



To,  
The Board of Directors,  
Spearhead Media Private Limited  
C5, Door No. 3-E-16-1371/21, 1st Floor,  
City Gate, Kadri Ward Mangalore  
Dakshina Kannada 575004

Dear Sir,

**Sub: Valuation report on Fair Value of Equity Shares of Spearhead Media Private Limited as on March 31, 2022.**

This has reference to the various discussions that we had and the information that we have received from the management and key executives of Spearhead Media Private Limited, ("Company" or "SMPL") from time to time in connection with the valuation analysis of Equity Shares of Spearhead Media Private Limited.

#### SCOPE AND PURPOSE OF THIS REPORT

Spearhead Media Private Limited is incorporated on 28-November-2013 in accordance with the provisions of the Companies Act, and having its registered office at C5, Door No. 3-E-16-1371/21, 1<sup>st</sup> Floor, City Gate, Kadri Ward Mangalore Dakshina Kannada 575004.

The Company has requested Finshore Management Services Limited ("FMSL") to carry out valuation analysis of the Equity Shares, of the Company on a going concern basis as at March 31, 2022 (the "Valuation Date").

The valuation of Equity Shares is done on the basis of Discounted Free Cash Flow method as per internationally accepted valuation methodology on arm's length.

It should also be understood that the values at which investments are made / price paid in a transaction may differ from the values computed in this report due to factors such as the objective of the parties, negotiation skills of the parties, the structure of the transaction (i.e., financial structure, transition of control, etc.) or other factors unique to the transaction.

This report and the information contained herein are confidential. It is intended for sole use and for information of the Board of Directors. We understand that the Company is required to submit this report to regulatory authorities. We hereby consent to such disclosure of this report, on the basis that we owe responsibility to only the Company that has engaged us and no other person; and that, to the fullest extent permitted by law, we accept no responsibility or liability to the shareholders of the Company or any other party, in connection with this report.



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**FINSHORE MANAGEMENT SERVICES LIMITED**

(CIN : U74900WB2011PLC169377) ● Website : [www.finshoregroup.com](http://www.finshoregroup.com)

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*Creating Enterprise Managing Values*



The results of our valuation and our report will not be permitted to be used or relied by SMPL for any other purpose or any other party for any purpose whatsoever. We are not responsible to any other person / party for any decision of such person / party based on our report. It is hereby notified that reproduction, copying, or otherwise quoting of our report or any part thereof, except for the purpose as set out earlier in this report, is not permitted.

Yours faithfully,

**For Finshore Management Services Limited**

(SEBI Regd. CAT-I Merchant Banker, Regn. No.: INM000012185)

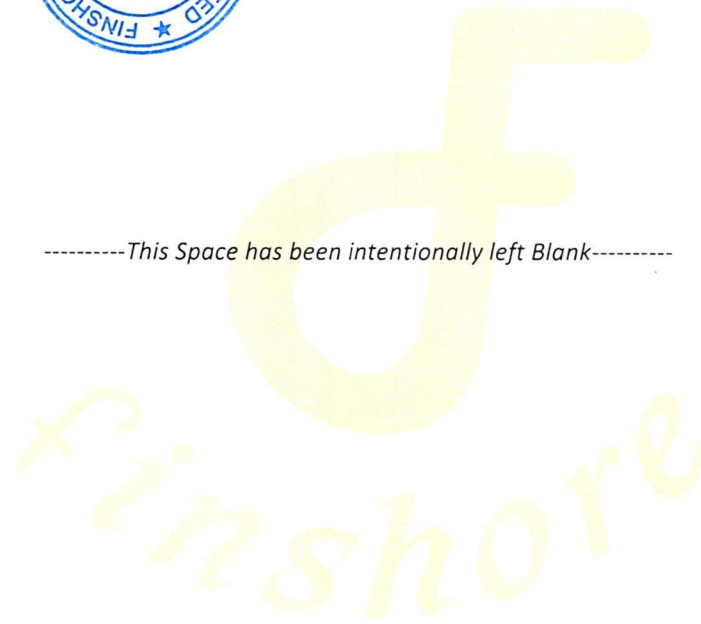
Date: October 1<sup>st</sup>, 2022.

