

Exhibit 4

EROS: Critical Warning Signs Ahead of Upcoming Annual Report?

Friday, July 14, 2017 1:00 PM by The GeoTeam

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Contributed By FG Alpha Mgmt.

Summary

- Eros' annual report is late relative to its historical filing schedule
- Eros' Indian operations accounted for over 58% of 2016 revenue, yet since April the company has quietly sold off or pledged over 23% of its stake in its primary Indian subsidiary, including a new July 7th pledge for 7.41% of the entity
- Eros' April announcement that they were in "advanced stages of executing multiple long-term refinancing options" for its revolving credit facility has been followed by silence
- A recent switch of Eros' auditor at its key Indian subsidiary raises questions about the parent company's audit relationship
- At a time when liquidity is a looming question, instead of conserving cash, the company spent \$8 million on a purchase of real estate from a related party

Introduction

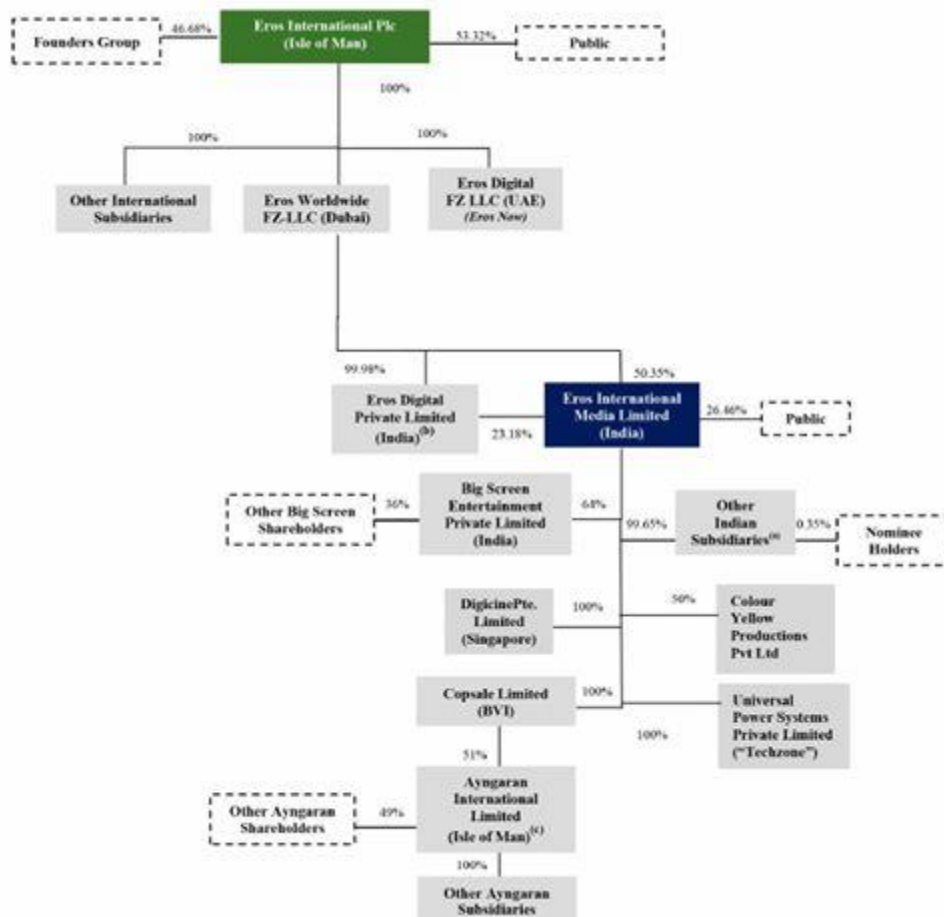
A search of SEC EDGAR shows that Eros has not issued any new filings since February 27th, but much has happened between then and now.

