Confederation of Indian Industry

India Entertainment and Media Outlook 2013

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Foreword

Welcome to the 2013 edition of the India Entertainment and Media (E&M) Outlook, where we analyse key trends and developments across nine major E&M industry segments in the country.

Although the broader Indian economy experienced moderation in its growth rate, the E&M industry continued its strong growth momentum highlighting its latent potential. The ongoing proliferation of digital platforms has been a key enabler for this growth and in the future, will take the E&M sector to lofty heights. In this context, it is important that government authorities and industry players continue to drive the digital transformation of the E&M sector.

Nonetheless, widespread adoption of digital platforms will also increase challenges for E&M players as consumer behaviour will change significantly due to greater choice and control on offer. Further, traditional barriers among types of industry players will start to disappear, leading to jostling for favourable competitive positioning.

This brings us to the key theme of our report - innovation. The new normal of digital distribution in many key industry sectors will compel industry participants to invest in constant innovation across the entire lifecycle of content production, management, delivery and monetisation. Innovation, driven by consumer insights as well as technological enhancements, and operational agility will be important enablers for getting closer to consumers and profitably delivering relevant content and services. We believe that industry players that will win at innovation and operational agility will also win in the market-place.

CII and PwC thank industry stakeholders for sharing their valuable insights and supporting us in developing this review. We also appreciate your feedback and request you to continue informing us about what we can do to further improve the usefulness of this publication.

We hope you will find this report insightful and enriching.

Amita Sarkar
Deputy Director General
Confederation of Indian Industry

Smita Jha
Leader, Entertainment & Media
PwC India

The innovation imperative in the rapidly evolving E&M sector

Increasing proliferation of digital platforms promises to unleash the Indian entertainment and media (E&M) sector, propelling it to greater heights over the next few years. The ongoing transformation of the TV distribution chain from analogue to digital (through adoption of DTH and the ongoing digitisation drive for cable TV) and rising consumption of E&M content (TV shows, news, films and film-clips, music, games, etc.) in an over-the-top (OTT) manner will be the key growth drivers for the E&M sector in India over the next decade.

However, digital platforms will also increase challenges for players in the E&M sector as consumers will gain greater choice and control. Changes in consumer behaviour have already begun as many consumer segments, especially urban youth, have started consuming content in time-shifted fashion across multiple devices. This raises the challenges of cross-platform content management and monetisation in order to prevent cannibalisation of core revenues. Moreover, entry barriers will reduce in some E&M sectors and competitive intensity will increase as various stakeholders vie for a share of the consumers' limited time and attention.

Indian E&M businesses, like their peers abroad, will need to raise their game in operational agility and customer insight. All types of E&M companies will need to evaluate their competitive advantages and seize their positions in the evolving ecosystem, with the connected and more-informed consumer at the centre.

To achieve this successfully, every industry participant will need to invest in constant innovation that encompasses products and services, business and operating models and most importantly, customer experience and engagement. Innovation should be seen as an important enabler to get closer to consumers and profitably deliver relevant content and services.

Innovation as an enabler to bridge the gap between consumers and E&M players

Changing consumer behaviour and expectations

- Increased choices for content consumption – full length vs short clip, time-shifted viewing, devices, platforms
- Higher propensity to pay with rising income levels
- Discomfort with intrusive advertisements that impede content consumption experience
- Greater engagement with the content by being able to provide feedback and express views through social media

Innovation:

Bridging the gap between consumers and E&M players

Key issues for E&M players

- What content is preferred by which segment of consumers?
- Which devices and viewing formats do consumers prefer?
- What is the consumer propensity to pay for various types of media and entertainment?
- How can advertisements be more relevant to consumers? How is reach and effectiveness effectively measured in a multi-platform world?
- How to differentiate vis-a-vis competitors and technology players entering the space?

The need for all E&M players to innovate and cater to changing behaviour and expectations of consumers

Consumers will continue to increase their spending on E&M as they migrate towards digital platforms across an expanding array of devices, including mobile phones. Although consumers are increasingly connected and calling the shots, they are also increasingly confused by the blizzard of content offerings and models available to them (both legally and sometimes illegally). In this context, it will be important for E&M players to apply accelerated innovation and agility to understand and meet changing consumer demands.

The underlying journey for consumers is from 'mass media' to 'my media', and E&M companies that successfully accompany consumers along the way will be those that have the speed, flexibility and insight to engage and monetise an increasingly diverse consumer base by delivering personalised and relevant content consumption experiences.

Content creators' need to remain agile and stay relevant

Even in this rapidly changing scenario, content will continue to be king as consumers' first decision criteria will still remain what content to watch or listen rather than the platform or device on which to consume the content. Nonetheless, content creators will have to continue to remain agile and respond to changing consumer tastes in order to stay relevant and popular. Therefore, they will need to adapt to consumers' changing needs by experimenting and then applying innovation to the content itself and the various ways in which it is delivered.

To understand what content people will pay for and how they want to consume it, content creators will need to get closer to consumers than ever before. One of the important ways this can happen is by harnessing data from social media (especially for important demographic segments such as the youth). PwC's 2013 Global CEO Survey results also show that E&M CEOs are keener than their counterparts in other sectors to harness the power of social media to garner better insight. However, executives need to be careful not to over-cater to customers most active on social media at the expense of those less likely to volunteer feedback in this way. Social media insights need to be blended with traditional editorial and curating skills.

Content creators will need to innovate and embrace new business models, adopt windowing and bundling approaches, enter into collaborative partnerships with other ecosystem players such as content distributors in both the traditional and OTT spaces. Content companies that combine the right consumer insights, business models and partnerships will be better-placed in the new digital ecosystem. Nonetheless, as they pursue these strategies, the good news for content creators is that content's central role in attracting, engaging and retaining consumers will be positively strengthened by the fragmentation of media choices, as evidenced from other more mature media markets.

Challenges for advertisers as they embrace the digital platform

Advertisers will continue to play important roles in supporting the E&M value chain, as always. However, it is important that they embrace the digital platform sooner rather than later. As audiences increasingly consume media across multiple screens, devices and platforms, advertising must also adapt and effectively reach target audiences.

Advertisers and ad agencies will need to leverage the power of technology and analytics techniques to gain insights into consumer behaviour as well as expectations that manifest across multiple platforms and in different ways–from consuming content across multiple genres and devices to social media activity and comments. This will help them determine the appropriate media mix to engage relevantly with consumers.

Advertisers and ad agencies will also need assurance on the reach and effectiveness of advertisements across multiple platforms. Therefore, adequate investments will need to be made in credible, cross-platform metrics. For instance, the recently announced shift by a leading Indian TV audience measurement company from television rating points (TRPs) to television viewership in thousands (TVTs) is a step in the right direction. However, this needs to be coupled with the measurement of audiences that view the same content in a time-shifted fashion (e.g. through use of DVRs) or through alternative channels (e.g. live TV on websites) to obtain an accurate picture of television viewership.

The need for content distributors to protect their positions

Content distributors face the challenge of consolidating their existing operations while positioning themselves to take advantage of changing consumer preferences in the digitised scenario.

Distributors will increasingly need the agility and insight to deliver the right content at the right time, on the right platform, at the right price. The growing demand from connected consumers for content, delivered across multiple devices, whenever and wherever they choose, poses challenges to content distributors' traditional business and operating models. For instance, consumer brands will increasingly develop their own content and services to offer directly via online channels, rather than providing ads that interrupt traditional media content. Advertiser-funded content is not new, but what brands have today is a direct route to customers, without the need to use intermediaries such as broadcasters.

Albeit it will take a few years for wide-scale adoption of OTT in India, content distributors need to be cognisant of the changing preferences and behaviour of key demographic segments and position themselves appropriately.

Business model innovation in a digitised world

To ensure their content remains relevant and valuable to their audiences, E&M companies must innovate and build their new business models around the following imperatives:

- *The power of second screens should be harnessed* to target connected portable devices to deepen engagement with, and access to, the primary content.
- *The windowing of video content must continue to evolve* rapidly to meet the needs of connected consumers.
- *Bundling* can add value for content providers, operators and consumers as people still love a bargain, including a bundle of services for a 'discounted' rate.
- *Content discovery and recommendation* will be major areas of opportunity, especially in the digital space, as confused, connected consumers need help navigating to the content they want.
- Investments for gaining *analytics-driven insights into connected consumers' behaviour and measuring cross-platform reach* will be critical for successfully and profitably growing the digital ecosystem.

The Entertainment and Media industry: 2012-2017

The Indian entertainment and media industry exhibited robust growth in the past year with revenues increasing from about 805 billion INR in 2011 to 965 billion INR in 2012, representing a year-on-year increase of about 20%[1]. This growth was achieved in spite of a relative slowdown in the broader economy, underlining the resilience of the E&M sector.

