I note that for the 3 and 9 months ended December 31, 2014 and 2013, the average rates of exchange used to convert India Rupee to U.S. dollars was 60.9 INR to $1 and 60.1 INR to $1 respectively.

Cost of sales for the third quarter has increased to 45.1 million compared to 36.7 million in the prior comparable period and for the 9 months ended December 31, 2014, has increased to 107.8 million from 91.4 million in the prior comparable period.

These increases are primarily due to an increase in amortization costs reflecting the company's new release slate for the periods, as well as, additions made to catalog films and prior release content.

Gross profit in the quarter totaled 55.3 million, an increase from 50.5 million in the prior comparable period, and gross profit in the 9 months ended December 31, 2014, also increased 87.9 million from 80.8 million in 2013.

The company's gross profit margin was 51 -- 55.1 percent in the third quarter compared to 57.9 percent in the year ago period, 44.9 percent in the 9 months to December 31, 2014, decreasing from 46.9 percent in 2013.

Note that for the year ended March 31, 2014, gross profit margin was 43.5 percent. We note that this data of the quarterly or annual changes in margins should not on their own be taken as indications of future margins.

Looking at our balance sheets, debt as at December 31, 2014, stood at 320.5 million as compared to 258.1 million of March 31, 2014, with cash equivalents for the periods totaling 197.8 million and 145.4 million respectively, plus net debt was increased by 10 million in the 9 months ended December 31, 2014, and totaled 122.7 million.

Our content CAPEX at December 31, 2014, stood at 192 million as we have sought to use large funds from NYSE follow-on offering to extend our catalog and to following film -- following fiscal years release slate.

We expect to spend up to 50 million on content CAPEX principally for content expansion in the remainder of fiscal 2015. In summary, we believe our business is well positioned for continued growth and profitability with a managed expansion of our film slate for future years.

Thanks for listening and now, we can take questions.

Operator: Thank you. At this time if you would like to ask a question, press star, then the number one on your telephone keypad. Your first question comes from (Eric Katz) with Wells Fargo.

(Eric Katz): Hi, good morning. I know you guys said that premium subs are less than 1 percent of the 14 million, but how many of the 14 million users have made a transaction and any color on downloads would help.

Jyoti Deshpande: So basically, the 10 million sub -- 10 plus million subs are transactional users and they would have made some transactions on the other since they have been registered users of our platform.

The way transaction users do is they have micro payments. They have, like, a prepaid account with their teleco and they'll (inaudible) and it's not a large sum. They can take -- buy something for 2 Rupees, they can buy something for 10 Rupees, they can buy something for 15 Rupees. It can be a wallpaper, it can be a piece of music or it can be a ringtone, and specifically they are mobile app users who access the site through their browser.

So a large number of them would've made some transaction of the other of some value, but they're not recording monthly subscribers. They pay as you go.

(Eric Katz): And do you happen -- do you happen to have some kind of percent on how many of those 10 million made a transaction through Eros Now?

Jyoti Deshpande: And so they would have -- they would've bought Eros products. So it -- they would've bought an Eros ringtone or a...

(Eric Katz): OK.

Jyoti Deshpande: ... (inaudible) that's customized for people who consume that kind of content. That's also Eros Now.

(Eric Katz): OK.

Jyoti Deshpande: So yes, but it's not just movie. It can be shot from (content).

(Eric Katz): OK. And out of the 4 million non-Indian users, how many of those are -- is there some kind of percent of those that are premium subs?

Jyoti Deshpande: Actually, I wouldn't read it as 4 million are not non-Indian users. The same 10 million (inaudible) will buy users from India, mainly bad users in India. Out of the 4 million, also a large part are from India, but not mobile app users and just under a million users are pre-users outside of India.

So premium is a -- is a small part.

(Eric Katz): OK. And I just had one last -- one last qualitative question. How exactly were you guys able to ramp-up so quickly on the user side? Can you walk us through, you know, if you rolled up a new app already integrating tech zone and the marketing push that you made for Eros Now for the last few months? Thank you.

Jyoti Deshpande: No, that's a great question. The new app on Android and iOS is about to be rolled out in the next two to three weeks, more likely two rather than three. So it's going through life testing right now.

So the new app is right in the works of being launched. The (inaudible) conversion basically is they have all 40 million registered users already on their system (inaudible) systematically marketed to them.

