SHARP & TANNAN
Chartered Accountants

16th December, 2013

To,
Board of Directors
Zee Entertainment Enterprises Limited
Continental Building,
135, Dr. Annie Besant Road, Worli,
Mumbai – 400 018

Dear Sir,

Re: Computing the value of shares of Diligent Media Corporation Limited

We refer to your discussion with the undersigned instructing us to compute the valuation of Media Business of Diligent Media Corporation Limited with a view to recommend the number of redeemable preference shares to be issued by ZEE Entertainment enterprises Limited in the event of demerger of Media Business Undertaking of Diligent Media Corporation Limited into ZEE Entertainment Enterprises Limited, for the consideration of Board of Directors of DMCL and ZEEL.

Our Report, other materials generated during the engagement are intended for the sole use of Board of Directors of the two companies and for statutory and regulatory purposes in connection with the demerger.

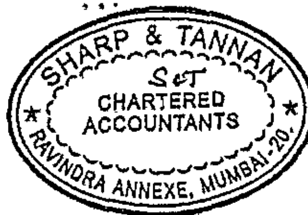
We appreciate your confidence in approaching us to render the above referred professional service and look forward to working with you in future.
We shall be pleased to give any further information that you may require.

Thanking you,

Yours faithfully,

Sharp & Tannan

ICAI Registration No.109982W



Encl.: Valuation Report.

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TABLE OF CONTENTS

Serial No.	Particulars	Page No.
1	Introduction	1
2	Purpose of Valuation	4
3	Valuation : Meaning and Methodology	5
4	Conclusion	12
5	Sources of Information	14
6	Legal Disclaimer	15
	Annexure I	
	Annexure II	

1. INTRODUCTION

ZEE ENTERTAINMENT ENTERPRISES LIMITED

1.1 Zee Entertainment Enterprises Limited ("ZEEL"), a Company incorporated under the Companies Act, 1956, and having its registered office at Continental Building, 135, Dr. Annie Besant Road, Worli, Mumbai – 400 018, Maharashtra.

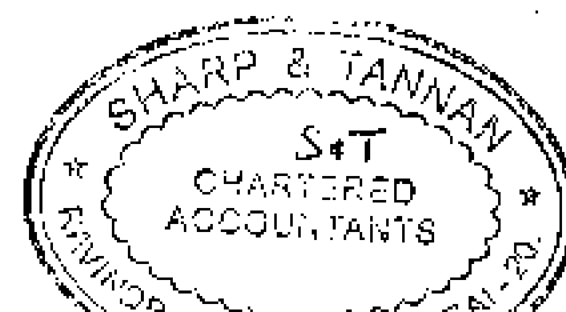
1.2 ZEEL is currently listed on both BSE Limited and National Stock Exchange of India Limited.

1.3 ZEEL is in the media and entertainment business *inter alia* of procurement, development, distribution and dissemination, broadcast / re-broadcast of entertainment television software programmes, including Cinematograph feature films, serials, Talents Hunt / Reality shows through satellite, terrestrial or cable channels or through Direct to Home (DTH), Internet Protocol based deliveries using existing and emerging technologies, and distribution platforms.

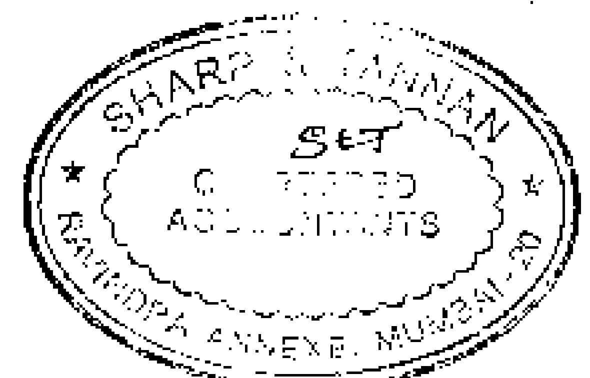
1.4 Zee has been pioneer in developing events and sees it as an important source of programming. Zee today across its channels runs numerous events nationally and internationally.