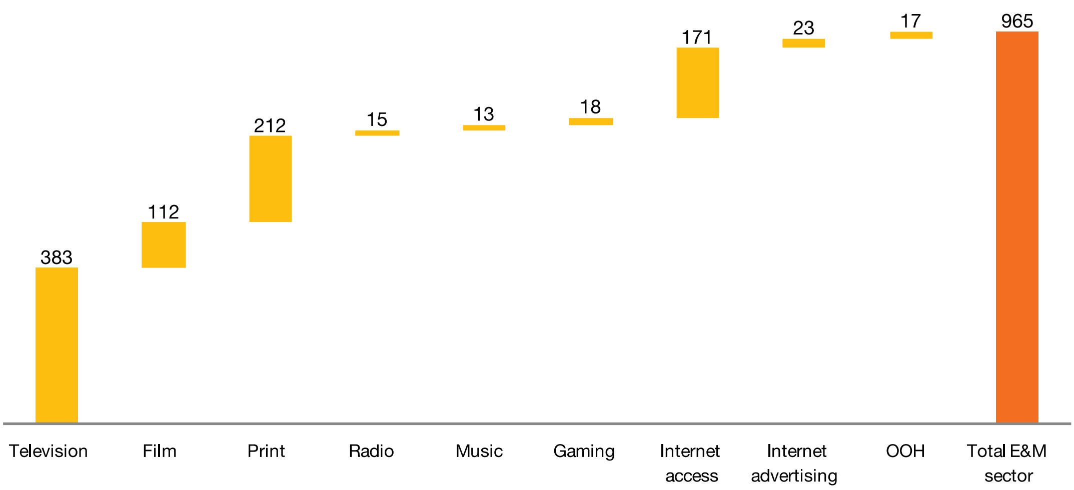
In spite of its large size, India's television market continued its strong growth momentum with revenues increasing from 340 billion INR in 2011 to 383 billion INR in 2012, representing year-on-year growth of about 13%. Filmed entertainment also demonstrated stellar growth in 2012 with sector revenues increasing by about 17% from 96 billion INR in 2011 to 112 billion INR in 2012. Digitisation has been a significant driver for the growth of both these sectors. In the television market, rising adoption of digital platforms such as DTH and digital cable is helping usher in a new wave of transparency and consumer choice leading to higher sector revenues. In the world of films, digital distribution has transformed the market with movies releasing with large number of prints across the country and overseas, thereby capturing revenues early and combating piracy.

Internet access, internet advertising, gaming and music continued to be high growth segments. These sectors are benefiting from the rising adoption of wired and mobile internet and broadband in India, especially among the youth.

The television and print sectors dominate the industry with about 40% and 22% contribution to industry revenues respectively in 2012. Internet access now commands about 18% share of industry revenues.

Going forward, the Indian E&M industry is expected to continue its strong growth momentum over 2012-2017 to reach total revenues of 2,245 billion INR at a CAGR of about 18%[2].

E&M segment revenues, billion INR, 2012



Source: Industry reports, discussions with industry experts and PwC India analysis

1 Excluding internet access revenues, the size of the Indian E&M sector increased from about 690 billion INR in 2011 to almost 795 billion INR in 2012, representing a year-on-year increase of over 15%.

2 Excluding internet access, the Indian E&M sector is expected to grow at about 15% CAGR over 2012-2017 and reach revenues of about 1,615 billion INR in 2017.

Television, the largest E&M sector, is expected to continue growing robustly at about 18% CAGR over 2012-2017, driven by growth in subscription payments and advertising revenues. Sectors such as internet access, internet advertising, gaming and music are also expected to continue on their high growth trajectory with expected CAGRs of approximately 30, 29, 19 and 15% respectively. The radio sector is also expected to receive a fillip with the successful conclusion of Phase III licence auctions and it is expected to grow at a robust CAGR of about 16%.

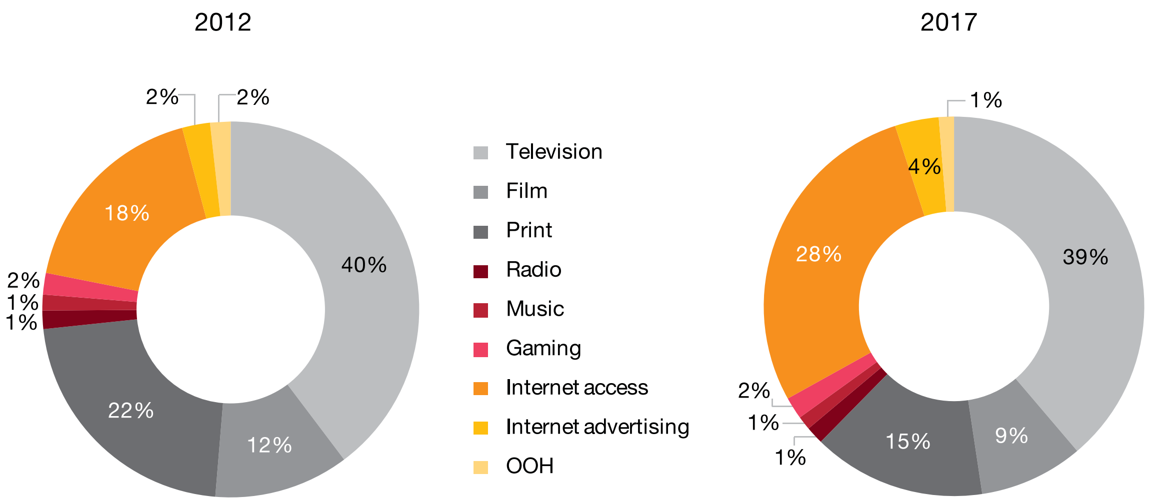
In 2017, television will continue to lead the industry in terms of revenue contribution with 39% share of revenues as compared with 40% in 2012. The next dominant sector in 2017 is expected to be internet access with 28% share of sector revenues, significantly higher than 18% in 2012. With the rise of internet access, the relative sector contribution of large segments such as print and films will

Projected revenues of E&M sectors, billion INR, 2012-2017

	2012	2013E	2014E	2015E	2016E	2017E	CAGR (2012-2017)
Television	383	437	529	638	753	872	17.9%
Film	112	133	151	170	185	199	12.2%
Print	212	230	255	279	304	331	9.3%
Radio	15	17	19	22	27	32	15.6%
Music	13	15	17	20	23	26	15.1%
Gaming	18	21	27	33	38	42	18.8%
Internet access	171	248	352	476	564	631	29.8%
Internet advertising	23	31	40	52	67	84	29.4%
OOH	17	19	21	24	26	29	11.2%
Total E&M sector	**965**	**1,149**	**1,410**	**1,714**	**1,987**	**2,245**	**18.4%**

Source: Industry reports, discussions with industry experts and PwC India analysis

Segment revenue contributions in 2012 and 2017



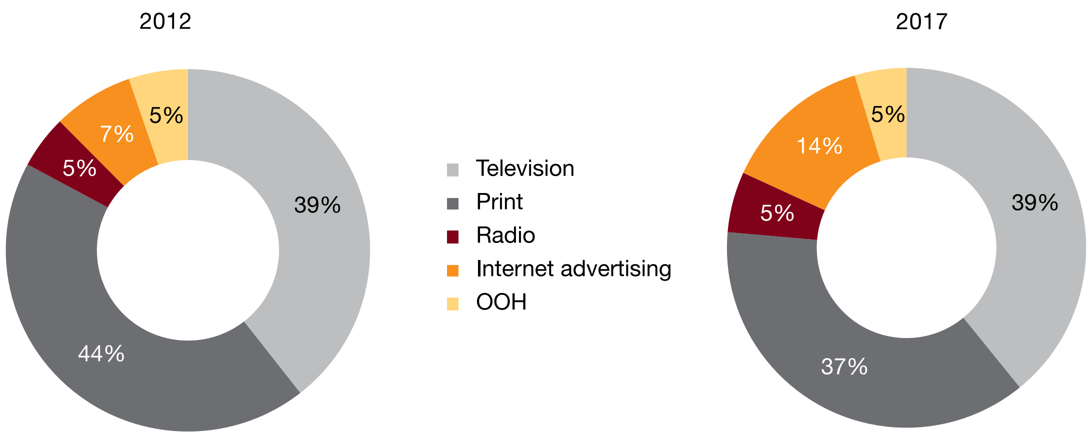
Source: Industry reports, discussions with industry experts and PwC India analysis decline. The share of print is likely to decrease from 22% in 2012 to 15% in 2017. Similarly, the share of films is expected to decrease from 12 to 9% over the same timeframe. In 2017, although sectors such as radio, music and gaming are expected to maintain their shares at 2012 levels, internet advertising is expected to increase its share in E&M sector revenues from about 2% in 2012 to approximately 4% in 2017.

