

Source: Bloomberg <http://www.bloomberg.com/news/articles/2015-11-18/eros-says-rock-solid-backing-by-temasek-to-counter-short-sellers-ih4y2pj0>)

Eros Says Solid Backing by Temasek to Counter Short Sellers

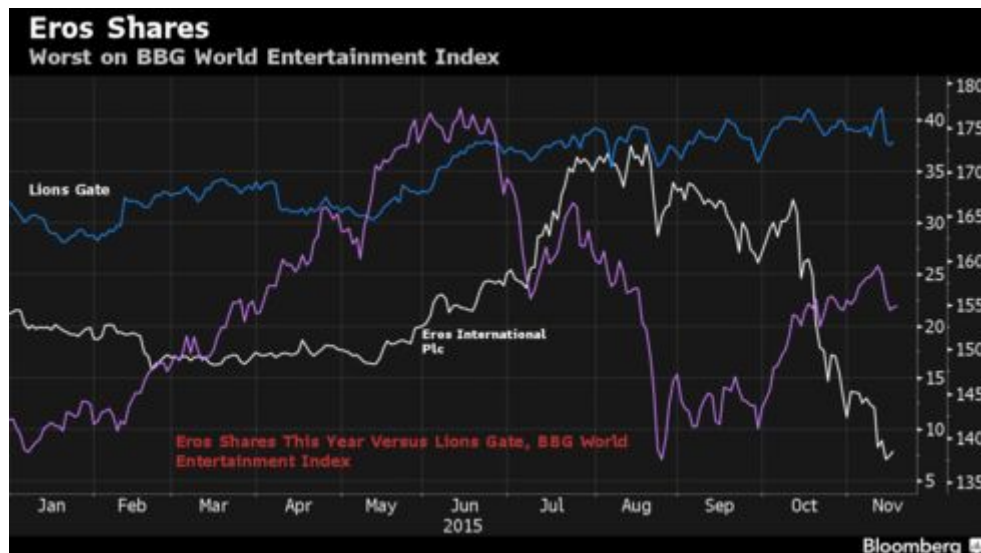
By Ameya Karve

November 18, 2015 — 3:09 PM GMT Updated on November 19, 2015 — 10:54 AM GMT

- Eros International plunged 79 percent from peak on Aug. 19
- Tweets, blogs raised questions on sales, Eros Now user numbers

Eros International Plc said backing by its two largest investors Capital Group Cos. and Temasek Holdings Pte will help the Bollywood film producer counter short sellers who have pummeled its New York traded stock.

The shares tumbled 79 percent from its Aug. 19 record of \$37.60 through Tuesday, making it the worst performer on the Bloomberg World Entertainment Index, after anonymous Twitter users and a blogger called Alpha Exposure cast doubt on the company's financials, the number of subscribers at its Eros Now digital service and its revenue derived from the United Arab Emirates. U.S.-based short seller Glaucus Research Group's Director Soren Aandahl on Nov. 5 said the company's shares are worth \$0.



“We have rock solid shareholders, such as Capital and Temasek, who are standing by us like pillars and giving us good advice,” Eros Chief Executive Officer Jyoti Deshpande said in an interview in her office in Mumbai on Wednesday. “They said just put your head down and get to work.”

Shares at the company's Indian unit jumped a second day after Eros reported profit that beat analysts estimate. The producer of “Bajrangi Bhaijaan,” featuring Salman Khan in the lead role, is

focusing on expanding its Eros Now service, said Chairman Kishore Lulla. The digital platform has 30 million registered users and the company will be “happy” if it can convert as many as 10 percent into paying subscribers, he said.

Anonymous Blogger

“Eros’s performance in the second quarter seems quite in contrast to the allegations and the company seems to have managed to convince the people on most of the parameters,” said Jigar Shah, an analyst at Mumbai-based Kim Eng Securities Pvt. Kim Eng recommends buying shares of Eros’ Indian unit.

Eros International Media Ltd. advanced 5 percent to 224.15 rupees in Mumbai on Thursday. The company’s U.S.-based parent reported revenue of \$98.8 million compared with an estimate of \$91.4 million. In New York, its shares jumped 9.1 percent on Wednesday, the biggest gain in more than two weeks.