1.5 The issued, subscribed and paid-up capital of ZEEL as on 31st March 2013 is Rs 953,957,720 comprising of 953,957,720 equity shares of Rs. 1 each fully paid up.

1.6 ZEEL had granted 4,340,000 Stock Options under its Employee Stock Option Scheme (ESOS 2009) in 2009 which got doubled to 8,680,000 options consequent to Bonus issue of Equity Shares in



2011. The Said Options were convertible into equivalent number of Equity Shares of Re. 1 each of the Company. Of these 6,548,800 vested Options were outstanding as at March 31, 2013. Subsequent to March 31, 2013, out of these options 5,448,700 Options got exercised upon which the Company has issued and allotted 5,448,700 Equity Shares of Re. 1 each, resulting in the increase in paid-up share capital of the Company to Rs. 959,406,420 comprising of 959,406,420 Equity Shares of Re. 1 each.



DILIGENT MEDIA CORPORATION LIMITED

1.1. Diligent Media Corporation Limited ("DMCL" or "the Company") is having its registered office at, 11th Floor, Tower – 3, Indiabulls Finance Centre, Senapati Bapat Marg, Elphinstone Road (West), Mumbai – 400013.

1.2. DMCL is primarily engaged into two businesses i.e. publishing business and media business.

1.3. The media business comprises of the following:
- Event management activities
- TV Channel license
- TV realty show formats (IPs) for game based shows

1.4. DMCL carries on various events which revolve around empowerment of women, education, automobiles, real estate, etc.

1.5. The issued, subscribed and paid-up capital of DMCL as on 31st March 2013 is Rs 890,955,420 comprising of 89,095,542 equity shares of Rs. 10/- each fully paid up.

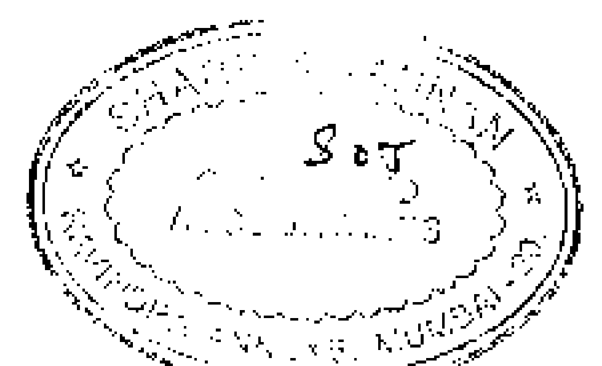
2. PURPOSE OF THE VALUATION:

ZEEL has informed M/s Sharp & Tannan, Chartered Accountants (The Consultants) that the Board of Directors of DMCL and ZEEL will be considering a proposal for demerger of DMCL's Media Business vesting into ZEEL pursuant to the provisions of Sections 391 to 394 of the Companies Act, 1956. Subject to necessary approvals, Media Business of DMCL would be demerged into ZEEL from the appointed date considered to be on 31st Day of March 2014.

The purpose of this exercise is to carry out valuation of Media Business of DMCL and ZEEL with a view to recommending the number of preference shares to be issued by ZEEL in the event of demerger of Media Business of DMCL into ZEEL, for the consideration of Board of Directors of DMCL and ZEEL.