The split of revenues between advertising and consumer payments is also expected to undergo a significant change over 2012-2017 as consumers start paying more for E&M content and services. The share of advertising revenues in total E&M sector revenues is expected to reduce from about 33% in 2012 to about 28% in 2017. Correspondingly, the share of consumer payments is expected to increase from 67% in 2012 to 72% in 2017.

Nonetheless, total advertising revenues are expected to increase at a healthy rate of about 14% CAGR from 322 billion INR in 2012 to 619 billion INR in 2017. Television and print will continue to dominate the advertising sector, albeit share of print will reduce to some extent. In contrast, the share of internet advertising will increase significantly over the same timeframe.

Thus, the Indian E&M industry is on the cusp of a strong phase of growth, backed by rising consumer payments and advertising revenues across all sectors. This growth will help address the latent demand for E&M content in India. Nonetheless, the potential of the Indian E&M sector is immense and further growth is possible, provided industry players continue to innovate and reach out to the large Indian population with engaging content.

Constituents of advertising revenues in 2012 and 2017



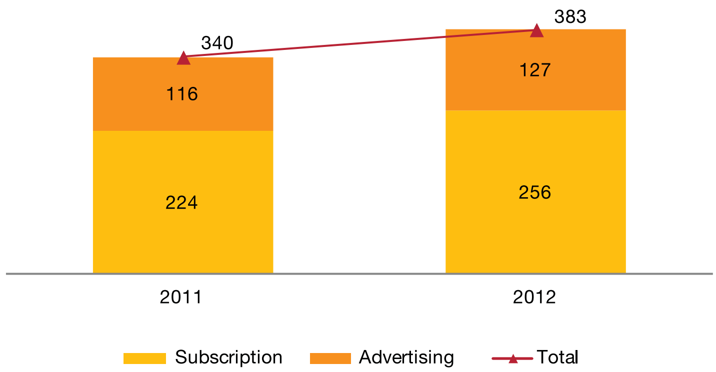
Source: Industry reports, discussions with industry experts and PwC India analysis

Television

The size of the Indian television industry increased from 340 billion INR in 2011 to 383 billion INR in 2012, representing a growth of about 13%. Subscription revenues increased from 224 billion INR to 256 billion INR in 2012, corresponding to a year-on-year growth rate of 14.5%. Advertising revenues also displayed robust growth of about 10% and increased from 116 billion INR to 127 billion INR in the same timeframe.

Thus, subscription revenues continue to drive the bulk of overall sector revenues. In fact, the share of subscription revenues in total television sector revenues increased marginally from about 66% in 2011 to approximately 67% in 2012.

TV subscription and advertising revenues in billion INR, 2011 and 2012



Source: Industry reports, discussions with industry experts and PwC India analysis

Key trends

- **Steady growth in pay TV subscribers**

  Although India has high pay TV penetration among TV-owning households (over 85%), the number of pay TV subscribers continues to rise with the increase in the number of TV-owning households and the increase in the adoption of DTH in 'cable dry' areas. Pay TV expansion has also been supported by the pan-India economic growth, lack of adequate free-to-air substitutes and relatively low-cost basic pay TV subscription packages (for both cable and DTH).

  India had about 127 million pay TV subscribers in 2012, higher than the 113 million subscribers in 2011. Analogue cable continued to be the dominant platform for pay TV distribution with about 58 million subscribers. However, this is expected to decline over the next few years with the government of India's cable digitisation drive taking root across India. The number of digital cable subscribers was about 20 million in 2012 and is expected to increase over the next few years as more people switch over from analogue to digital.

Status of cable digitisation across India

Phase	Rollout targets	Announced completion date	Current status
I	Delhi, Mumbai, Kolkata, Chennai	30-Jun-2012 (revised to 31-Oct-2012)	• Target achieved in Delhi, Mumbai, Kolkata • Not implemented in Chennai; pending court decision
II	38 cities with population greater than 10 lakh	31-Mar-2013	• 14 cities: 100% • 3 cities: 90% • 17 cities: Over 57% • 4 cities: Less than 50% (As in April 2013)
III	All urban areas	30-Sep-2014	• No update; original deadline in place
IV	Rest of India	31-Dec-2014	• No update; original deadline in place

Source: Ministry of Information & Broadcasting India, Industry discussions and Press articles

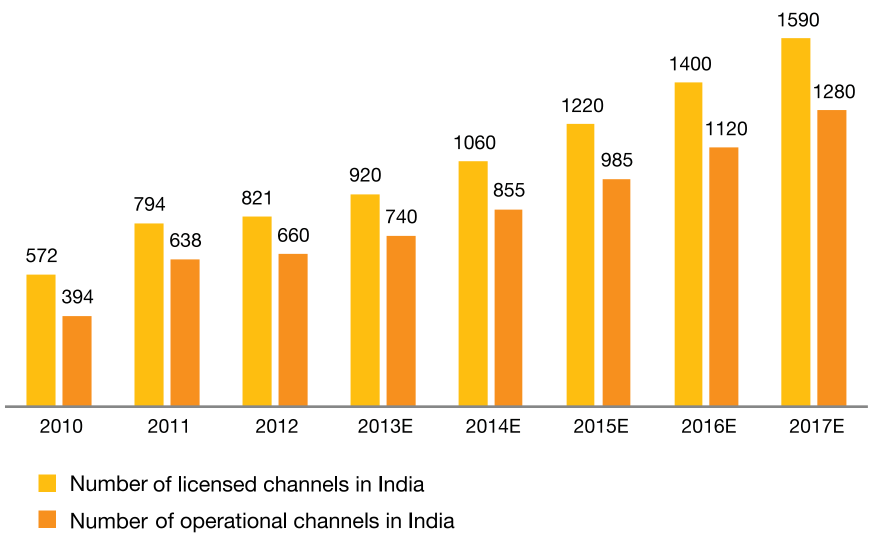
The bulk of the growth in subscribers continues to be driven by the DTH platform. As per TRAI reports, the gross number of DTH subscribers increased from 44.2 million in Dec 2011 to 54.5 million in Dec 2012. Although the number of active subscribers is less (due to subscriber churn-outs and de-activations), DTH continues to propel the pay TV market forward as it offers access to TV services in areas where laying cable networks is a difficult or expensive proposition due to the distance or the terrain. Further, DTH players have also been able to differentiate themselves through efficient customer service and launch of value-added services (such as HD channels and pay-per-view movies); this has helped them target urban consumers as well.

- **TV advertising market's healthy upward trend**

TV advertising revenues also continued to grow in 2012, albeit not at the same pace as subscription revenues. TV advertising revenues increased from 116 billion INR in 2011 to 127 billion INR in 2012, representing a growth of about 10%. It is also noteworthy that the TV advertising market has sustained this trend over the past few years and did not decline even during the global recession a few years back.

The growth in advertising revenues was lower than that in 2011 due to the absence of any marquee event like the Cricket World Cup (held in India in 2011) and controlled expenditures by some major advertisers such as telecom players. Nonetheless, TV advertising continues to be among the dominant contributors to the E&M advertising market with 39% share.

Number of licensed and operational channels in India, 2010-2017E



Source: Ministry of Information & Broadcasting India, Industry discussions and PwC India analysis

- **Pause in growth of licensed channels; overall growth trajectory intact**

India had about 230 licensed (private) channels that were allowed to downlink in 2007. Since then, the number of licensed channels has grown and reached 794 in 2011, representing a CAGR of over 35%.

However, 2012 witnessed a relatively modest growth with the number of licensed channels reaching 821 towards the end of the year. This still translates to about 29% CAGR over 2007-2012 and the medium-term growth trajectory appears intact as the number of interested players and pending licence applicants remains high.

Immense potential still exists in the Indian market for the channel count to increase significantly. Key driving factors include current low values of TV channels per million pay TV subscribers and TV channels per million people, steady growth in pay TV subscribers coupled with cable digitisation (that will boost the business cases for existing and new channels), growth of regional channels in multiple genres and entry of foreign players. Steady growth in advertising will also significantly aid this growth.

By 2017, India can be expected to have about 1,600 licensed channels and about 1,300 operational channels.

- **Increase in number of HD and other premium channels**

Growth of digital platforms such as DTH and digital cable, availability of higher quality TV sets and broadcasters offering better picture quality and HD content is boosting viewer interest in HD (high-definition) channels. There are already about 40 HD channels available in India, primarily in genres such as sports, movies and GEC.

