

Zee Entertainment (Zee) has announced that it is acquiring the TV portfolio of Reliance Broadcast (RBNL) for a consideration of Rs 2.98 billion. As part of the transaction, Zee will get two channels, Big Magic (comedy) and Big Ganga (Bhojpuri GEC), with combined FY'16 revenue of Rs 490 million, along with four TV licenses. Zee is also expected to get tax benefits of close to Rs 2.8 billion as a result of the acquisition, which would almost nullify the acquisition price. The transaction is expected to be completed by H2CY17. Zee intends to fund the purchase through issuance of Rs 39 million of preference shares, while the balance will be the RBNL debt being taken on to its books. In a related transaction, RBNL is selling 49% of its radio business (45 operational radio licenses and 14 new radio licenses) to Zee Media (separate from Zee Entertainment) at a firm EV value of Rs 15.5 billion, with an option of acquiring the remaining 51% at a later date. The radio business will be spun off in an SPV, of which Zee Media (Annualised Net Debt/Ebitda at 6.1x as of Q217) will acquire a 49% stake.

We see the acquisition of the channels as a good strategic fit for Zee, as: the Bhojpuri genre is a gap in Zee's portfolio and, with Ganga, they are acquiring the leader in the space; and Zee currently does not have a strong comedy presence. With Big Magic, they get a foothold into the space and should be able to improve viewership ratings with an increase in programming hours. We maintain our buy rating on Zee, with a PO of Rs 625.

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