Eros Has Slowly Been Selling or Pledging Its Stake in Its Key Indian Operating Subsidiary, Eros International Media Limited

As [we previously wrote](#) on March 16, 2017, Eros appeared to be in the midst of an undisclosed liquidity crisis. Our article cited current liabilities and off-balance-sheet contractual obligations due within 1 year totaling \$434.3 million while cash & equivalents consisted of only \$135.8 million. Eros had failed to price a bond offering around that time, leading to questions about how the near-term liability gap would be financed.

By [April 4, 2017](#), an answer began to quietly emerge: asset sales. Eros Worldwide FZ-LLC (Eros' Dubai entity) began rapidly pledging Eros International Media Limited ("EIML") shares as collateral for loans, and later began selling shares ([source 1](#), [source 2](#)) outright on the Bombay Stock Exchange.

For context on EIML's importance and the entity structure in general, below is the entity chart (which includes ownership percentages) as reported by Eros in its June 2016 annual filing.



As shown, EIML is the key parent entity to many of Eros' Indian and international subsidiaries.

To give a sense of how quickly Eros is unwinding its Indian subsidiary, in [Eros' 2016 annual 20-F filing](#) they reported that Eros Worldwide FZ-LLC (the company's Dubai subsidiary) held a direct stake in EIML of 50.35%. As of a [recent filing](#) on July 7, 2017 that stake had dropped to 43.24%. The filing shows that another 16.10% of the company has been pledged as collateral for loans. In sum, in less than 4 months the company has pledged or sold over 23% of EIML, representing almost 30% of Eros' stake in the business.

To put this into further context, in 2016 Eros reported that over 58% of their revenue came from Indian Group Operations. As others have noted, the revenue coming from Eros' Indian Group operations appears to be of higher quality than Eros' ex-India operations, as it has not been subject to the same [receivables collection issues](#) as some of Eros' non-Indian subsidiaries. Given this reality, we can only assume that the disposition of Eros' key Indian operating asset is likely to have a material impact on both future revenue and cash flow.

Worse yet, *Eros has shown no indication that these asset sales will stop.* Given the ongoing liquidity needs of the company, coupled with the lack of announcements on alternative financing, we believe these sales and pledges are likely to continue.

Readers should note that the entire market cap of EIML (which trades on the [Bombay Stock Exchange](#)) is approximately \$310 million USD, which suggests that remaining available sales and pledges represent an ever-dwindling solution to a potentially ongoing problem.

AUDITED CONSOLIDATED FINANCIAL RESULTS FOR THE QUARTER AND YEAR ENDED 31 MARCH 2017

Particulars		Quarter ended 31 March 2017 (Audited)	Quarter ended 31 December 2016 (Unaudited)	Quarter ended 31 March 2016 (Audited)
Income				
i	Net sales/income from operations	18,062	33,212	26,991
ii	Other income	2,979	366	2,698
iii	Total income (i+ii)	21,041	33,578	29,689

Furthermore, while U.S. investors are still waiting for Q4 2017 results, EMIL saw a YoY [29.13% revenue decline](#) in Q4.

Eros Was in “Advanced Stages of Executing Multiple Long-Term Refinancing Options” Back in April. What Happened?

Another potentially ominous signal about Eros’ liquidity situation are troublesome disclosures (and lack of disclosures) relating to its revolving credit facility.

The 2015 documentation describing Eros’ updated revolving credit facility showed that Eros had access to [\\$125 million](#) through the facility. Subsequent to our calls for clarity on the revolving credit line back in March 16, 2017, Eros issued a press release on April 3, 2017 which then suddenly referred to an [\\$85 million](#) revolving credit line, suggesting to us a \$40 million tightening of the facility.

In that same press release, the company announced “The Company is already in advanced stages of executing multiple long-term refinancing options to replace the (revolving credit facility).” Despite that proclamation, there have been no announcements of a replacement facility in the 3 months in between. The company has failed to even publicly disclose whether there have been revisions to the modified facility’s (i) interest rate (ii) covenants or (iii) other key terms. We view these disclosures as deficient, especially given the apparent critical nature of the company’s lack of liquidity.