Furthermore, the number of HD channels in India is expected to increase with more broadcasters responding either to consumer preferences or competitive pressure. India can be expected to have about 130 HD channels by 2017.

Successful rollout of digitisation will also lead to the launch of channels that target specific genres and consumer segments. Such channels are more likely to depend on subscription revenues than on advertising due to the relatively low addressable market (albeit with higher propensity to pay). The launch of channels such as Ten Golf is a case in point. HBO has also launched ad-free premium channels, HBO Defined and HBO Hits. Disney offers Disney Junior, which is ad-free.

- **Importance of effective audience measurement systems**

A lack of effective audience measurement systems has made advertisers cautious in the past, and the rapidly expanding number of channels and fragmentation of viewing figures will only make the process more complex. It is vital for the industry to invest in effective measurement systems to attract more advertisers, particularly when broadcasters are hoping to target and measure specific niches in the audience.

The recently announced shift by a leading audience measurement agency from television rating points (TRPs) to television viewership in thousands (TVTs) and gross rating points (GRPs) to gross viewership in thousands (GVTs) is a significant step in the right direction as it aims to capture the expansion in TV-viewing in India apart from just the market shares.

- **Regulatory intervention could curb the growth of the TV advertising market and also adversely impact profitability of broadcasters**

Current guidelines indicate that only 12 minutes of advertising can be done per hour. Recent notifications from the TRAI suggest that government agencies may seek to enforce this limit in a strict manner.

Although it is necessary to ensure the quality of viewing experience for consumers to promote their long-term engagement with the television medium, it is also important to ensure that broadcaster revenues are not hit adversely. Currently, broadcasters are heavily dependent on advertising revenues, which contribute almost 60-70% to their top-lines. Therefore, any restrictions on advertising can lead to lost revenues and a decline in profitability.

- **OTT distribution and mobile TV to augment industry revenues over the long-term**

Increased penetration and improved speeds of broadband packages will also have a positive impact on the market. Although still in their initial stages, OTT platforms, which deliver video content over the internet, will grow in popularity as the Indian TV market matures. This will have a positive impact on the dynamics of TV advertising as the advertisers will seek new platforms in an increasingly competitive marketplace.

Mobile TV is also a growth area for advertisers. The higher demand for smartphones and tablets is expected to alter long-term average viewing patterns, with consumers increasingly wanting to view TV on the go.

Future outlook

- **Rising pay TV penetration will propel the growth of the Indian television market over the next few years**

Going forward, India's pay TV market is expected to see sustained increase in subscriber base. Rising TV penetration among households and pay TV penetration among TV-owning households will be major factors driving growth. It is noteworthy that TV penetration in India is about 55 to 60% as compared with over 90% in developed markets and therefore, there is a lot of potential for growth.

Over the next few years, India's currently dominant cable industry is likely to grow at a relatively slower pace with the total cable TV subscribers reaching about 84 million in 2017. However, the structure of the cable industry is expected to be transformed with limited analogue cable subscribers (about four to five million) and about 80 million digital cable subscribers.

The DTH industry is expected to continue its forward momentum and reach almost 90 million subscribers by 2017. The DTH platform is expected to play a vital role in bridging the demand gap and reach areas where it is difficult or expensive to run cable TV operations due to the distance or the terrain. Cost-effective end-user terminals and devices, favourably priced entry-level channel bouquet plans and the perception of high-quality TV signal delivery and customer service will continue to support its growth.

Most of the leading TV channels have started offering catch-up TV and even live TV on their websites. For instance, in the GEC space, Star, Colors, Zee and Sony offer recently telecast shows on their websites. News channels such as CNBC, CNN-IBN and NDTV also offer catch-up TV (in the form of short-clips labelled by topic) and live TV on their websites. Times Internet Ltd has launched Box TV that offers TV shows and movies.

Industry discussions indicate that such OTT content has already started becoming popular. Further, OTT usage has also spread to the mobile platforms with leading players offering apps to facilitate content consumption on the move. For instance, CNBC's mobile app combines TV news and web-based news. Zee has launched Ditto TV that offers Live TV (channels from Zee, Viacom 18, Network18, Sony,SAB, Aaj Tak, etc), movies and video-on-demand on internet-enabled mobiles, tablets, PCs and other smart-devices.

- **Pay TV ARPUs to increase with cable digitisation and launch of value-added services**

  Realisations from pay TV subscriptions are also expected to increase with the rising proliferation of digital platforms such as DTH and digital cable (as a result of the pan-India cable digitisation drive).

  The government of India's cable digitisation mandate will lead to improvement in the quality of services delivered to cable TV consumers, who will benefit through significantly more channels being delivered to their homes (as compared with only 80 to 100 that are supported by analogue cable TV platform), improved picture and sound quality, availability of HD channels and other value-added services such as pay-per-view.

  More importantly, consumers will have the choice of selecting the pay TV channels they want to view and pay only for them (in analogue cable, the cable TV operators made the decisions instead of consumers and there was no customisation of TV channel bouquets). DTH operators also offer a variety of TV channel bouquets and pay-per-view services.

  This will also have a positive impact on cable and DTH operators, who will benefit through greater ARPUs as customers will choose to pay for a better viewing experience. An increasing number of HD channels and additional monetisation through pay-per-view, etc. will also drive growth in pay TV ARPUs.

  Nonetheless, TV will continue to be among the cheapest form of consumer entertainment, on a per-hour and per-capita basis (a TV programme is typically viewed by multiple members of a household).

- **Significant growth expected in TV advertising revenues**

  Factors driving advertising revenues are also likely to remain robust over the next few years. Although India's real GDP growth is expected to be moderate, nominal GDP growth is likely to remain strong. This, coupled with steady or increasing advertising from sectors such as telecom, modern retail, e-commerce, FMCG, automotive, etc. will support growth in television advertising revenues.

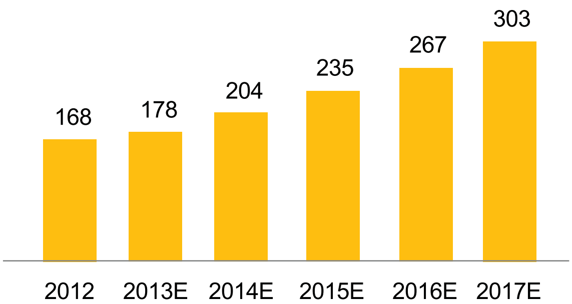
  Expected increase in number of TV channels, especially regional and niche channels, will also increase ad inventory and more importantly, attract non-traditional TV advertisers such as businesses with only a regional presence and businesses selling special interest and niche goods and services (e.g. golf accessories). This will again boost advertising revenues.

- **India's television market to be among the fastest growing in the world**

  Driven by the growing number of subscribers, increasing ARPUs and rising advertising expenditure, India's television market is expected to grow at about 18% CAGR from 383 billion INR in 2012 to 872 billion INR in 2017.

  Subscription revenues are likely to increase from 256 billion INR in 2012 to 629 billion INR in 2017 at CAGR of almost 20%[3]. This growth will be driven to a great extent by digital platforms ushering in transparency and encouraging consumers to spend for better choice and quality. Advertising revenues are expected to grow at a CAGR of about 14% to reach 243 billion INR in 2017 from 127 billion INR in 2012.

Expected evolution of pay TV ARPUs (INR per subscriber per month) in India, 2012-2017E



Source: Industry reports, discussions with industry experts and PwC India analysis

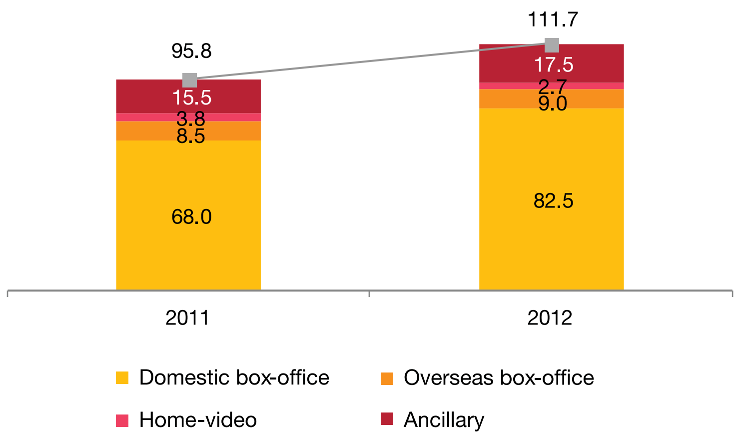
3 IPTV revenues have not been considered due to very low number of current and expected subscribers

Film

Revenues of the Indian film industry increased from 96 billion INR in 2011 to 112 billion INR in 2012, representing a year-on-year increase of about 17%. Steadily increasing audiences and sustained pricing power made 2012 a great year for the Indian film industry.