3. VALUATION: METHODOLOGY AND CONCLUSION

Valuation is a process of determining value of a Company or an asset. Valuation is an art and not an exact science. Perception is an important factor having bearing on the valuation. The perception of the buyer and the seller with respect to "value" differs. Hence, the buyer and the seller depending on their individual vision, strategy and future projections arrive at their own valuation given the same set of facts and using the same assumptions, expert opinions may differ due to the number of separate judgement decisions, which have to be made. There can therefore, be no standard formulae to establish an indisputable value, although certain appropriate formulae are useful in establishing reasonableness. There are many methodologies that a valuer may use to value the shares of the company / business. Even though different values are arrived under various methods it is necessary for a valuer to arrive at a fair value for the Company. In reality the valuing accountant normally uses several methodologies of valuation and arrives at a fair price for the entire business. The methodologies of valuation also depend on the purpose of the valuation. Each Method proceeds on different fundamental assumptions, which have greater or lesser relevance and at times no relevance to a given situation. In view of the aforesaid, the valuing accountant has to judiciously select the valuation methodology.



3.1 The following are the common basis of valuation of shares which can be adopted either singly or in conjunction with others:

i. the *break-up value*, computed by reference to the market value of the assets;

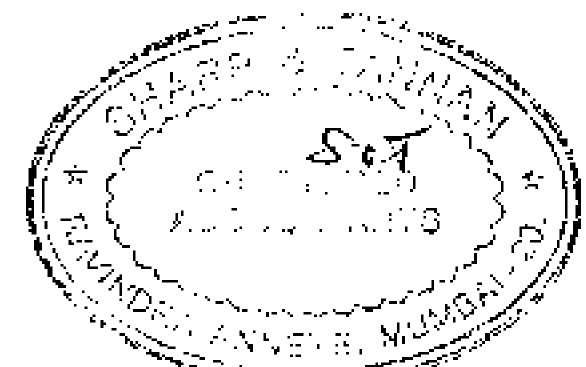
ii. the *capitalized value or Profit Earning Capacity Value (PECV)*, computed by reference to the average of the profits of the past years, net of Company's tax, at a yield expected by the potential buyer, having regard to the prevailing market conditions and rates of interest *(as per erstwhile CCI Guidelines)*;

iii. the *net assets value* method, computed with reference to the last audited balance sheet after making adjustments for assets and liabilities not considered while preparing tne balance sheet *(as per erstwhile CCI Guidelines)*;

iv. *the price-to-book value* is a ratio that tells the relationship between the price that a stock is currently trading for and the actual book value of a company. The Book Value Multiple is obtained by multiplying NAV obtained in the para 3.1(iii) with the average of price to book value obtained for companies in similar industry from data available.

v. The *discounted cash flow* method *(DCF)* computed with reference to the future cash flows of a business and then discounts at a rate of weighted average cost of capital. Exhaustive budgeted information is required to use this method; and

vi. Average market price of shares in case the company is listed and traded on the stock exchanges.



Valuation of Diligent Media Corporation Limited

3.2 The valuation of DMCL has been carried out on the basis of the Discounted Cash Flow method.

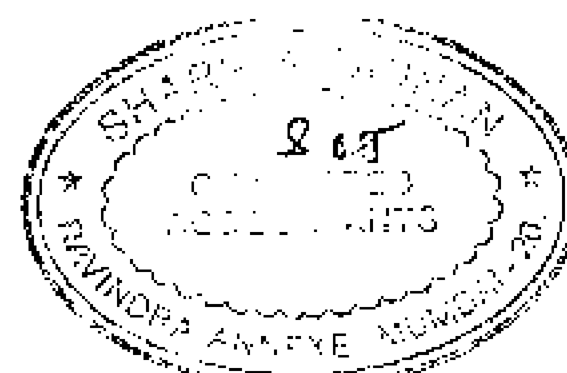
3.3 On the basis of para 3.1(v) above, we compute the value of the Media Business of DMCL per equity share at **Rs. 0.25 (Annexure-I)** as per the DCF (Discounted Cash Flow) Method.

