

# B S R & Associates LLP

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**Strictly Private and Confidential**

*Board of Directors*

**Zee Entertainment Enterprises Limited**

16th Floor, A wing, Marathon Futurex,  
N.M. Joshi Marg, Lower Parel  
Mumbai – 400013

*Board of Directors*

**Reliance BIG Broadcasting Private Limited**

401, 4th Floor, Infiniti Mall,  
Link Road, Oshiwara, Andheri (W),  
Mumbai - 400053

*Board of Directors*

**Big Magic Limited**

401, 4th Floor, Infiniti Mall,  
Link Road, Oshiwara, Andheri (W),  
Mumbai – 400053

*Board of Directors*

**Azalia Broadcast Private Limited**

401, 4th Floor, Infiniti Mall,  
Link Road, Oshiwara, Andheri (W),  
Mumbai - 400053

**23 November 2016**

**Sub: Recommendation of number of preference shares to be issued by ZEE to equity and preference shareholders of Reliance Big Broadcasting Private Limited, Azalia Broadcast Private Limited and Big Magic Limited ("the Companies") for the proposed de-merger**

Dear Sirs,

We refer to our engagement letter dated 21 November 2016, wherein the Board of Directors of Zee Entertainment Enterprises Limited ("ZEE"), Board of Directors of Reliance Big Broadcasting Private Limited ("RBBPL"), Board of Directors of Big Magic Limited ("BML") and Board of Directors of Azalia Broadcast Private Limited ("ABPL") (together referred to as the "Clients", the "Companies", or "You") has engaged B S R & Associates LLP ("B S R" or "We") in relation to recommendation of number of preference shares to be issued by ZEE to equity and preference shareholders of the Companies pursuant to the a composite scheme of arrangement ("proposed de-merger"), wherever applicable (together referred as "the Engagement").

For the purpose of the proposed de-merger and the Engagement, we have considered provisional financial statements of the TV broadcasting businesses of the Companies as at 30 September 2016 ("Period end Balance Sheet").

## **SCOPE AND PURPOSE OF THE REPORT**

The Boards of Directors of the Companies are considering demerger of TV broadcasting businesses of ABPL, RBBPL and BML into ZEE on a going concern basis, pursuant to a composite scheme of arrangement ("Scheme") in accordance with Section 2(19AA) of the Income Tax Act, 1961 and Sections 391 to 394 and other applicable provisions of the 1956 Act and/or Sections 230 - 233 (if applicable) and other relevant provisions of the 2013 Act and rules made thereunder. In consideration, thereof, ZEE proposes to issue 6% Cumulative Redeemable Non-Convertible Preference Shares (hereinafter referred as



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“Preference shares”) to the equity and preference shareholders of the Companies, wherever applicable.

B S R has been requested by the Clients to submit a report recommending number of preference shares to be issued by ZEE to equity and preference shareholders of the Companies, wherever applicable. This report (“Report”) may be placed before the board of directors of the Companies and, to the extent mandatorily required under applicable laws of India, may be produced before judicial, regulatory or government authorities, in connection with the proposed de-merger.

We have carried out a valuation of the TV broadcasting businesses of RBBPL, BML and ABPL with a view to arrive at the number of preference shares to be issued by ZEE to the equity and preference shareholders of RBBPL, BML and ABPL, wherever applicable, for the proposed de-merger.

This Report is subject to the scope, assumptions, exclusions, limitations and disclaimers detailed hereinafter. As such the Report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to therein.

## SOURCES OF INFORMATION

In connection with preparing this Report, we have received the following information from the management of the Clients (“Management”):

- Audited financial statements of RBBPL, BML and ABPL for the period from 1 April 2012 to 31 March 2016 and provisional financial statements for the period from 1 April 2016 to 30 September 2016 (“Historical period”);
- Financial forecasts provided by the Management for BML and RBBPL for the period 1 October 2016 to 31 March 2022 and for ABPL for the period 1 October 2016 to 31 March 2021 (“Management Financial Forecasts”);
- Interviews and discussions with the Management to augment our knowledge of the operations of the Businesses;
- Draft Composite Scheme of Arrangement (“the Scheme”);
- Other information, explanations and representations that were required and provided by the Management;
- For our analysis, we have relied on published and secondary sources of data, whether or not made available by the Management. We have not independently verified the accuracy or timeliness of the same; and
- Such other analysis, review and enquires, as we considered necessary.