India is already the largest market globally in terms of total box-office admissions and the number of films produced. However, in terms of theatrical or box-office collections, India's ranking is significantly lower primarily due to lower average ticket prices. Nonetheless, a bulk of industry revenues continue to be driven by domestic box-office collections, which increased by over 21% from 68 billion INR in 2011 to 83 billion INR in 2012. Other revenue streams such as satellite rights have also grown in 2012. However, home-video remains the one weak link as it again witnessed falling revenues.

Constituents of film industry revenues in billion INR, 2011 and 2012



Source: Industry reports, discussions with industry experts and PwC India analysis

Key trends

- **Digitisation of cinemas enabling large releases of movies**

  Indian exhibitors have embraced digitisation of cinemas, with almost 75-80% of them already digitised (this entails receiving copies of the films in digital formats; either through VSAT / satellite or digital hard-disks), resulting in wider releases, especially in Tier 2 and Tier 3 towns and semi-urban areas. Wider releases are also supported by reduced distribution costs as the cost of digitally transmitting a film is far less than the combined print and transportation cost of a film distributed in the traditional way.

  Now, a typical big budget film releases in about 2,500 to 3,000 screens, which was unheard of a few years back.

  This has helped meet the latent need for timely viewing of new releases in the erstwhile under-served markets and has boosted box-office figures through early and efficient capture of revenues. Digitisation and early as well as wide releases have also helped mitigate the negative effect of piracy to some extent.

  The positive effect of digitisation is evident from the increase in the number of films reaching 100 crore INR in revenues; the new benchmark for a super-hit. In 2012, nine films achieved this distinction, up from five in 2011. Industry players also believe that digitisation of cinemas has led to an uptick of box-office collections across films of all budgets.

- **Continued acceptance of content-driven movies**

  Indian audiences' support of content-driven films has witnessed a continued trend in 2012. Patronage from multiplex audiences coupled with wider releases helped films such as *Paan Singh Tomar* and *Vicky Donor* garner healthy box office revenues. Even *Barfi*, a film with a non-traditional story-line and protagonists, performed well and collected over 100 crore INR (net revenues) at the box-office.

  This bodes well for Indian cinema as it will encourage production houses to support projects with diverse genres and non-marquee star-casts. Audiences will also have a greater choice of films dealing with different themes.

Screen counts of selected films in 2011, 2012 and 2013

Year	Film	No of screens in the first week (approximate count)
2011	*Ra.One*	2,500
	Don 2	2,400
	Bodyguard	2,200
	Singham	2,000
	Ready	2,000
2012	*Ek Tha Tiger*	3,500
	Dabangg 2	3,000
	Agneepath	3,000
	Rowdy Rathore	2,800
	Jab Tak Hai Jaan	2,500
2013	*Chennai Express*	3,700
	Yeh Jawaani Hai Deewani	3,000

Source: Industry discussions and Press articles

Films crossing 1 billion INR (100 crore INR) in revenues in 2012

Film	Net domestic box-office collections in billion INR
Ek Tha Tiger	1.84
Dabangg 2	1.51
Rowdy Rathore	1.33
Agneepath	1.23
Jab Tak Hai Jaan	1.22
Housefull 2	1.10
Barfi	1.10
Son of Sardaar	1.05
Bol Bachchan	1.00

Source: Industry discussions and Press articles

Budgets and net domestic box-office collections of selected content-driven films in 2012

Film	Production budgets in billion INR	Net domestic box-office collections in billion INR
Barfi	0.3	1.10
Kahaani	0.08	0.54
Vicky Donor	0.05	0.37
English Vinglish	0.15	0.35
Paan Singh Tomar	0.08	0.16
Gangs of Wasseypur (Parts 1 and 2)	0.18	0.47

Source: Industry discussions and Press articles

- **Sustained growth in box-office performance of Hollywood releases**

  Hollywood currently carves out about 8 to 9% market share of Indian box office collections, with multiplexes contributing nearly 60 to 70% of that figure. The three metros of Bangalore, Delhi and Mumbai, account for the bulk of foreign-film ticket sales. Further, most of the revenues accrue from the 70 to 75 films released by the large Hollywood studios each year.

  The prospects for Hollywood increasing its market share continue to look promising. India's leading multiplex operators continue to add screens across cities and digitisation is also enabling wider releases of Hollywood films. Industry players in India are increasingly digitally-equipped, with a growing number of screens set to be equipped with either 2k or even the very latest 4k digital technology, which should also help Hollywood box office due to enhanced content consumption experience. Hollywood's dubbing its films in local languages such as Hindi, Tamil and Telugu has improved their box office prospects. Further, increasingly localised marketing techniques have also helped Hollywood releases increase their box-office collections.

  Many Hollywood films are now released on the same day as in the US. In many cases, these films are even released earlier than in the US to either benefit from holiday periods in India or to avoid conflict with releases of highly anticipated local (Indian) films.

- **Internet and social-media marketing of films becoming the norm**

  Medium-to large-budget films have started to actively engage consumers through social media and internet platforms such as YouTube. In fact, releasing trailers on YouTube has become the norm. Most such trailers are made available either on the same day as the first broadcast on TV or in some case, a few days earlier to build excitement.

  Producers are also trying to increase audience connects and interactions through presence on Facebook, etc. This also helps build excitement and establish viewer engagement for a film before the release, especially among the urban youth.

- **Home video market seeing a distinct shift towards online and over-the-top consumption**

  India's physical home-video market (sales and rentals) has declined significantly over the past few years. Key factors that have driven decline in the physical home-video market include piracy (which continues to remain a challenge), change in movie TV release windows that lead to new films being available for viewing on TVs very shortly after theatrical release, advent of PPV, VoD options (especially over the DTH platform) and rising penetration of broadband that has led people consuming films on over-the-top (OTT) platforms at their convenience.

  Nonetheless, the rise of OTT distribution alternatives can provide some succour to content owners. This sector is expected to expand rapidly and arrest the decline in overall home-video revenues to some extent. Local OTT providers vying for market share include BIGFlix, Spuul and BoxTV. The US-based giant YouTube is also emerging as a significant player in the space by tying up with multiple content owners to offer paid and ad-funded film content. However, the one factor that could constrain the growth of OTT services is the low broadband penetration among Indian households (currently about 6%).

The Amazing Spider-Man earned 14.5 million USD from its release in India; very few blockbuster Indian movies earn more revenues as compared with this figure. The Avengers, Skyfall, Life of Pi, The Dark Knight Rises and Men-in-Black III also had successful runs at the Indian box-office with collections of about 13 million USD, 11 million USD, 10 million USD, 9 million USD and 5 million USD respectively.

Indian producers and rights owners have started leveraging the internet to monetise their content libraries. For instance, Eros International, one of India's largest producers and content owners has launched its own OTT streaming website ErosNow. It has also partnered with video aggregator sites such as YouTube and DailyMotion and has its own channels on those sites.

In fact, many Indian content owners have partnered with YouTube to offer both full-length films as well as film-clips. Monetisation on YouTube is both through pay-per-view as well as ads.

Further, in a move that signifies the large latent opportunity in the Indian market, Google has started offering Hollywood and Indian films through its 'Google Play' store as well over YouTube. Here, the monetisation is on a pay-per-view basis with different rates for different films based on parameters such as genre, popularity, etc.

- **Satellite revenues continue their upward momentum with innovative deals being stuck**

  The prices for cable and satellite rights for films are likely to continue their upward trajectory as competition among broadcasters for ratings leads to high prices being paid for TV rights of films. The rights for successful, high-budget Hindi films were typically sold at over 30 crore INR (0.3 billion INR), a sum that was not anticipated only a few years back when such rights commanded only around half of that amount.

Revenues from cable and satellite rights for the top four Hindi films of 2012 in terms of domestic box office collections

Film	Revenue from cable and satellite rights in billion INR
Ek Tha Tiger	0.75
Dabangg 2	0.5
Rowdy Rathore	0.35
Agneepath	0.41

Source: Industry discussions and Press articles

  The importance of cable and satellite rights for broadcasters was also highlighted by two innovative deals reported in the press. Marquee actor Salman Khan entered into a contract with broadcaster Star India such that all his forthcoming films for a pre-determined period of time will be shown exclusively on Star India's TV channels. The contract is reportedly worth a whopping 450 to 500 crore INR (4.5 to 5 billion INR). A similar deal was signed by another marquee actor Ajay Devgn, again with Star India, for about 400 crore INR (4 billion INR).

- **Regional films continue exhibiting upward momentum**

  Although India has always witnessed a healthy number of film releases in regional languages, regional movies have now started commanding a fair share of domestic box office revenues.