The DCF method involves the following steps:

a) A financial model of the business is prepared for a reasonable forecast period. The period of the forecast should cover at least one business cycle of a cyclical industry or take into account obsolescence of equipment / technology and balance economic life of the major plant and machinery.

b) Future Cash Flows (FCFs) projections for each year are derived from the financial model as follows:
FCFs =
Earnings before interest, tax and depreciation of the Company **Less** investments in working capital, capital equipment, property or any other assets and taxes.

c) The present value of this stream of FCFs is calculated by discounting the FCFs at the WACC (which is 14.00% in the given case) The WACC signifies the opportunity cost to DMCL the capital providers weighted by their contribution to the total capital of the business. The opportunity cost to any



investor, whether in equity or in debt, equals the rate of return that the investor could expect to earn on other investments of equivalent risk. The cost to the business equals the investors' costs less any tax benefits received by the business.

d) As mentioned earlier, an issue to be addressed in valuing a business is its indefinite life. This is resolved by separating the value of the business in two time periods, during and after an explicit forecast period.

Therefore:

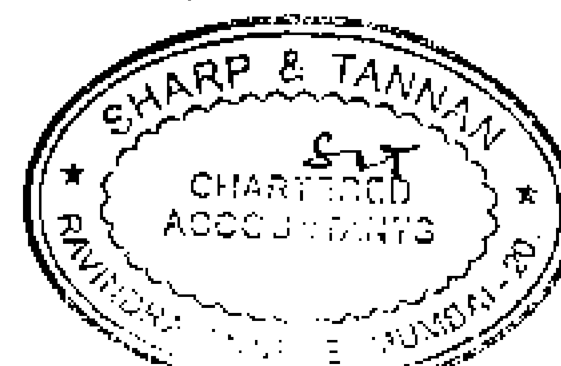
Value of Business = Present value of cash flow during explicit forecast period + Present value of the cash flow after explicit forecast period.

e) The value after the explicit forecast period is referred to as the Terminal Value (TV). The TV of an entity as a going concern can be calculated in several ways:

- Assuming cash flows continuing in perpetuity at a long-term growth rate,
- Using appropriate multiples (e.g. current Firm Value / PBIDT) or
- Asset-based estimates (liquidation analysis).

Here we have estimated the Terminal Value by using the first method i.e. assuming cash flows continuing to perpetuity at a long-term growth rate of 2%.

- We have included the replacement cost of channel uplinking license in the projected cash inflows
- We have also considered the present value of Tax benefit available with the company in the projected cash inflows.



The Weighted Average Cost of Capital ("WACC"):

a) Investors in both debt and equity expect to be compensated for the opportunity cost of investing their funds in one particular business rather than in another of equivalent risk. The WACC is the discount rate, which is used to convert, expected future cash flows into present value for DMCL investors.

b) The estimate of the WACC must:

- Comprise of the weighted average of the marginal cost of all sources of capital, debt and equity capital, since the FCFs represents cash available to all providers of capital.
- Employ market value weights for each financing element because the market value ultimately reflects the true economic claim of each type of financing outstanding. However, for practical purposes, the book value of debt and preference capital can be assumed indicative of the market values, unless substantial differences can be shown to exist.
- Use nominal rates of expected return rather than real rates, unless the FCFs have been adjusted for inflation and show real flows.

c) The WACC is calculated as follows:

WACC = [(D / (D+E) x kd x (1-t) + (E / (D+E) x ke))]

Where,

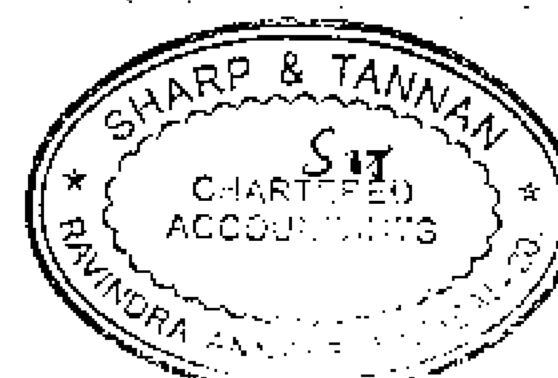
D = Market value of debt

E = Market value of equity

kd = Cost of debt

t = Marginal tax rate of the business

ke = Cost of equity



Cost of Equity (ke):