We have also obtained explanation and information considered reasonably necessary for the exercise from the executives and representatives of the Companies. The Management has been provided with the opportunity to review the draft report for this engagement to make sure that factual inaccuracies are avoided in our final report.



## SCOPE LIMITATIONS, ASSUMPTIONS, QUALIFICATIONS, EXCLUSIONS AND DISCLAIMERS

Provision of valuation opinions and consideration of the issues described herein are areas of our regular practice. The service does not represent accounting, assurance, accounting/ tax due diligence, consulting or tax related services that may otherwise be provided by us or our affiliates.

This Report, its contents and the results herein are specific to (i) the purpose of valuation agreed as per the terms of our engagement; (ii) the date of this Valuation Report; and (iii) based on the provisional balance sheet of RBBPL, BML and ABPL. Please note that the provisional balance sheets of RBBPL, BML and ABPL is as of 30 September 2016 for this engagement.

A valuation of this nature is necessarily based on (a) prevailing stock market, financial, economic and other conditions in general and industry trends in particular as in effect on and (b) the information made available to us as of, the date hereof. Events occurring after the date hereof may affect this Report and the assumptions used in preparing it, and we do not assume any obligation to update, revise or reaffirm this Report.

The recommendation(s) rendered in this Report only represent our recommendation(s) based upon information received from the Companies till 22 November 2016 and other sources and the said recommendation(s) shall be considered to be in the nature of non-binding advice, (our recommendation will however not be used for advising anybody including the Companies to take buy or sell decision, for which specific opinion needs to be taken from expert advisors). Further, the valuation of the Businesses and determination of the number of preference shares to be issued by ZEE is not a precise science and the conclusions arrived at in many cases will, of necessity, be subjective and dependent on the exercise of individual judgment. There is, therefore, no indisputable single valuation of the Businesses or the number of preference shares to be issued by ZEE. While we have provided our recommendation of the number of preference shares to be issued by ZEE based on the information available to us and within the scope and constraints of our engagement, others may have a different opinion as to the valuation of the businesses and consequently the number of preference shares to be issued by ZEE for the proposed de-merger. You acknowledge and agree that you have the final responsibility for the determination of the valuation of the Businesses and consequently the number of preference shares to be issued by ZEE for the proposed de-merger to take place and factors other than our Report will need to be taken into account in determining the number of preference shares to be issued by ZEE; these will include your own assessment of the proposed de-merger and may include the input of other professional advisors.

In the course of our work, we were provided with both written and verbal information, including market, technical, financial and operating data. In accordance with the terms



of our engagement, we have assumed and relied upon, without independent verification, (i) the accuracy of the information that was publicly available and formed a substantial basis for this Report and (ii) the accuracy of information made available to us by the Companies. We have not carried out a due diligence or audit of the Companies for the purpose of this engagement, nor have we independently investigated or otherwise verified the data provided. We are not legal or regulatory advisors with respect to legal and regulatory matters for the Proposed Composite Scheme of Arrangement. We do not express any form of assurance that the financial information or other information as prepared and provided by the Companies is accurate. Also, with respect to explanations and information sought from the Companies, we have been given to understand by the Companies that they have not omitted any relevant and material factors and that they have checked the relevance or materiality of any specific information to the present exercise with us in case of any doubt. Accordingly, we do not express any opinion or offer any form of assurance regarding its accuracy and completeness.