  Dominant regional languages for film production include Tamil, Telugu, Bengali, Marathi and Punjabi. The potential of the regional market was underlined by the highly impressive box-office collections of the Tamil-language film *Thupakki*, which earned 180 crore INR (1.8 billion INR) from the domestic box-office alone. Another high-profile Tamil film *Maatraan* earned over 90 crore INR (0.9 billion INR) in domestic box-office collections. Further, many Tamil, Telugu and Punjabi movies have earned significant revenues from overseas markets as well.

  Digital distribution has played a key role in ensuring wider releases at relatively lower costs for regional films. Multiplexes have also helped boost average ticket prices for such films, thereby increasing box-office collections. In addition, large and growing numbers of regional TV channels are also helping drive satellite revenues, thus reducing risks for producers. Thus, regional films have started witnessing higher interest from producers and large studios such as Disney UTV, Eros International, Reliance Entertainment and Viacom 18 Motion Pictures have entered this space.

- **Steadily increasing box-office collections from overseas market**

  The reach of Indian films continues to increase with producers and overseas distributors taking their releases to more countries and also increasing the total number of prints in traditional overseas geographies such as North America, UK, UAE and Australia.

  Consequently, overseas box-office collections of Indian films have continued to increase year-on-year. Also, both traditional blockbusters and content-driven movies have done well at overseas box-office in the past year. For instance, content-driven movies *Barfi* and *English Vinglish* earned about 30 crore INR (0.3 billion INR) and 20 crore INR (0.2 billion INR) respectively, highly respectable numbers. On the other hand, *Jab Tak Hai Jaan, Ek Tha Tiger* and *Dabangg 2* earned about 80 crore INR (0.8 billion INR), 57 crore INR (0.57 billion INR) and 50 crore INR (0.5 billion INR) respectively from international markets.

- **Battle against piracy continues**

  Although digital distribution of films and shortening of the window between theatrical and television releases have helped the industry combat piracy to some extent, it continues to adversely impact the revenues of the Indian film industry. However, the dominant mode of piracy has changed from physical distribution (DVDs, VCD, etc.) to online distribution (in the form of pirated movies uploaded to unauthorised servers apart from peer-to-peer sharing).

  As per the Motion Picture Dist. Association (India) Pvt Ltd, India continues to be among the biggest contributors to pirated content in the world, especially through camcording (unauthorised recording of movies through a camcorder). Piracy leads to significant annual losses to the Indian film industry and less-than-potential employment in the film sector.

  Therefore, it is important that the involved government authorities give due importance to the fight against piracy and work with industry players to develop a robust regulatory environment and specific, actionable laws. For instance, countries that have enacted anti-camcording laws have witnessed significant decline in piracy levels. The government should also incentivise law enforcement agencies to proactively act against movie pirates, for instance, through filing criminal charges against websites or blocking websites hosting pirated films (by directing internet service providers).

Future outlook

- **Favourable demographics, proliferation of multiplexes and digital distribution to lead to robust growth in domestic box-office collections**

  The Indian film industry is expected to grow robustly at about 12% CAGR over 2012-2017 to increase from 112 billion INR in 2012 to almost 200 billion INR in 2017.

  This growth will be driven primarily by domestic box-office collections, expected to increase at a CAGR of about 12% over 2012-2017 to reach 148 billion INR in 2017 from 83 billion INR in 2012.

  Domestic box-office collections will be driven by steady uptick in box-office admissions and rapidly increasing count of multiplex-seats that will boost average ticket prices. Wider releases, facilitated by digital distribution and increasing acceptance of content-driven content will also propel the market forward.

  Further, rising spending power with increasing GDP per capita, favourable demographics (50% of people less than 25 years of age, the key film-going demographic segment) and lack of adequate leisure alternatives to cinema (due to limited availability of open spaces and sporting facilities in cities) will lead to continued growth in box-office collections.

- **Decline in physical home video market likely to be curbed to some extent by increase in electronic home video market**

  The physical home video market (physical sales and rentals of blu-rays, DVDs and VCDs) is expected to continue its downward trajectory as consumers, driven by convenience, increasingly shift away towards the electronic home video market.

  Electronic home video market (purchase and rentals) is also expected to benefit from the presence of large, serious players in this space. For instance, large content owners such as Eros Entertainment, Shemaroo, etc. have launched their own websites and apps or have tied up with online aggregators such as YouTube, etc.

  The OTT electronic home video market is likely to be primarily ad-funded, where a large number of views will be required to generate adequate returns for content owners and online aggregators. However, the market can increase manifold if Indian consumers increase their propensity to pay for online content. YouTube has already started offering paid movie ownership and rental schemes for Indian as well as foreign films for Indian consumers.

There are significant collaboration opportunities between the Indian film industry and international film industries, including Hollywood. For instance, India, with its diverse geography and availability of low-cost studios and film technicians, has the potential to emerge as a significant destination for shooting international films. This will also be a win-win situation for India as this can generate significant employment in the country.

However, several enablers are needed to be put in place in order to ensure that international producers and studios are facilitated. One of the major requirements is to ensure that all clearances for film shooting can be obtained from a single point of contact, which is currently not the case.

Print

India's print industry continues to exhibit resilience especially when its performance is compared with the growth in other markets worldwide. Newspapers accounted for 197 billion INR, whereas consumer magazines contributed about 16 billion INR to total sector revenues in 2012.

The share of advertising revenues in total print industry revenues increased marginally from 65% in 2011 to 66% in 2012. It is evident that the print sector continues to rely heavily on advertising revenues.

Key trends

- **Circulation and readership of newspapers continues to grow**

  The Indian newspaper market is benefiting from growing population as well as literacy levels. India's overall literacy rate has increased from about 65% in 2001 to 74% in 2011. This continuing improvement in literacy levels, especially among the youth, has led to steady increase in circulation and readership of newspapers over the past few years. For instance, the total number of paid copies certified by the Audit Bureau of Circulations has increased from about 38 million in 2006 to 48.3 million in 2012, representing an increase of over 26%. It is estimated that total newspaper circulation in India has touched the 100-million mark after considering un-audited circulations (typically smaller newspapers).

  Newspaper readership has also increased from about 296 million in 2006 to 340 million in 2012. However, this represents less than 30% of India's total population and the readership proportion is also significantly lower than developed media markets. Thus, there is high potential for further growth with improved distribution and marketing as the wider conditions in the country are ideal for expansion of the newspaper sector.

- **Regional newspapers to benefit from rising literacy and income levels**

  India is a country with myriad languages and at least 12 languages have more than 10 million native speakers. Some of the major languages include Hindi, Bengali, Telugu, Marathi and Tamil with corresponding numbers of native speakers at 422 million, 83 million, 74 million, 72 million and 61 million respectively. Thus, in light of the currently low reach of Indian newspapers and rising literacy as well as income levels, there is a significant opportunity for regional newspapers to expand their presence.

  One area of growth is the Hindi-speaking market, which has been expanding, thanks to a jump in the literacy rate over the past decade. Even so, it is growing from a relatively low base, and there is plenty of potential for further development.

  In other regional markets as well, there is significant potential for growth. Regional newspapers will also be supported by a relative shift in advertising spend from English-language newspapers to regional newspapers. Although many newspapers are printed in one of the country's 20 or more regional languages, it is English-language newspapers, aimed at an upscale readership, that continue to attract the majority of the advertising spend.

  Going forward, as literacy and income levels rise across the country, advertisers and media planners will recognise the importance of regional newspapers for spreading marketing messages and will divert a relatively greater share of the advertising pie towards regional newspapers. It is worth noting that in Q4 2012, the combined readership of the top 10 Hindi and top 10 regional newspapers was about 133 million, significantly higher than the readership of the top 10 English newspapers at about 20 million.

- **High newsprint costs can restrict sector growth**

  A potentially limiting factor in the growth of the newspaper sector is the rising cost of newsprint. India relies significantly on imported newsprint and has to pay international prices due to a lack of good domestic suppliers. International newsprint prices have increased due to reduction in newsprint production capacity globally. The impact on prices has been exacerbated due to a decrease in the generation of waste paper on account of reduced print runs by newspaper publishers in major western countries. This has led to an increase in input prices for the production of newsprint.