For determining the cost of equity, the Capital Asset Pricing Model (CAPM) can be employed. CAPM postulates that:

The return on a stock:

= Risk Free Return + (Beta x Equity Risk Premium of the Market)

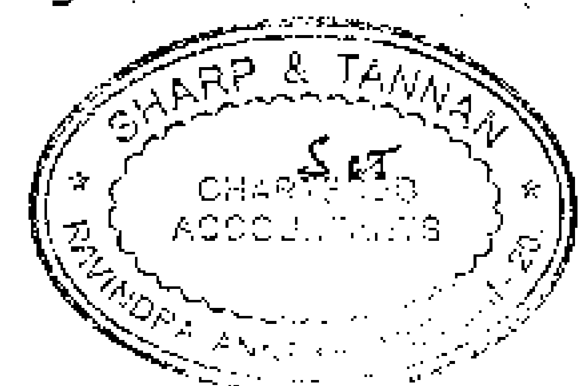
Cost of Debt (kd):

For determining the cost of debt, the Capital Asset Pricing Model (CAPM) can be employed. CAPM postulates that:

=Interest rate (1-tax rate)

For calculation of WACC, there are some assumptions made which are as follows:

1. The rate of risk free return has been assumed to be at par with Interest rate on Government of India Bonds.
2. The Beta Coefficient essentially represents the relative volatility of returns on the stock vis-à-vis returns on the market. Beta measures a stock's systematic market risk, i.e. sensitivity of the scrip to the market, which cannot be diversified away. For the given company the beta coefficient has been assumed to be at par with the similar company on the same footings, belonging to the same industry and having sales revenue of the same range as that of the company under valuation. In the present case, the Beta has been considered which is equal to 1.00
3. We have also considered an additional risk of 2% to Cost of Equity to account for greater risk and greater returns that are required from a small cap stock which is globally



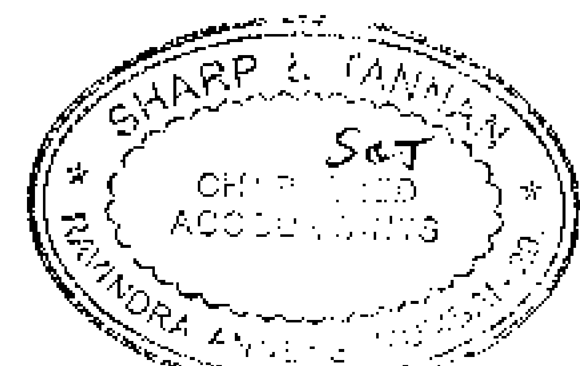
considered based on empirical analysis and also risks in achieving the expected levels of growth in turnover and profitability, operational risks, pricing risks and its cascading impact on the cashflows as well as financial risks.

4. The Cost of Debt of 12.00% and the Target Debt Equity Ratio is considered.
5. Thus, WACC for the given company works out to 14.00% **(Annexure – II)**

3.4 As far as the method in para 3.1(vi) above is concerned, this method can be applied only if the shares of the company have been listed on the stock exchange. Since, the shares of the company have not been listed on the stock exchange; this method of valuation is not applicable, *ab initio*.

3.5 We do not think that a valuation either on the basis of capitalisation of the average profits (PECV) or on the basis of net surplus assets (NAV) should be considered since this method has no relevance in the instant case.

3.6 Considering the above, the value of Media Business Undertaking of DMCL is arrived at Rs. 22,380 thousand and the Value of Media Business of DMCL per equity share would be Rs. 0.25/-



4. CONCLUSION:

4.1 The current valuation has been carried out on a relative basis based on the discussed valuation methodologies explained herein earlier. Further various qualitative factors relevant to each company, the business dynamics and growth potential of the businesses of the Companies, having regard to information base, management representations and perceptions, key underlying assumptions and limitations were given due consideration.