Our conclusions are based on these assumptions and information given by the Companies. The Clients have indicated to us that it has understood that any omissions, inaccuracies or misstatements may materially affect our valuation analysis/results. Accordingly, we assume no responsibility for any errors in the information furnished by the Clients and its impact on the Report. Also, we assume no responsibility for technical information (if any) furnished by the Clients. However, nothing has come to our attention to indicate that the information provided was materially mis-stated/ incorrect or would not afford reasonable grounds upon which to base the Report. We do not imply and it should not be construed that we have verified any of the information provided to us, or that our inquiries could have verified any matter, which a more extensive examination might disclose.

In no event shall we be liable for any loss, damages, cost or expenses arising in any way from fraudulent acts, misrepresentations or willful default on part of the Companies, their directors, employees or agents. In no circumstances shall the liability of a B S R, its partners, its directors or employees, relating to the services provided in connection with the engagement set out in this Report shall exceed the amount paid to B S R in respect of the fees charged by it for these services.

The Report assumes that the Companies comply fully with relevant laws and regulations applicable in all its areas of operations unless otherwise stated, and that the Companies will be managed in a competent and responsible manner. Further, except as specifically stated to the contrary, this Report has given no consideration to matters of a legal nature, including issues of legal title and compliance with local laws, and litigation and other contingent liabilities that are not recorded in Period end Balance Sheets of the Companies. Our conclusion of value assumes that the assets and liabilities of the Companies, reflected in their respective latest balance sheets remain intact as of the Report date.



This Report does not address the relative merits of the proposed de-merger as compared with any other alternative business transaction, or other alternatives, or whether or not such alternatives could be achieved or are available.

No investigation of the Companies claim to title of assets has been made for the purpose of this Report and the Companies claim to such rights has been assumed to be valid. No consideration has been given to liens or encumbrances against the assets, beyond the loans disclosed in the accounts. Therefore, no responsibility is assumed for matters of a legal nature.

The fee for the Engagement is not contingent upon the results of the Report or the proposed de-merger.

We owe responsibility to only the Clients which has retained us, and nobody else. We will not be liable for any losses, claims, damages or liabilities arising out of the actions taken, omissions of the other. We do not accept any liability to any third party in relation to the issue of this Report. This Report is not a substitute for the third party's own due diligence/ appraisal/ enquiries/ independent advice that the third party should undertake for his purpose. It is understood that this analysis does not represent a fairness opinion.

This Report is subject to the laws of India.

Neither the Report nor its contents may be referred to or quoted in any registration statement, prospectus, offering memorandum, annual report, loan agreement or other agreement. Further, it cannot be used for purpose other than in connection with the proposed de-merger, without our prior consent. In addition, this Report does not in any manner address the prices at which equity shares of ZEE will trade following consummation of the Proposed De-merger and we express no opinion or recommendation as to how the shareholders of the Companies should vote at any shareholders meeting(s) to be held in connection with the proposed de-merger.

## **BACKGROUND OF THE COMPANIES**

### **Reliance BIG Broadcasting Private Limited**

Reliance BIG Broadcasting Private Limited (hereinafter referred as 'RBBPL') is a private company incorporated in India and on March 27, 2006 as per the provisions of the Companies Act, 1956. The Company is a wholly owned subsidiary of Reliance BIG Entertainment Private Limited. The Company is engaged in the business of owning and operating non-news and current affairs satellite television channels. RBBPL holds 5 non-news television broadcasting licenses viz. BIG Magic, BIG Ganga, BIG Gaurav, BIG Magic HD and BIG Punjab. Out of these, only "BIG Magic" and "BIG Ganga" television channels are operational.



## **Big Magic Limited**

Big Magic Limited (hereinafter referred as 'BML') is a private company incorporated in India on April 19, 2011 as per the provisions of the Companies Act, 1956. The Company is a wholly owned subsidiary of Reliance Broadcast Network Limited. BML is engaged in the business of acquiring content from producers and third parties to be broadcasted under the arrangement with the channel license owners.

## **Azalia Broadcast Private Limited**

Azalia Broadcast Private Limited (hereinafter referred as 'ABPL') is a private company incorporated in India and on October 17, 2007 as per the provisions of the Companies Act, 1956. ABPL is engaged in the business of owning and operating a non-news and current affairs satellite television channel under name and style of 'Big Thrill'.

