

Canada's Bears Tackle India's Bulls

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Canadians are stereotypically not the sort to cause a stir. But a bunch of Canucks is currently rattling the cozy world of Indian equity research. Their latest target, Indiabulls, is struggling to fight back.

Toronto-based research firm **Veritas** has fired a string of hard-hitting reports at large Indian corporates in recent months. Shares in Kingfisher Airlines, 532747.BY +2.68% telecoms giant Reliance Communications 532712.BY -4.65% and DLF--India's largest listed property company--all fell sharply after **Veritas** took pot-shots.

Indiabulls started as an online brokerage in 2000, diversified into real estate in 2005 and began building power plants in 2007. In a report earlier this month titled "Bilking India," **Veritas** alleged the controlling shareholders have set up a complex structure of related-party companies through which they run the three listed businesses as a "piggybank." Some local analysts now also say that the corporate structure is difficult to fathom.

The report has been like a red rag to the Indiabulls owners. They have retaliated with full-page advertisements in national newspapers refuting **Veritas'** allegations, and lodged a criminal complaint in New Delhi against the Canadian company's analysts.

Beyond that though, Indiabulls protests seem a bit too much. For instance, the company alleged **Veritas** asked for a bribe to hold back its report. **Veritas** denies the accusation and says the evidence seems to be an email to a U.K. analyst that cites the company's annual subscription fee. Also, to refute allegations Indiabulls exerts undue influence over authorities, the group chairman said Indiabulls is as connected in political circles as any other business group--hardly a convincing denial.

So far, investors are siding with the Canadians. Indiabulls Real Estate's 532832.BY -1.76% shares are down 10% so far in August, while the broader market has gained 3%. The company trades at a 60% discount to book value, compared with an industry average of 30% discount, analysts at brokerage Kim Eng Securities say. Indiabulls Power 533122.BY -0.42% and Indiabulls Financial Services 532544.BY +0.08% shares have also dropped 12% and 16.6% in August.

The truth at Indiabulls has yet to be established. But **Veritas'** work has at least stirred the debate about the quality of Indian research. The Canadian's success so far is partly because India's domestic analysts are rarely so bearish, despite the country's legacy of governance issues. If there is a lasting legacy of the spat with Indiabulls, investors must hope that it is more skepticism from local analysts.