Since our relationship began with them, this is now actually over a year ago. So I think last we spoke about tech zone was last November and now -- so it's over a year ago. So we systematically worked with them in marketing our service to their subscribers and getting them to convert as pre-registered users first, and then all those subscribers that came from their system already had billing integration in place.

So if they wanted to transaction, it's seamless. So (inaudible) to get them to be registered users of Eros Now and then when they transact, their tech zone (inaudible) seamlessly duplicated. So our target is to convert the balance as well, but this is not overnight. It has been going on for the past few months.

So next quarter, if we announce the numbers, don't be alarmed if it's not hugely higher than this.

(Eric Katz): Great. Thank you.

Operator: Thank you. Your next question comes from (Tim Nolan) with Macquarie.

(Tim Nolan): Hi. Thank you. I wanted to ask a couple of things; first about your paid TV setup just so you can give us an update, please, on what is going on with HBO and/or anything else you may be doing.

And secondly, I think relatedly, I think I got all the numbers you mentioned about the CAPEX investments, but I wonder if you could just run through that again, please, make sure I understand -- I think you said 200 million of content cost investment for this year, if I understood right, plus 15 million for paid TV, plus 25 for Eros Now, if I got those right, and if those are incremental amounts for CAPEX, if that's new information as of this quarter going forward? Thanks.

Jyoti Deshpande: Yes. So the numbers you got were right. So we're saying just in content slate whether it's for 2016 slate or for beyond 2016 slate, we anticipate putting around $200 million in just (inaudible) content effects.

The result of our TV (inaudible), but the CAPEX outlook for television is up to $50 million and up to $25 million for Eros Now and Eros Now related CAPEX.

So that's correct. You've got the numbers right and we will try to just back -- break-up in that color every time we speak on these quarterly calls so that you can track how we're doing against it.

Talking about television, I (inaudible) folks in the last call as well that the television is the largest out of the multi-billion dollar (inaudible) entertainment side, but today it spans at $15 billion, a (standard) of $15 billion opportunity. It's 45 percent of the median entertainment sector.

It's the most rapidly growing part of the median entertainment sector and as a large content company, it's everything that we have to enter that space. In their passport digitization (inaudible), everything has gone from all the main cities within India have gone from analog to digital and only the tail end of the digitization is left.

This is an extremely lucrative opportunity for us. So all we've been doing thus far when we afford segmented revenues and we (inaudible) television revenues is literally just licensing off our content for the -- for 5 years or 3 years or whatever it is to other television channels and here is an opportunity to create a new window, a paid television window without content, as well as, syndicate our content to other TV networks.

The HBO opportunity was something that allowed us to base this market for free. It allowed us to enter the market with no investments and learn how the (humans) behave, learn how what they want or what other kind of HBO channels offering, what do the customers want to see.

So there is an appetite for Hindi movie channels. There's an appetite for high-quality Hindi language programming, which is the largest pie. The HBO channels are still doing the same as what they were doing. I don't have too much growth to report and I had hinted last time as well we don't know whether we will continue the relationship beyond, say, June of 2015 because HBO will have to make a decision whether to add the link to put significant -- continue putting significant investments in India with (inaudible).

So part of it is in their hands. So from outside, we are happy to continue on the -- on the time basis, but they may pull back their investment on this (inaudible) from India. We will let you know when that happens.

But we can, like -- Eros Now Television and Eros Now Digital, they go hand-in-hand. Those two strategies go hand-in-hand and we must be in the -- in the paid television space so we can cross-promote each of these two services and take advantage of the high growth that each of these have to offer and generate annuity guide, subscriber-type revenue streams with the same content investment that we've done in the film investment phase.

(Tim Nolan): Oh. OK. Thanks. So I think you were saying last quarter that you were at least implying you might try to go it alone and start your own premium TV network; do I have that right and is there any update on that?

And is the CAPEX spending that you mentioned for TV related to that?

Jyoti Deshpande: I (inaudible). So the CAPEX is for our own channel, not for HBO. So HBO requires no investment, so that's just charging along and I was saying that we don't know whether they will want to continue for June.

The traffic to ($50 million) is to start our own movies and music channels, Bollywood-centric, with no other (inaudible) in India.

(Tim Nolan): OK. Thank you.

Operator: Thank you. Your next question comes from (Theraj Benesh) with Frontline Analyst.