Place: Kolkata

  
S. Ramakrishna Iyengar  
Director



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#### COMPANY BACKGROUND

Name	Spearhead Media Private Limited
CIN	U22219KA2013PTC072197
Date of Incorporation	28/11/2013
Registered Address	C5, Door No. 3-E-16-1371/21, 1 <sup>st</sup> Floor, City Gate, Kadri Ward Mangalore Dakshina Kannada 575004
Listing status	Unlisted
Directors	Brian David Ashok Fernandes Canute Jeevan Pinto

(source: [www.mca.gov.in](http://www.mca.gov.in))

Spearhead Media Private Limited is in the business of running a digital media portal for the state of Karnataka. It has a wholly owned Subsidiary "Spearhead Publication Private Limited".

#### SHAREHOLDING PATTERN AS ON MARCH 31,2022-

Particulars	Face Value	No. of Shares	Amount
Authorized Share Capital Equity Shares	10	20,00,000	2,00,00,000
Issued, Subscribed and Paid up Equity Shares	10	10,30,935	1,03,09,350

(Source: Company)

#### PURPOSE OF VALUATION

We have been told that the company is in process of issuance of Equity Shares for conversion of Compulsorily Convertible Debentures, and thus, the company propose to arrive at the fair valuation of each Equity Share as at March 31,2022. We further understand that this fair valuation certificate shall be used for statutory disclosure as under:

- Section 56(2)(viib) and Section 56(2)(x) of the Income Tax Act, 1961 read with 11UA(2)(b) of Income Tax Rules, 1962.
- Foreign Exchange Management (Non – Debt Instrument) Rules, 2019 ("FEMA Rules").

The Company has requested Finshore Management Services Limited ("Finshore Management") to carry out valuation analysis of the unquoted equity shares as on March 31, 2022.





## SOURCES OF INFORMATION

For the purpose of arriving at the fair value, we have essentially relied on the information provided to us by the management, which we believe to be reliable, and our conclusions are dependent on and subject to such information being complete and accurate in all material respects.

The principal sources of information used in undertaking our assessment include:

- Management approved Consolidated provisional financial statement for the period ended March 31, 2022 of the Company.
- Management certified Consolidated projected financial statement from FY 2022-23 to FY 2026-27.
- Consolidated Audited Financial Statements for the year ended March 31, 2021.
- Cap Table of the Company on fully diluted basis.
- Discussion with the KMPs to understand the business model of the Company, Revenue Model, Key expenses ingredients, historical and expected future performance and key value drivers affecting performance of the company.
- Such other analysis, review and inquiries, as we considered necessary Long-term business plan of the Company.
- Other relevant details relating to the Company such as list of shareholders and other data.
- Such other information and explanations as were required by us and were furnished by the management.

## VALUATION APPROACH

We are required to arrive at the fair valuation of Equity Shares of the Company as per any internationally accepted pricing methodology for valuation of shares on arm's length basis.

There are several internationally accepted and commonly used pricing methodologies for determining the fair value of the Equity shares of a company, whose shares are not listed on a stock exchange such as:

1. Net Asset value ("NAV") Methodology
2. Comparable Transaction Multiples ("CTM") Methodology.
3. Comparable Companies Multiples ("CCM") Methodology.
4. Discounted Cash Flow ("DCF") Methodology.

### NAV Methodology

The asset-based valuation method is based on the value per share of the underlying net assets and liabilities of the Company, either on a book value basis or replacement cost basis. This valuation approach is used in cases where the firm is to be liquidated i.e., it does not meet the "going concern" criterion or is used in case where the asset base dominates earnings capacity.

In the circumstances and keeping in mind that the present valuation of the Company is on a going concern basis, and the value of the Company is driven more by the potential to generate cash flows in the future than its underlying assets, therefore, the value arrived at under this method is of little relevance as compared to the value under the other methods discussed below.



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### CTM Methodology

The CTM Methodology involves applying derived transaction multiples of comparable transactions to the company's future maintainable revenues/ profits (based on past and/ or projected working results adjusted to reflect the future earnings potential) after making adjustments to the derived multiples on account of dissimilarities with the comparable transactions and the strengths, weaknesses and other factors peculiar to the proposed transaction for which the company is being valued.