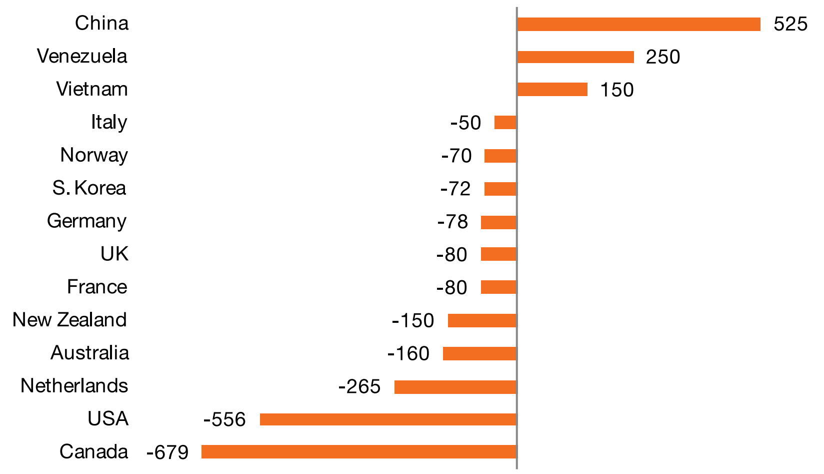
  Although many Indian print players have responded by focusing on driving internal efficiencies to bring costs under control, significant adverse movements in newsprint prices could lead to higher subscription or advertisement prices, hampering sector growth.

- **Stagnating readership levels of top magazines in spite of moderately rising circulation of consumer magazines**

The overall circulation of consumer magazines continues to rise, even though the IRS data suggests that India's top magazines have declining readerships. For instance, only two of the top 10 magazines, both in Hindi, showed an increase in their average issue readership in Q4 2012 over Q4 2011.

This represents a challenge for publishers as well as advertisers, who need to get their media mix right. At the same time, overall growth in circulation represents an opportunity for new magazines to carve out their shares.

Changes in world newsprint capacity (in '000 tonnes) over 2011-2013



Source: Global newsprint outlook, Derek Mahlburg, Graphic paper economist, October 2012 and PwC India analysis

Readership of top 10 magazines (in millions), Q4 2011 and Q4 2012

	Language	2011 (Q4)	2012 (Q4)	Y-o-y growth
Vanitha	Malayalam	2.52	2.15	-14.4%
Pratiyogita Darpan	Hindi	2.00	1.90	-4.9%
SamanyaGyan Darpan	Hindi	1.68	1.77	5.7%
India Today	English	1.61	1.48	-8.1%
Saras Salil	Hindi	1.77	1.31	-25.8%
Meri Saheli	Hindi	1.21	1.16	-4.5%
Karmakshetra	Bengali	1.09	1.11	1.4%
Cricket Samrat	Hindi	1.15	1.02	-11.3%
Malayala Manorama	Malayalam	1.21	1.01	-16.4%
General Knowledge Today	English	1.09	0.99	-9.1%

Source: IRS Q4 2011, IRS Q4 2012 and PwC India analysis

Future outlook

- **India's print industry expected to grow robustly over the next few years**

  Unlike its global peers, India's print industry is not expected to decline over the next few years and is likely to continue growing strongly, benefiting from rising literacy and income levels across the country. Total industry revenues are expected to increase at over 9% CAGR to reach 331 billion INR in 2017 from 212 billion INR in 2012.

  In spite of being a significantly larger segment, newspaper publishing revenues are likely to grow at almost 10% CAGR from 197 billion INR in 2012 to 312 billion INR in 2017.

  The growth trajectory for consumer magazines is likely to be lower than that for newspapers. Consumer magazine revenues are likely to inch up at only about 4% CAGR to increase from 16 billion INR in 2012 to 19 billion INR in 2017. Thus, it will be extremely important for consumer magazine publishers to innovate and offer relevant offerings in order to stay relevant and continue to grow.

- **Paid digital circulation of newspapers and magazines will start taking root**

  India had about 150 million internet users as at the end of 2012. The increasing usage levels of internet (both wired and mobile internet) are a major opportunity for newspapers to tap into this rising pool of potential users and generate revenues through advertising and subscription.

  Additionally, the rising penetration of smartphones, especially those that have large screen sizes, can boost digital distribution of newspapers in India. There were already about 40 million smartphone users in India in January 2013 and this number is expected to rise rapidly over the next few years with more and more good quality handsets available for less than 10,000 INR apart from feature-rich, larger-sized high-end smartphones.

  Nonetheless, print currently remains the preferred medium for most advertisers to reach consumers. Although many newspaper websites are heavily visited, most do not charge access or subscription fees. Therefore, Indian publishers, like their counterparts in most other countries, face a challenge in generating meaningful revenue through digital subscriptions in the near term. To maximise the value of this growing online audience, Indian newspapers must provide more precise data to advertisers about customer retention and engagement. This, however, is a challenge for publishers worldwide.

- **Indian consumer magazine market can also potentially derive significant benefits through digital distribution**

  Digital media is on the rise in the Indian consumer magazine market and publishers have been launching both online and tablet versions of titles. As discussed earlier, rising penetration of large-screen smartphones, tablets and high-speed internet can boost the digital distribution market for magazines in India.

  Nonetheless, low broadband penetration and a poor experience on mobile phones could act as significant hurdles for digital magazines in India over the short term. High-end tablets are the ideal device for reading magazines because they are portable and capable of displaying images in high resolution. In the longer term, as ownership of this type of device increases, digital circulation spend will also increase.

  Also, it is important to note that consumer magazines may be better placed than newspapers for effectively monetising consumers' content consumption over the internet or through apps due to the inherent differentiation offered by them in terms of stories and articles covered. In contrast, newspapers will need to build a case for consumers to pay for digital consumption when similar content is already available for free from other sources (online versions of newspapers and other news aggregation sites).

Most leading Indian newspapers have started offering their own mobile apps (on platforms such as Android and iOS) apart from maintaining their presence on the internet in the form of extensive and frequently updated websites.

Leading newspapers such as The Times of India, The Economic Times, Business Standard, The Indian Express, DNA India, The Financial Express, etc. have apps designed for at least one of the leading mobile ecosystems (iOS, Android, etc.). Even regional newspapers such as Loksatta and Sakal (leading Marathi daily newspapers) have launched apps with readers able to read news in local languages.

Wired and mobile internet access

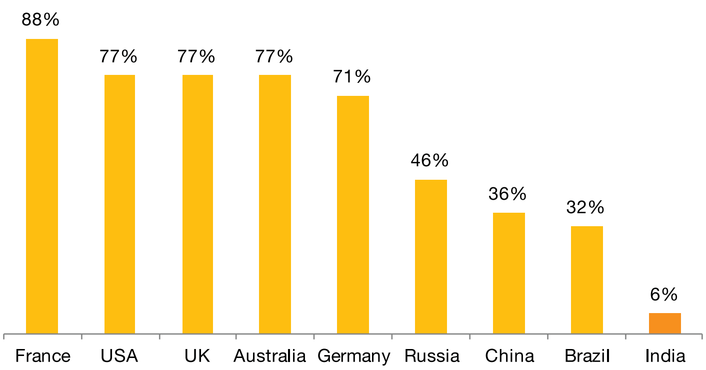
The number of broadband connections in India increased from about 13.4 million in Dec 2011 to 15.0 million in Dec 2012, representing a modest growth of about 12%. In spite of the double-digit growth rates, India continues to significantly lag behind almost all developed countries and many large developing countries in terms of wired internet and broadband penetrations.

The government of India, through its Broadband Policy 2004, had set a target of achieving 20 million broadband subscribers by 2010. Yet, it is evident that at the current rate of growth, it will take a few more years to achieve this target. However, policy makers in India have recognised that broadband access is a utility rather than a luxury and therefore, improving the country's broadband penetration is receiving appropriate attention.

The latent demand for dedicated internet connectivity is highlighted by the relatively large number of people accessing the internet through shared connections at homes, offices and cyber-cafes. The number of wired internet users is expected to have risen to about 150 million in Dec 2012 from approximately 120 million in Dec 2011. Most of the users–about 105 million, hail from urban India and only 45 million users are from rural India. This underlines the significant urban-rural digital divide in the country, especially since rural India accounts for about 70% of the population.

In contrast to the relative slow growth in the adoption of fixed internet, the use of mobile internet is growing rapidly. The TRAI reported that 143.2 million mobile subscribers accessed the internet through wireless phones in Mar 2013. Furthermore, considering India had about 865 million mobile connections in Dec 2012, the potential for growth remains tremendous.

Broadband household penetration in selected developed and emerging countries, 2012



Source: TRAI, PwC Global Entertainment and Media Outlook: 2013-2017, www.pwc.com/outlook and PwC India analysis

Key trends

Wired internet access

- **Limited existing infrastructure and high tariffs likely to restrict growth rates over the near to medium term**

  Despite the large population and latent need, adoption of broadband in India is disappointingly low and lags behind most of the country's peers. The market is plagued by several issues, including the limited reach of fixed-broadband infrastructure, relatively high tariffs and the absence of local-loop-unbundling regulations that allow third parties to provide services over the incumbent's fixed-line network.