An anonymous Twitter user called Market Farce in October challenged the company’s Eros Now customer data. On Oct. 30 alone, the shares dropped 13 percent -- the day Citron Research, the short-selling firm that’s accused drugmaker Valeant Pharmaceuticals International Inc. of fraudulent practices, said on Twitter that it was “beaten to the punch” on Eros.

The company said a “bulk” of Eros Now’s 30 million users are based in India. Lulla declined to disclose details of subscribers but said he was “surprised” by the latest number of paying users. App Annie Ltd., which measures the usage of mobile applications, reports that Eros Now has about 10 million users, according to Lulla. He said the discrepancy arises because App Annie doesn’t account for users accessing the Eros Now website through computers and mobile devices.

Stake Sale

“We are expecting significant contribution to revenue from Eros Now in fiscal year 2018,” CEO Deshpande said.

Eros was in advanced talks in July to sell a 10 percent stake in Eros Now to Singapore-based Fullerton Fund Management Co. that would value the unit at \$800 million, people with knowledge of the matter said then. Lulla declined to comment on the stake sale.

“The stake sale in Eros Now will be a very positive news for the company as it will boost the cash flow and bring in external investor credibility,” Kim Eng’s Shah said.

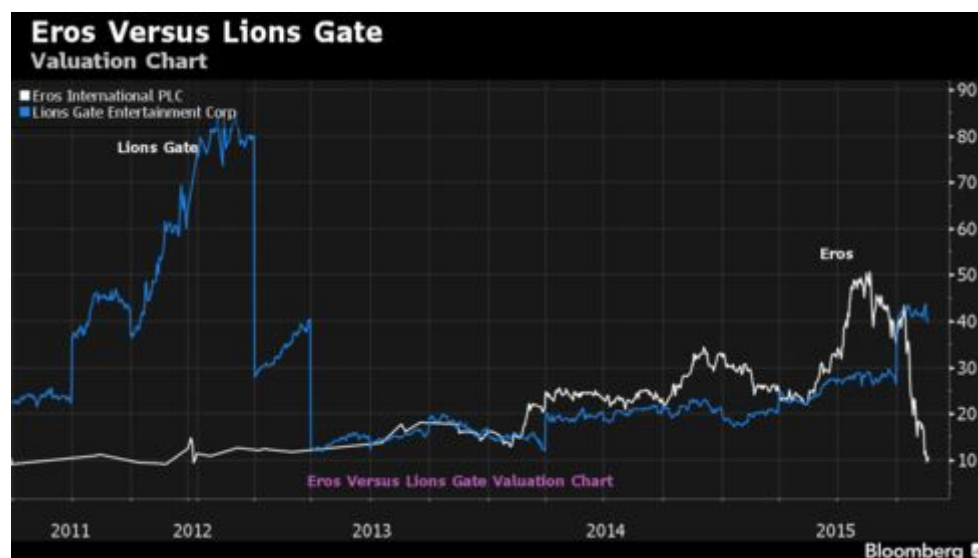
New Investor

While the allegations have prompted some investors to sell their stakes, they haven’t stopped others such as Tiger Global Management LLC from investing in Eros. Tiger owned \$32.6 million of Eros’ shares, according to a filing with the U.S. Securities and Exchange Commission on Nov 16. Knight Assets & Co., the London-based investment firm that owned more than 2 percent in the company sold its holdings, according to a letter to its investors obtained by Bloomberg.

Temasek owned 4.3 percent stake in Eros, while Capital Group controlled 11.5 percent as of Sept. 30, according to data compiled by Bloomberg. Fullerton, a unit of Temasek, owned 9.38 percent as of Dec. 31, data show.

Aedan Lai, a spokesman for Temasek, Singapore's state-owned investment firm, and Abbas Qasim, a New York-based spokesman for Capital Group, declined to comment.

Eros, which has also been challenged about its accounting and amortization policies, said it won't change the methods. Lulla said the financial tenets are comparable to the ones practiced by Lions Gate Entertainment Corp.



"We like the long-term growth story, but remain on the sidelines until we see improvement in receivables, positive free cash flow, and Eros Now monetization," Eric Katz, an analyst at U.S.-based Wells Fargo Securities LLC, wrote in an investor note Wednesday. Katz kept Eros' rating at market perform while cutting the 12-month price target to as low as \$9 from \$20 to \$22.