We have performed a search for suitable comparable transactions for valuing the Equity Shares of the Company under the CTM method. However, our research did not indicate comparable transaction in respect of which complete details of the deal structure, profitability, etc. are available in public domain.

### CCM Methodology

Under this method, one attempts to measure the value of the shares/ business by applying an appropriate capitalization rate/ multiple (the EV/Revenue multiple, the EV/EBITDA multiple, etc.) - for which one may also consider the market quotations of comparable public/ listed companies possessing attributes similar to the business - to the future maintainable profits of the business (based on past and / or projected working results adjusted to reflect the future earnings potential) after making adjustments to the capitalization rate/ multiple on account of dissimilarities with the comparable companies and the strengths, weaknesses and other factors peculiar to the company being valued. Consequently, identifying comparable listed companies to the company being valued, both in business and financial terms, is highly important.

### DCF Methodology

Under this technique, either

1. The projected free cash flows from business operations available to all providers of capital are discounted at the weighted average cost of capital to such capital providers, from a market participant basis, and the sum of such discounted cash flows is the value of the business, from which value of debt and other capital is deducted, and other relevant adjustments made to arrive at the value of the equity - Free Cash Flows to Firm ("FCFF") technique;

or

2. The projected free cash flows from business operations available to shareholders (after deducting cash flows attributable to the debt and other capital providers) are discounted at the cost of equity, from a market participant basis, and the sum of such discounted free cash flows, after making other relevant adjustments, is the value of the equity - Free Cash Flows to Equity ("FCFE") technique.





**Conclusion over selection of appropriate valuation methodology:**

Since the Circular issued by RBI does not specifically state which methodology is to be considered, under the revised pricing guidelines it would be possible for parties with different interests to obtain valuations under different pricing methodologies and arrive at completely different (and yet completely justifiable) "fair market values" for the same company. Therefore, there is no indisputable single value. Whilst we have provided an assessment of the value based on an analysis of information available to us and considering various internationally accepted pricing methodologies, others may place a different value on equity value of the company.

**Discounted Cash Flow (DCF) Method for the company as most appropriate for the valuation of the shares.**

The discounted cash flow is considered appropriate as it serves as an indicator of the prospective return that the business is able to generate in the future. The discounted cash flow method is very effective because it allows values to be determined even when cash flows are fluctuating. The DCF method uses the future free cash flows of the firm / equity holders discounted by the cost of capital to arrive at the present value. In general, the DCF method is a strong and widely accepted valuation tool, as it concentrates on cash generation potential of a business. This method is based on future potential and is widely accepted.

Also, Rule 11UA of the Income Tax Rule, 1962 prescribes method of valuation for the purpose of issuing Equity shares. Discounted Cash Flow method is one of the prescribed method as per Rule 11UA(2)(b) read with Section 56(2)(viib) of the Income Tax Act, 1961. Thus we have adopted Discounted Cash Flow ("DCF") method.

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## VALUATION METHODOLOGY

Basis the analysis undertaken in previous paragraph; we have used Discounted Cash Flow approach in our analysis for computing the fair value of share of the company.

Application of the DCF methodology for valuation of the Company entailed the following stages:

- Estimation of the net cash flows of SMPL to be generated from FY 2022-23 to F.Y 2026-27 based on financial projections. This estimate has been produced from financial projections provided and approved by management.
- The future free cash flows are derived considering, inter alia, the changes in the working capital, addition or repayment of Debt and any capital expenditure. They are an aggregation of free cash flows of SMPL during the explicit forecast period – prepared based on the business plan – and during the post explicit forecast period, estimated using an appropriate method, and are available to Company's equity shareholders.
- Calculation of the discount rate of SMPL based on Cost of equity. The discount rate on the capital that the provider expects to earn on other investments of equivalent risk.
- Application of the discount rate to the Free Cash Flows attributable to Equity Shareholders of SMPL from FY 2022-23 to F.Y 2026-27 to arrive at the Net Present Value ("NPV") of those free cash flows.
- Estimation of the terminal value of SMPL.
- Estimation of equity value calculated as summation of terminal value and present value of free cash flows to equity shareholders of SMPL till March 31, 2027 and adjusted by all surplus assets.