(Theraj Benesh): Hi. I wanted some idea on the depth structure of cap -- depth structure going forward in term -- in terms of mix of Indian debt, non-Indian debt, secured and unsecured. Is it possible to get that?

Andrew Heffernan: I mean, in terms of the company, we're always looking at debt capital structure and to make it the most advantageous of this stage. There's no major plans to reorganize debt at this stage. We're recently contributed to the retail bonds in the U.K. and we continue to look at high-yield markets to see interest rates and opportunities as they arise, but there's no fundamental changes expected at this stage.

Jyoti Deshpande: In the -- in the press release, there's a detailed break-up of the borrowing and all asset-based borrowings at all Indian (inaudible) and everything else is outside of India and that should give you more of a break-up.

(Theraj Benesh): OK. Going forward, I mean, what I wanted to know was going forward are you planning to raise debt in India or abroad or keep the same mix?

Andrew Heffernan: I mean, at this stage, we're...

Jyoti Deshpande: (Inaudible)...

Andrew Heffernan: ... at this stage, we're not signaling what we're doing. We will review that position and, you know, as opportunities arise either in India or in the overseas markets, we'll consider opposition.

(Theraj Benesh): OK. Thanks. Thanks, Andrew.

Operator: Thank you. Your next question comes from (Akshay Naheta) with (Knights) Assets.

(Akshay Naheta): Hi. So a few quick questions. How many users have actually downloaded the app on the Android and the iOS platform of the 14 million -- well, really 4 million, right?

Jyoti Deshpande: So basically, we are most since -- most of these are app users out of the 14 million. Let us -- give us time to launch our new Android and iOS app in the next couple of weeks, then we'll drag in more color.

But we don't -- we want to try avoid giving too much granular information because our idea is it doesn't matter where they come from, whether they're app or (inaudible) users, we want to convert -- we want to try and monetize the registered -- the base through ads.

So the traffic is being monetized through ads and we upsell to the -- a small base of premium customers and the transactionals, of course, depend on (inaudible) based on topical content.

So it's too early to start talking about app numbers.

(Akshay Naheta): Well, because, I mean, it does affect your revenue per sub, right? I mean, a mobile ramp consumer would, as you pointed out earlier, be doing it in small amount increments that as, you know, someone who's downloading the app probably would be subsiding for the monthly service that you guys provide.

So I think it's important to get that granularity, at least, from a, you know, going forward modeling perspective. So...

Jyoti Deshpande: Absolutely. So that's why since our new app is yet to be launched, we would like sometime since we launch it to be able to give you that kind of (inaudible).

(Akshay Naheta): Sure. Sure. And then you said the HBO relationship may end in June 2015. What would be the impact on the revenues if that relationship ends?

Jyoti Deshpande: Nothing at all. We are not -- now, we are not reporting any revenues from that relationship. Nothing significant. It's a small (inaudible).

(Akshay Naheta): So they -- you are -- they aren't paying you for using your content?

Jyoti Deshpande: (Inaudible)...

Andrew Heffernan: No, they're paying us, but based on the -- what Jyoti's referring to -- the low level of subscriber uptake and obviously, that impacts the revenues that we're receiving.

(Akshay Naheta): Oh. OK. Got it. All right. And then one small technical question, why is the INR U.S., the conversion rate that you guys are using, so much lower than the actual realized rate?

Andrew Heffernan: It's -- so the rates would be we'd be taking average rates.

(Akshay Naheta): Yes, but the average was not (60), was it? I...

Andrew Heffernan: Yes. So...

(Akshay Naheta): So it's the average rate that you guys take?

Andrew Heffernan: Yes. So it'd be average rate (inaudible).

(Akshay Naheta): Is it the average annual rate or is it the average quarterly rate?

Andrew Heffernan: Well, depending on which reporting period it is, it'll be an average quarterly rate or it could be an average 9-month rate.

(Akshay Naheta): OK. All right. Thank you.

Operator: Thank you. I will now turn the call back over to Jyoti Deshpande for any additional or closing remarks.

Jyoti Deshpande: No, thank you. Thank you, everyone, for your interest in Eros International. As I said, we are excited about what the future holds and stay connected and we'll come out with more news next quarter.

Operator: Thank you. This does conclude today's conference call. You may now disconnect.

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