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Eros battles big investor squeeze in New York

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Representational image only.

MUMBAI: Kishore Lulla-led Eros International Plc, once hailed as the king of Bollywood content by global investors, is facing a massive selloff on the New York Stock Exchange (NYSE) after analysts raised red flags on the company's receivables and user count of its streaming service ErosNow.

Eros lost 17% on Friday after analysts at Wells Fargo – the largest bank in the world by market value – downgraded the stock citing several concerns, capping another week of sharp decline during which its market value plunged about 47%. The company behind some of Bollywood's biggest contemporary blockbusters (recent successes include "Bajrangi Bhaijaan" and "Tanu Weds Manu Returns") witnessed a 135% rise in its stock price, from around \$17 a share in April to nearly \$40 early-August, followed by a wipeout – at the end of last week, the stock was at \$14.65.



Several investment managers, including entities linked to Singapore's Temasek Holding and Capital International, had built fairly large positions in Eros after a re-rating of the stock on the premise of it being India's answer to Netflix, the US-based on-demand media streaming service. ErosNow, a mobile app-driven streaming service, was seen as a big winner with entertainment-crazy and smartphonesavvy Indians. Analysts had forecast that the stock would go up to \$48-50.

In July, Bloomberg reported that Lulla was in talks with Asian and emerging market specialist Fullerton to sell a stake in ErosNow, valued at \$800 million. A Financial Times blog speculated about Amazon being in discussions to buy a stake in Bollywood's Netflix. Sources had told TOI that Moelis & Co, a US-based investment bank, was engaged with Eros in helping the company identify a strategic partner.

But clearly, it was not all hunky-dory. Investor concerns had been brewing after the company reported a sharp spike in receivables in the past five quarters. Some investors questioned the receivables jumping to \$215 million from around \$110 million in the last one year. The management assured them that it would be reined in, but with little effect. The Eros top brass suggested that the rising receivables were possibly on account of certain transactions on content rights in the UAE. This roiled the investor community given the company's growing exposure to a region known for its tempestuous ties with Bollywood.

"It is difficult to fully grasp the collection cycle and movement of funds (particularly deals booked in the UAE). We still don't know the largest content buyers driving this increase, and we aren't fully comfortable with the fact that nearly half of the revenue originates outside of India," Wells Fargo senior analysts Eric Katz and Marci Ryvicker wrote in a report soon after Eros organized a concall in a bid to assuage market jitters. "We've been big supporters of Eros since launching coverage with an 'outperform' in September 2014, but a few key metrics have been put under the spotlight causing us to take a fresh look at our thesis," they said. This contrasted with a Macquarie Research report which said Eros shares were oversold for no good reason.

Emailed queries, text messages and calls to Eros chairman Kishore Lulla and Eros Digital CEO Rishika Lulla remained unanswered at the time of going to press. The latest squeeze, ironically, came after Kishore Lulla and his top management rung the opening bell at NYSE on October 13 and hosted an investor day as global interest in Indian content and digital story remains high in spite of rising fears of a bubble in tech valuations. The company's Mumbai-listed subsidiary, Eros International Media, which produces most of the content, too witnessed a 20% decline from Rs 547 to Rs 438 in its stock in the past month despite management talk about delisting.

Last Friday, Eros management spoke to analysts to rubbish accusations of accounting fraud alleged on Twitter. A Twitter handle @market_farce, which claims to unearth fraudulent and dishonest financial market activity, made a string of posts alluding to a hole in the company's books. It claimed that the UAE sales were "sham" and questioned the company's claim of ErosNow having 30 million users.

Wells Fargo analysts added, "Public websites that track app downloads (App Annie) show relatively low rankings for ErosNow compared to other Indian streaming services with lower user counts (Saavn had 14 million users at 7/2015, yet ranks higher on App Annie). We can't reconcile the disparity and it's a red flag for investors — so until we see some meaningful monetization from ErosNow, we have a tough time giving credit for it in our valuation."