## **VALUATION APPROACH - BASIS FOR PROPOSED DE-MERGER**

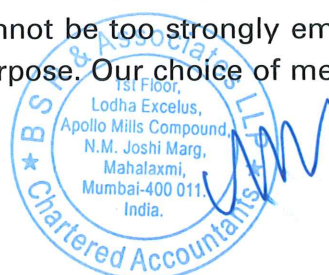
The proposed Composite Scheme of Arrangement contemplates de-merger of the television broadcasting businesses of RBBPL, BML and ABPL into ZEE on a going concern basis, pursuant to the Scheme. Arriving at the number of shares to be issued by ZEE for the proposed de-merger, would require arriving at the valuation of the Businesses. These values are to be determined independently without considering the post impact of proposed de-merger.

There are several commonly used and accepted methods for determining the value of a business, which have been considered in the present case, to the extent relevant and applicable, including:

1. Market Price method
2. Comparable Companies' Multiples method
3. Discounted Cash Flows method
4. Net Asset Value method (NAV)

It should be understood that the valuation of any company or its assets is inherently imprecise and is subject to certain uncertainties and contingencies, all of which are difficult to predict and are beyond our control. In performing our analysis, we made numerous assumptions with respect to industry performance and general business and economic conditions, many of which are beyond the control of the Companies. In addition, this valuation will fluctuate with changes in prevailing market conditions, the conditions and prospects, financial and otherwise, of the Companies, and other factors which generally influence the valuation of companies and their assets.

The application of any particular method of valuation depends on the purpose for which the valuation is done. Although different values may exist for different purposes, it cannot be too strongly emphasized that a valuer can only arrive at one value for one purpose. Our choice of methodology of valuation has been arrived at using usual and



conventional methodologies adopted for the proposed de-merger of a similar nature and our reasonable judgment, in an independent and bona fide manner based on our previous experience of assignments of a similar nature.

### **Market Price Method**

The market price of an equity share as quoted on a stock exchange is normally considered as the value of the equity shares of that company where such quotations are arising from the shares being regularly and freely traded in. Further, the volume of transactions and the number of shares available for trading on the stock exchange over a reasonable period would have to be of a comparable standard.

Only RBBPL, BML and ABPL's business divisions are proposed to be de-merged and as such, the Companies are not publicly listed. Further, considering that equity shares of the Companies are not traded on any recognized stock exchange, the Market price method is not applicable.

### **Comparable Companies' Multiple / Comparable Transactions (CoCo/CoTrans) method**

Under this method, value of the business of a company is arrived at by using multiples derived from valuations of comparable companies or comparable transactions, as manifest through stock market valuations of listed companies and the transaction valuation. This valuation is based on the principle that market valuations, taking place between informed buyers and informed sellers, incorporate all factors relevant to valuation. Relevant multiples need to be chosen carefully and adjusted for differences between the circumstances.

For valuation of TV broadcasting business of RBBPL, we have not used the CoCo method or the CoTrans method as RBBPL plans to launch two new television channels in FY 2018 and currently does not operate any television channel.

For valuation of TV broadcasting business of BML, we have considered median EV/Revenue trading multiples of television broadcasting companies operating in India after evaluating their business profiles. Further, we have also considered EV/Revenue multiples of comparable transactions in this space.

For valuation of TV broadcasting business of ABPL, we have not used the CoCo method or the CoTrans method as ABPL plans to re-launch its television channel in FY 2018 and currently does not operate any other television channel.

### **Discounted Cash Flows ("DCF") Method**

Under the DCF method, the projected free cash flows to the firm are discounted at the weighted average cost of capital. The sum of the discounted value of such free cash flows is the value of the firm.



Using the DCF analysis involves determining the following:

*Estimating future free cash flows:*

Free cash flows are the cash flows expected to be generated by the company that are available to all providers of the company's capital – both debt and equity.