### Estimate of Discount Rate

The discount rate applied to calculate current values on March 31, 2022 has been determined based on Cost of Equity (Ke).

#### WACC calculation

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$$WACC = K_d \times (1 - T_c) \times (D / (D + E)) + K_e \times (E / (D + E))$$

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#### Note:

K<sub>d</sub> = Estimated pre-tax cost of debt

T<sub>c</sub> = Company tax rate

D = Debt

E = Equity

K<sub>e</sub> = Cost of equity

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## COST OF EQUITY

Cost of equity has been estimated based on the CAPM. This model calculates the cost of equity of a Company as the sum of the risk-free rate and a Company specific equity risk premium, the latter of which represents the risk of company in question as compared to the market risk premium:

Calculation of cost of equity

$$COE = R_f + \beta (R_m - R_f) + R_a$$

**Note:**

Rf = Risk-free rate

Rm = Expected market equity risk premium

Ra = Additional risk premium to account for higher risk

$\beta$  = Measure of observed volatility compared to the market

The attached table summarizes the main assumptions used to calculate cost of equity of SMPL.

COE assumptions	Values	Source
Risk free rate, Rf	7.10%	Risk Free Rate based on 10-year Zero Coupon Yield Curve*
Market risk premium	6.42%	Based on the published data of Aswath Damodaran for Indian Market
Beta ( $\beta$ )	1	Assumption
Base cost of equity	13.52%	As per CAPM Model Computation
Additional risk premium	7%	To account for higher risk as the company is in high growth phase.
<b>Adjusted Cost of equity, Ke</b>	<b>20.52%</b>	<i>Computation.</i>

\*Source: <https://www.ccilindia.com/RiskManagement/SecuritiesSegment/Pages/ZCYC.aspx>

We have considered terminal growth rate of the Company at 5%, considering the growth rate of industry, and Indian economy over long-term period and expected inflation.

### Cost of debt

Cost of debt is the rate of interest for existing debts outstanding. Kd of the company is arrived by reducing the Corporate Tax Rate on the Interest-bearing Borrowings of the Company. In the Current Structure, the WACC is calculated based on the company's Debt-Equity ratio.

### WACC

Particulars	Cost	Weight	Weighted average
Post Tax Debt*	7.48%	27.21%	2.04%
Equity	20.52%	72.79%	14.93%
<b>WACC</b>			<b>16.97%</b>

\*Based on Management Inputs



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## BUSINESS VALUATION OF SMPL - DISCOUNTED CASH FLOW METHOD

Amount in INR 'Lakhs

FY	2023	2024	2025	2026	2027	Terminal
<b>PARTICULARS</b>						
<b>PAT</b>	<b>11.17</b>	<b>30.55</b>	<b>53.65</b>	<b>107.08</b>	<b>170.10</b>	
Add : Depreciation	6.24	7.36	9.15	11.14	13.36	
Less : Capital Expenditure	5.00	7.50	9.38	11.72	14.06	
Add : Interest (post Tax)	5.49	5.49	5.49	5.49	5.49	
Less: NWC	(13.29)	2.24	10.00	1.21	11.89	
<b>Free Cash Flows</b>	<b>31.19</b>	<b>33.66</b>	<b>48.92</b>	<b>110.78</b>	<b>163.00</b>	<b>1,527.30</b>
Discounting Factor	0.85	0.73	0.62	0.53	0.46	0.46
<b>Present value of Cash flow</b>	<b>26.67</b>	<b>24.60</b>	<b>30.57</b>	<b>59.18</b>	<b>74.44</b>	<b>697.49</b>
Cumulative present value of Cash Flows	<b>912.95</b>					
<b>Enterprise Value</b>	<b>912.95</b>					
Add: Cash & Cash Equivalent as on 31.03.2022	3.65					
Less: Debt as on 31.03.2022	163.39					
<b>Firm Valuation</b>	<b>753.20</b>					
Diluted No. of Shares	10,30,935					
<b>Value Per Share</b>	<b>73.06</b>					

