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GeoInvesting Now Says Eros Facing 'Very Real Liquidity Crisis'

By [Bala Murali Krishna](#) • on March 17, 2017 9:42 am • in [Business](#), [ValueWalk Premium](#)

Eros International (EROS) versus GeoInvesting [is not ending just yet](#), even though the stock has bounced back since a steep fall last week.

A new report submitted to Geoinvesting by FG Alpha (the hedge fund run by Geoinvesting co-founder Dan David) warns of a "very real liquidity crisis" at the distributor of Bollywood movies, citing as evidence a ratings downgrade by S&P and the company's aborted bond offering of between \$200 million and \$260 million.



[geoffjhyland](#) / Pixabay

“We think the wheels are falling off at Eros,” the investing site said March 16.

“Eros seems to be quickly approaching a [wall of debt](#) and contractual obligations, and has not provided investors a clear sense of how they intend to climb over it,” the firm said, adding the company’s management had not addressed issues relating to a revolving credit facility and its refinancing requirements.

As of December 31, 2016

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
<i>Recorded Contractual Obligations</i>					
Debt	\$293,696	\$203,612	\$17,351	\$9,883	\$62,850
<i>Unrecorded Contractual Obligations</i>					
Operating leases	1,553	489	1,064	—	—
Film entertainment rights purchase obligations ⁽¹⁾	312,818	138,695	112,112	62,011	—
Interest payments on debt ⁽²⁾	45,027	16,306	12,743	9,369	6,609
Total of unrecorded contractual obligations	\$359,398	\$155,490	\$125,919	\$71,380	\$6,609

(source: EROS bond prospectus page 78)

Much has happened since the publication March 8 of a report by Geoinvesting. The report did not reveal anything new but merely cited allegations made in a class action suit that Eros has been fighting since December 2015. It pointed out that an

Indian filmmaker and Eros co-producer has accused the company of funnelling” money to family members through dummy production deals,” and went on to blame Eros’ financial problems on the alleged fraud.

In a series of events, not all of them causally related, Eros shares tanked by nearly 13% following the report, the company pulled a bond offering to refinance debt and S&P downgraded its debt ratings, besides putting Eros on “credit watch with negative implications.”

Eros rebutted the allegations, calling the lawsuit without merit. It seems to have worked because Eros shares have rebounded and trade at near the levels before the brouhaha. In fact, on March 16, trading volumes were unusually high at 672,605 shares, nearly double normal levels.

In its March 16 note, GeoInvesting pointed out that Eros has cash of only \$135.8 million, as of Dec. 31, while current liabilities and off-balance sheet contractual obligations are \$434.3 million. Besides, a revolving credit line of \$95 million expires at the end of March.

2. S&P comments on proposed use of bond offering:

https://www.standardandpoors.com/en_US/web/guest/article/-/view/type/HTML/id/1807071

Eros International Plc Assigned 'B+' Rating With Stable Outlook; Proposed Notes Rated 'B+'

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- Eros' good market presence in a fragmented Bollywood film production market and higher leverage from a volatile financial performance underpins its credit profile.
- Its decent box-office track record with fast-growing overseas distribution, catalog sales, and digital streaming business should support the rating going forward.
- We are assigning our 'B+' long-term corporate credit rating to Eros. We are also assigning our 'B+' rating to the proposed senior unsecured notes maturing 2022, to be issued by Eros Films Ltd. and guaranteed by Eros.
- Eros' proposed notes should, apart from ongoing interest savings, help refinance its upcoming maturity and remedy its tight liquidity situation.
- The stable outlook reflects our expectation that the company will successfully refinance its upcoming debt maturities and maintain its business position over the next 12 months while improving its operating cash flow through prudent content acquisition and working capital management.

In the circumstances, the company's claim of a "strong balance sheet" is dubious, Geoinvesting contended.

"If the company had a healthy relationship with the provider of their revolving facility, why not extend beyond 2 months and just renew (the credit line)? The current terms on the revolving credit facility are 'LIBOR + 1.90% to 2.90% and mandatory cost' versus the bond offering, which was initially launched at 8.25%, according to GlobalCapital. Additional reports noted that the offering failed to attract attention, and was pulled after widening the final price guidance to 9%."

The company has said it postponed the bond offering due to a "recent change in credit market conditions," not a lack of interest by the market.

In announcing its ratings change, S&P said, "We understand from Eros that it is currently in advanced stages with its financiers to secure new facilities to refinance its maturities of about USD 95 million due March 31, 2017."

Clearly, [the last word](#) on the Eros saga may not have been said yet.

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