One thing we do know from the announcement is that the extended credit line is due September 30, 2017. In the absence of an alternative, that date stands as yet another looming deadline. We hope that the upcoming annual report sheds some light on the true nature of the revolving credit facility. We believe that Eros’ [2021 bonds](#), which currently trade at approximately 68 cents on the dollar, with a yield to maturity of about 17.6%, give an indication of the credit risk of the company.

Related-Party Real Estate Deal

Typically, a company lacking apparent financing alternatives that is selling off key assets to increase its liquidity position would seek to conserve any remaining cash it holds.

In contrast, Eros apparently decided that a better use of cash would be to purchase nearly \$8 million in real estate from key insiders via a private subsidiary. A filing, shown below and dated June 23, 2017 by Eros International Films Private Limited, a subsidiary of EIML, described a board meeting that took place May 26, 2017 in a New Delhi hotel room.



CERTIFIED TRUE COPY OF THE RESOLUTION PASSED AT THE MEETING OF THE BOARD OF DIRECTORS OF EROS INTERNATIONAL FILMS PRIVATE LIMITED HELD ON FRIDAY, MAY 26, 2017 AT 10.50 A.M AT ROOM NO. 1, HOTEL "THE IMPERIAL", JANPATH MARG, NEW DELHI- 110 001.

TO CONSIDER AND APPROVE RELATED PARTY TRANSACTION FOR PURCHASE OF PREMISES FROM MR. SUNIL LULLA AND MR. KISHORE LULLA:

"RESOLVED THAT subject to the approval of shareholders, the consent of the Board be and is hereby given for entering into related party transaction for purchase of the property situated at 501 and 502 of Supreme Chambers, Off Veera Desai Road, Andheri (West), Mumbai 400 053 having 17120.25 sq. feet carpet area together with open terraces (admeasuring about 102.73 sq. meters) with 27 (Twenty Seven) Covered car parking spaces from Director of the Company viz. Mr. Sunil Lulla and his relative Mr. Kishore Lulla, being the current owners of the aforementioned premises which is in ordinary course of business and at arm's length basis at a consideration ranging between Rs. 53 crores to Rs. 55 crores excluding stamp duty and registration charges.

RESOLVED FURTHER THAT Mr. Anand Shankar Kamtam, Director of the Company be and is hereby authorized to sign, execute, and deliver all the necessary documents from time to time including registration of the agreement and any other documents with the respective authorities in order to give effect to the above resolution."

// CERTIFIED TRUE COPY//

For EROS INTERNATIONAL FILMS PRIVATE LIMITED

Anand Shankar Kamtam

Director

DIN - 02942810

Address - 901/902, Supreme Chambers,

Off. Veera Desai Road,

Andheri (West)

Mumbai - 400 053



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Regd. Office: Kailash Plaza, 2nd Floor, Plot No. 12, Off Veera Desai Road, Andheri (W), Mumbai - 400 053.
CIN No. 199999MH1994PIC080502

(source: [Ministry of Corporate Affairs](#), Government of India)

The board agreed to purchase real estate directly from Eros' key insiders Kishore Lulla and Sunil Lulla for between 53-55 crore, corresponding to approximately USD \$7,950,000-\$8,250,000.

This information does not appear to have been disclosed to the Bombay Stock Exchange via Eros' reporting Indian subsidiary, nor to Eros' NYSE holders. We find it highly troubling that during the midst of an apparent liquidity shortage Eros' insiders quietly drained cash out of the company through a subsidiary.

Audit Switch at EIML Could Signify Issues for the Parent's Audit Relationship

As we [reported on March 29th](#), Eros has had at least 12 audit resignations or firings across its subsidiaries in the past 4 years alone. In furtherance of the company's historical pattern of audit swaps, just 2 months later on May 26, 2017, EIML held a [board meeting](#) where they announced yet another audit replacement: Walker Chandiok & Co LLP would no longer serve as EIML's auditor.