4.2 The Media Business of DMCL is intended to be continued on a "going concern" basis and that there is no intention to dispose off the assets.

4.3 Having regards to the same, the value of Media Business of DMCL is arrived at Rs. 22,380 thousand and the Value of Media Business of DMCL per equity share would be Rs. 0.25/- per share of Face Value of Rs 10 each.

4.4 We have been informed that the consideration for demerger of Media Business Undertaking would be settled in Preference Shares.

4.5 Thus, the shareholders of DMCL will be issued 1 Preference Shares of Re. 1 each fully paid up by ZEEL for every 4 equity shares of Rs. 10 each held by DMCL as a consideration for the demerger of Media Business of DMCL into ZEEL.

4.6 Based on the current outstanding equity shares of DMCL the total number of preference shares of face value of Re. 1 to be issued by ZEEL will be 22,273,886.

5. Source of Information

For the purpose of the valuation exercise, we have relied upon the following sources of information provided by the company:

- Audited financial statement of DMCL for period ended 31st March 2011, 31st March 2012 and 31st March 2013;
- Provisional Balance Sheet of DMCL for the eight months period ended 30th November 2013.
- Provisional Balance Sheet of DMCL for the year ended 31st March 2014.
- Information provided by leading database sources, market research reports and other published data.
- Segmental Financials of DMCL for the eight months period ended 30th November 2013.

6. LEGAL DISCLAIMER

6.1 The Consultants were approached by ZEEL to undertake an exercise to determine the value of the Media Business Undertaking of DMCL and express the value of the business in terms of per share value.

6.2 In preparing this valuation Report (Report), we have relied upon and assumed, without independent verification, the accuracy and completeness of all information provided by the management of DMCL.

6.3 The Report is being provided solely for the benefit of the Company and is not on behalf of, and shall not confer rights or remedies upon, any other person other than the Company. The Report may not be used or relied upon by, or disclosed, referred to, or communicated by the Company (in whole or in part) to any third party for any purpose whatsoever except for statutory or regulatory purposes with the prior written consent of The Consultants in each instance.

6.4 In furnishing the report, the Consultants reserve the right to amend or replace the Report any time. Our views are necessarily based on the conditions prevailing on the date of carrying out this exercise, and the information made available to us, as of that date. It should be understood that subsequent developments may affect our views and that we do not have any obligation to update, revise, or reaffirm the views expressed in the Report.

6.5 The pro-forma and estimated financial information contained herein is based on the projections for the forecast period given to the Consultant by ZEEL. The Consultants Report is based on certain assumptions, analysis of information available at the time the valuation exercise was undertaken and the Report was prepared.

6.6 While the information provided to us is believed to be accurate and reliable, The Consultant do not make any representations or warranties, express or implied, as to the accuracy or completeness of such information. Part of this information is based, *inter-alia,* on published / private reports or research studies carried out by other agencies. The information provided there has not been verified by the Consultants. Though the Consultants are not aware nor has reason to believe that the information is otherwise unreliable in any material aspect. No representations expressed or implied are made in that behalf.

6.7 The valuation contained herein is purely for internal purpose of the management. Our analysis does not purport to be appraisals or otherwise reflective of the price at which the shares of ZEEL could actually be bought/sold.

DILIGENT MEDIA CORPORATION LIMITED

ANNEXURE - I

Valuation as per Discounted Free Cash Flow Method

Assumptions:

Discount Rate, r	14.00%
Terminal Growth Rate, g	2.00%

(₹in '000)