### VALUATION CONCLUSION

In the light of the aforesaid, and after taking into consideration the principles of valuation as propounded by various authorities that one would have to consider in the value of the Business, the present valuation exercise would have to proceed on a going concern basis and hence has to lay emphasis on earning capacity i.e., what the Business is capable of earning in the future with asset value being of limited relevance and being relegated to the background. In this context the estimated or future maintainable profits / cash flows would have to be taken into consideration. For the reasons set out earlier in this report, we have valued the Business on the basis of discounted cash flow method as per internationally accepted valuation methodology on arm's length basis.

On a consideration of all relevant factors and issues discussed herein, in our opinion, the fair value of each Equity share using DCF Methodology, as at March 31, 2022 works out to be **INR 73.06/- (Rupees Seventy-Three and Paise Six Only)**.





**Scope Limitation:**

1. This Valuation Report has been issued on the specific request of SMPL for the Value of the Equity shares of the Company as at March 31, 2022 as per Section 56(2)(viib) and Section 56(2)(x) of the Income Tax Act, 1961 read with 11UA(2)(b) of Income Tax Rules, 1962 and Foreign Exchange Management (Non – Debt Instrument) Rules, 2019 (“FEMA Rules”). This Report is prepared exclusively for the above stated purpose and must not be copied, disclosed or circulated or referred to in correspondence or discussion with any other party. Neither this report nor its content may be used for any other purpose without prior written consent of Finshore Management Services Limited.
2. We have summarized the Valuation Analysis of the shares of the Company based on the information as was provided to us and other publicly available information. We do not assume any responsibility for the accuracy or reliability of such documents on which we have relied upon in forming our opinion.
3. This Report does not look into the business/commercial reasons behind the transaction nor the likely benefits arising out of the same. In addition, we express no opinion or recommendation, and the stakeholders are expected to exercise their own discretion.
4. We have valued the company based on the future Projection (which has been provided by the management) & would like to state that we do not assume any responsibility for the validation of the projection.
5. We have no present or planned future interest in SMPL and the fee for this Valuation analysis is not contingent upon the values reported herein. The Valuation Analysis contained herein is not intended to represent the value at any time other than the date that is specifically stated in this Report.
6. Company has confirmed that Tax calculation has been done based on the relevant IT Act and Rules and also the Projections have been drawn considering the compliance with relevant accounting standards and the Companies Act 2013.
7. No investigation of the Company’s claim to the title of assets has been made for the purpose of this valuation and their claim to such rights has been assumed to be valid.
8. We have assumed and relied upon the truth, accuracy and completeness of the information, data and financial terms provided to us or used by us; we have assumed that the same are not misleading and do not assume or accept any liability or responsibility for any independent verification of such information or any independent technical valuation or appraisal of any of the assets, operations or liabilities of the Company.
9. Our engagement is limited to preparing the report to be submitted to the Client. We shall not represent in front of any person for answering any specific queries raised by them pertaining to this report and we shall not be liable to provide any evidence for any matters stated in the report nor shall we be liable or responsible to provide any explanation or written statement for any assumption, information, methodology or any other matter pertaining to the report.



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10. Whilst all reasonable care has been taken to ensure that the factual statements in the report are accurate, neither ourselves, nor any of our Directors, Officers or Employees shall in any way be liable or responsible either directly or indirectly for the contents stated herein. Accordingly, we make no representation or warranty, express or implied, in respect of the completeness, authenticity or accuracy of such factual statements. We expressly disclaim all liabilities, which may arise based upon the information used in this report. We are not liable to any third party in relation to the issue of this report.
11. Our Valuation is based on the achievability of the Projected figures provided by the management. In case the Company is not able to achieve the Projected figures, our valuation results will be substantially affected.
12. We have given opportunity to the management of SMPL to review our report and they have given their consent that the facts mentioned in the report are true and correct.
13. Our Valuation report should not be construed as investment advice; specifically, we do not express any opinion on the suitability or otherwise of entering the proposed transaction.



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