An audit switch at a key operating subsidiary is highly troubling in and of itself, but we believe this audit switch could signal an even larger issue: Walker Chandiok is an [affiliate](#) of Grant Thornton India LLP, and Grant Thornton is the auditor of Eros International PLC, the ultimate parent entity.

The additional lingering question therefore is whether Grant Thornton will remain Eros' auditor given the switch away from its affiliated auditor. Furthermore, Grant Thornton was auditor of record for several of Eros' other UK entities and Walker Chandiok was auditor of record for several of Eros' other Indian entities. Consequently, we will be paying extremely close attention to issues surrounding the audits of all subsidiaries and parent entities, as well as financial controls, in the company's upcoming annual release.

New Indian Subsidiary Auditor Elicits Credibility Concerns

An inspection of the new auditor for EIML in no way enhances our confidence in Eros' new audit relationship. Rather, it raises more concerns about the company's credibility. EIML replaced Walker Chandiok with Chaturvedi & Shah, a firm that had little experience with U.S. public issuer clients according to its most recent [PCAOB report](#). The report, dated December 18, 2014, highlighted that the firm had **zero public issuer clients** at the time and played a role in the audits of only 1 issuer. The inspection results (below) suggested that the C&S team lacked the knowledge to effectively work with public issuers at the time of the inspection:

DETAILED DISCUSSION OF INSPECTION RESULTS

This Part II contains a description of the inspection results. The engagement review did not identify any audit performance issues that, in the inspection team's view, resulted in the Firm failing to obtain sufficient appropriate audit evidence to fulfill the objectives of its role in an audit. Part II describes the Board's concerns about potential defects in the Firm's quality control system.¹⁰

Design of Quality Control System * * * *

Knowledge of PCAOB Standards, Relevant Independence Requirements and Applicable Accounting Principles

The Firm's system of quality control appears not to provide sufficient assurance that the work performed by engagement personnel will meet applicable professional standards and regulatory requirements in accordance with QC 20. The Firm played a substantial role in the audit of an issuer by performing an audit of the financial statements of an investee of the issuer. The Firm acknowledged to the inspection team that it performed that work in accordance with auditing standards and independence requirements applicable in India and evaluated the financial statements' compliance with Indian accounting principles, and that it lacks the knowledge of PCAOB standards and U.S. GAAP necessary to perform the audit in accordance with PCAOB standards and evaluate compliance with U.S. GAAP. The Firm should establish policies and procedures – including relating to technical training and proficiency, consulting authoritative literature, and consulting individuals within or outside the Firm – that provide the Firm with reasonable assurance that its work used in audits of issuers will meet PCAOB standards and relevant regulatory requirements, including independence requirements applicable to audits of issuers.

The implication is that unless C&S has updated their system of quality controls since the last PCAOB report they may be unable to effectively collaborate effectively with an SEC-reporting client.

Eros' Annual Report is Late Relative to its Historical Filing Schedule

Eros is currently within the formal SEC filing limits but is late relative to the company's own historical schedule. The company has not announced when its annual 20-F report is to be released, but historically the release dates have been the following:

- 2014: Earnings released on 6/12. The release date had been announced on 6/10.
- 2015: Earnings released on 6/10. The release date had been announced on 5/29.
- 2016: Earnings released on 6/28. The release date had been announced on 6/24.
- 2017: Unknown. As of the morning of 7/14 the earnings release date has not been announced.

According to the [SEC website](#), companies are required to file the report within 4 months of the fiscal year covered by the report. Eros' fiscal year ends March 31, which would suggest an end-of-July deadline for the report.

Conclusion

We cannot help but wonder why the company has deviated from its previous reporting schedule by over 2 weeks and counting. Given the events between the company's last SEC filing and present we believe this upcoming report will be highly illuminating and possibly alarming in nature in regards to the company's liquidity.

For long investors who intend to hang on through this next annual report we wish you the best of luck. We'll simply leave it at that.

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Equity Disclosure: short EROS, at time of article

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