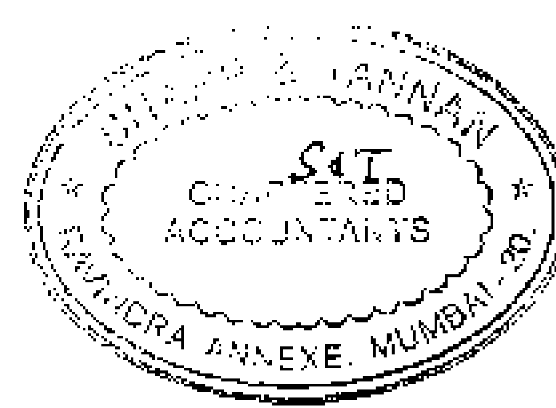
	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	TERMINAL YEAR
			Projected				
PAT	(48,118)	(1,42,535)	(1,26,403)	(1,01,398)	(67,362)	(40,593)	(41,404)
Add: Finance Cost	-	1,20,000	1,26,900	1,34,028	1,38,711	1,39,157	1,41,940
Add: Depreciation	71,200	71,250	71,250	71,350	71,350	71,350	72,777
Less: CapEx	(500)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(750)
Less : Taxation (MAT)	-	-	-	(6,799)	(14,547)	(19,993)	(43,928)
Less: Change in Net WC	-5,097	-4,476	-4 078	-5,652	-6,782	-4,922	(600)
Free Cash Flows (A)	**17,485**	**43,239**	**66,669**	**90,529**	**1,20,371**	**1,44,000**	**1,28,034**
Discount Factor (B)	0.9573	0.8397	0.7366	0.6461	0.5668	0.4972	
Present value (C=A*B)	**5,578.7**	**36,308**	**49,108**	**58,493**	**68,224**	**71,593**	
Terminal Value							**5,30,461**

(₹in '000)

Net present Value for the primary forecast period (A)	2,89,305
Net Present Value of the Terminal Value (B)	5,30,461
NPV (A + B)	8,19,766
Add: Value of Channel Uplinking License	5,817
Add: PV of Tax & MAT Benefit available with Company	1,97,361
Less: Debt allocable to business	(10,00,563)
Value of Business for Equity Shareholders	**22,380**

No of equity shares 89095542

Value per Share (`) **0.25**



DILIGENT MEDIA CORPORATION LIMITED

Annexure II - Calculation of Weighted Average Cost of Capital (WACC)

a) **CALCULATION OF COST OF EQUITY**

As per Capital Asset Pricing Model, Cost of Equity

	(%)
Risk Free Return (Rf)	9.03
Market Return (Rm)	16.00
Market Risk Premium (Rm-Rf)	6.97
Beta (ß)	1.00
Cost of Equity (Ke)	**16.00**

Ke = Rf + ß * (Rm -Rf)

b) **CALCULATION OF COST OF DEBT**

As per Capital Asset Pricing Model, Cost of Debt (Kd)

Kd = Interest rate*(1 - tax rate)	12.00%
=12%(1-0.3245)	
=12%*0.6755	**8.11**
=8.11%	

c) **CALCULATION OF WACC**

As per Capital Asset Pricing Model

WACC = [(D / (D+E) x kd x (1-t) + (E / (D+E) x ke))]

	(` in '000)	Source
Total Debt as on 31st March 2013	38,97,500	Annual Report of FY 2012-13
Total Equity	8,91,000	Annual Report of FY 2012-13
Share Application Money Pending Allotment	28,05,400	Annual Report of FY 2012-13
Securities Premium and Profit & Loss Account	(25,08,500)	Annual Report of FY 2012-13
Capital Reserve	4,86,800	Annual Report of FY 2012-13
General Reserve	17,49,900	Annual Report of FY 2012-13
Total Equity	**34,24,600**	
Total debt and equity as on 31st March 2013	**73,22,100**	

Debt / Debt + Equity	= 38,97,500 / 73,22,100	= 0.53	Equity / Debt + Equity	= 6,19,200 / 73,22,100 = 0.47
Multiplied by Kd and Ke resp		4% (A)		7% (B)
WACC	(A+B)	12%		
Risk Premium		2%		
Final WACC (Discounting Factor)		14%