*Appropriate discount rate to be applied to cash flows i.e. the cost of capital.*

This discount rate, which is applied to the free cash flows, should reflect the opportunity cost to all the capital providers (namely shareholders and lenders), weighted by their relative contribution to the total capital of the company. The opportunity cost to the equity capital provider equals the rate of return the capital provider expects to earn on other investments of equivalent risk.

To the values so obtained generally from DCF analysis, the amount of loans is adjusted to arrive at the total value available to the shareholders.

For the purpose of DCF valuation, the free cash flow forecast of the Businesses are based on the Management Financial forecast. We have used this method for the valuation as the Businesses are in growth phase.

We must emphasize that realisations of free cash flow forecast will be dependent on the continuing validity of assumptions on which they are based. Our analysis, therefore, will not, and cannot be directed to providing any assurance about the achievability of the final projections. Since the financial forecasts relate to future, actual results are likely to be different from the projected results because events and circumstances do not occur as expected, and the differences may be material. While carrying out this engagement, we have relied extensively on historical information made available to us by the Clients and the Management financial forecast of the Companies. We did not carry out any validation procedures or due diligence with respect to the information provided/ extracted or carry out any verification of the assets or comment on the achievability and reasonableness of the assumptions underlying the details provided by Management Financial forecast, save for satisfying ourselves to the extent possible that they are consistent with other information provided to us in the course of this engagement.

To arrive at the total value available to the shareholders of RBBPL, BML and ABPL, the value arrived above under DCF method is adjusted for borrowings, estimated contingent liabilities and other matters proposed to be de-merged as part of the Scheme. The total value is then divided by the face value of the preference shares proposed to be issued by ZEE to arrive at the total number of preference shares to be issued by ZEE as consideration for the proposed de-merger.

### **Net Asset Value (NAV) Method**

The asset based valuation technique is based on the value of the underlying net assets of the business, either on a book value basis or realizable value basis or replacement cost basis. This valuation method is mainly used in case where the firm is to be liquidated i.e. it does not meet the "going concern" criteria or in case where the assets base dominate earnings capability and hence, we have not considered this method for valuation of the Businesses.

### **BASIS OF PROPOSED DE-MERGER**





The basis of proposed de-merger of the TV broadcasting businesses of RBBPL, BML and ABPL into ZEE would have to be determined after taking into consideration all the factors and methodologies mentioned hereinabove. Though different values have been arrived at under each of the above methodologies, for the purposes of recommending number of preference shares of ZEE to be issued to the shareholders of the Companies, it is necessary to arrive at a single value for the Businesses of RBBPL, BML and ABPL. For this purpose, it is necessary to give appropriate weights to the values arrived at under each methodology.

We have assigned appropriate weightages to the value of the TV broadcasting businesses of the Companies, arrived using the CoCo, CoTrans and DCF methods, except in case of ABPL and RBBPL, where only DCF method is used.

In view of the above, and on consideration of the relevant factors and circumstances as discussed and outlined hereinabove, we recommend the following:

- (a) i) For all the preference shares held in RBBPL, 933,954 fully paid-up Preference shares of Rs 10 each (face value), in ZEE shall be issued
- ii) For all the equity shares of Rs 10 each (face value) held in RBBPL, 1 fully paid-up Preference share of Rs 10 each (face value), in ZEE shall be issued
- (b) i) For all the preference shares held in BML, 1,744,716 Preference shares of Rs 10 each (face value), credited as fully paid-up, in ZEE shall be issued
- ii) For all the equity shares of Rs 10 each (face value) held in BML, 1 Preference share of Rs 10 each (face value), credited as fully paid-up, in ZEE shall be issued
- (c) For all the equity shares of Rs 10 each (face value) held in ABPL, 1,270,433 Preference shares of Rs 10 each (face value), credited as fully paid-up, in ZEE shall be issued

Respectfully submitted.

**For B S R & Associates LLP**

**Chartered Accountants**

Firm Registration No: 116231W

**Mahek Vikamsey**

**Partner**

Membership No: 108235

Dated: 23 November 2016