  Fixed-broadband networks in India are primarily limited to urban areas with little or no deployment in rural areas. India had only about 31 million fixed-line phone subscribers in Dec 2012, with most (about 24 million) in urban areas. Providing internet using cable TV networks can potentially help growth. However, this will require significant investments for upgrading cable TV networks.

  Therefore, over the immediate future, wired internet access can be expected to continue growing at a modest pace.

- **Government of India's ambitious plans likely to be a game-changer, if successfully implemented**

  The government of India has announced new broadband targets and, more importantly, the means to achieve them, as part of its National Telecom Policy 2012. The new policy sets targets of increasing minimum download speeds from 256 kbps to 2 mbps for classification as broadband services by 2015 and achieving 175 million broadband connections by 2017, a very aggressive target.

  It has also targeted making broadband access available to all panchayats (village-level local-government bodies) by end-2014 and progressively to all villages and habitations by 2020. To achieve these targets, it is planning to deploy a fibre network to panchayats, with funding from the Universal Service Obligation Fund (USOF), and allowing access to that fibre network in an open, non-discriminatory and technology neutral manner.

  If these plans are implemented successfully, they will provide a major boost towards increasing internet proliferation in India. More importantly, they will usher in an era of low-cost access to information, education and entertainment for millions across the country.

Mobile internet access

- **Low-cost feature-phones, smartphones and tablets, coupled with affordable and flexible data plans to drive growth**

  Mobile-internet service will drive the majority of growth, primarily due to three contributing factors:

  - India's mobile-internet market is under-penetrated.
  - Infrastructure is cheaper and faster to roll out as compared with fixed-line networks.
  - Mobile internet-enabled devices are becoming more accessible (in terms of price and distribution).

  India also has a large youth population and the growing popularity of smartphones and online services such as Facebook, Twitter, email, etc. among this technology-savvy demographic will lead to rapid increase in the adoption of mobile internet. The growing availability of sub-10,000 INR (followed by sub-5,000 INR) smartphones will also have a dramatic effect on mobile-broadband adoption by making them more affordable for consumers in the lower and middle income segments.

  However, it is important that mobile operators focus on innovative pricing and segmentation in order to encourage adoption and usage. Indian mobile operators have already started reducing headline tariffs for 3G plans in an attempt to boost usage. The launch of 4G services will also help drive the market forward significantly, provided the pricing is right.

  Nonetheless, mobile networks are likely to be the default means of accessing internet services for a majority of the Indian population, given the steady decline in cost of services and compatible handsets, together with growing network coverage.

- **Limited availability of spectrum to pose challenges around total usage of mobile data by consumers, leading to higher tariffs or lower maximum limits of data consumption**

  An important issue that could hamper the usage of mobile internet is the limited availability of wireless spectrum. For instance, Indian mobile operators have just 2*5 MHz of spectrum each in the 2,100 MHz band (for 3G services). This relatively limited amount of spectrum can accommodate only a limited number of users and might not be adequate to allow operators to cater to the mass market without significantly hampering the quality of their services or making very large investments in rolling out towers and cell-sites (which could impact the cost of services).

  This can result in operators limiting data usage (e.g. by setting lower ceilings for 'unlimited plans') by consumers. It is also likely that some operators will use alternative strategies such as offloading data traffic to wi-fi hotspots in order to avoid network congestion and ensure customer satisfaction.

Future outlook

- **In spite of rapid growth, India's wired internet access market will continue to lag behind peers**

  The number of (wired) broadband subscribers in India is expected to grow at a healthy 21% CAGR over 2012-2017 to reach about 40 million in 2017. Thus, India's household broadband penetration is expected to increase from about 6% in 2012 to about 15% in 2017.

  In spite of the expected growth in the wired broadband market, India's household broadband penetration will be less than half of that in developed and leading emerging markets.

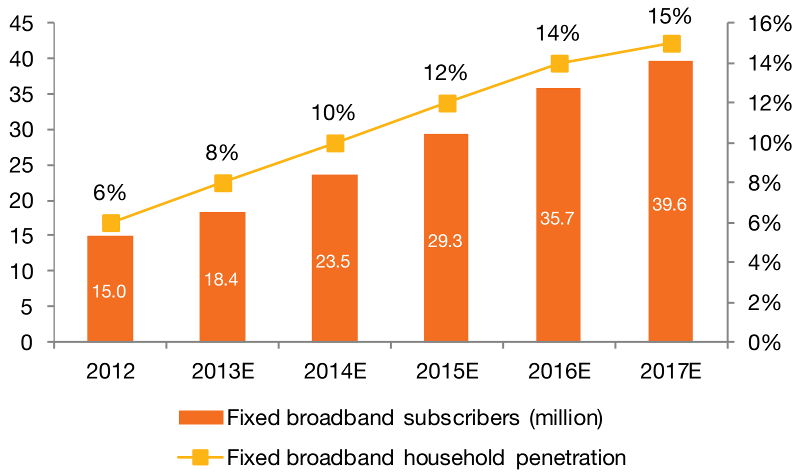
- **The mobile platform is expected to emerge as the dominant means of accessing the internet**

  Growth in the mobile-internet market is expected to remain strong, with the number of regular users growing to over 450 million in 2017.

  Since most users in India will access internet content primarily through the mobile platform, there will be significant implications for content providers who will have to tailor their content to ensure adequate uptake and monetisation. The opportunity for both access providers (mobile operators) and content providers is immense. India's fixed-line telecom infrastructure is abysmal with only about 40 million lines (with about 30 million active connections). Therefore, most users in India are currently deprived of high-speed internet connectivity, which impedes them from accessing bandwidth-rich content such as music/video streaming, catch-up TV, education content, video-calls, etc. The mobile platform provides a way to leap-frog above the rickety fixed-line infrastructure and to enable consumers to benefit from high-speed internet connectivity.

  However, it is important to note that mobile operators will need to ensure the availability of affordable devices and tariff plans in order to ensure that the use of mobile internet is not beyond the means of large segments of the population. For instance, although 3G is available in many parts of India, the pricing acts as a deterrent for a majority of the Indian population (given that mobile ARPU is about 100 INR only).

Expected growth in fixed broadband subscribers and penetration in India, 2012-2017E



Source: TRAI, PwC Global Entertainment and Media Outlook: 2013-2017, www.pwc.com/outlook and PwC India analysis

Wired and mobile internet advertising

With rapidly rising usage of wired and mobile internet by Indian consumers, internet advertising continues to emerge as a significant platform to reach consumers in India. The overall internet advertising revenues (wired and mobile) was estimated at 23.1 billion INR in 2012.

Currently, wired internet advertising dominates this market with revenues of 21.0 billion INR in 2012. Although mobile is likely to emerge as an important medium for advertisers over the coming years, the revenues are currently not too large. In 2012, mobile internet advertising was worth 2.1 billion INR, albeit the market is growing rapidly.

Key trends

Wired internet advertising

- **Growth being driven by sustained increase in the number of internet users**

  India is the world's second most populous country and has a growing middle class with rising levels of disposable income. The number of wired internet users, including those using from shared access locations, is growing quickly. The number of internet users is expected to have risen to about 150 million in Dec 2012 from approximately 120 million in Dec 2011.

  Although a majority of internet users hail from urban India, usage is also increasing in rural and semi-urban areas through community service centres and internet cafes (or cyber-cafes).

  It is also important to note that a large number of users still access the internet through shared locations. This restricts the average amount of time users spend online. The potential for growth is immense if wired internet penetration increases in the country and users are able to access internet content on demand from their homes. This will boost the average amount of time spent accessing the internet, drive more page-views and therefore, enhance the internet advertising market.

- **Driven by user engagement, advertising on social networks likely to grow significantly**

  Indian internet users are highly engaged with social networks, as evidenced by the large amount of time spent on those websites. In fact, the share of online minutes of social networking sites increased from about 24% in Jun 2011 to about 25% in Jun 2012. The importance of social networks for internet users is highlighted by the fact that the next best category is portals with only about 11% share of total minutes spent online.

  Thus, it is likely that advertisers will follow consumers and aim to reach out to them through focussed communications on social networks. However, social networking sites as well as advertisers need to be careful and ensure that the ads are not seen as being intrusive or adversely impacting the social networking experience of users.

- **Low household internet penetration could restrict growth**

  In spite of the large potential offered by the Indian internet advertising market, there are significant challenges that will lead to below-potential growth at least over the near term. For instance, fixed broadband penetration is extremely low at about 6% of households (15 million connections in Dec 2012), and while it is likely to grow to about 15% in 2017, it will be far from a mass-market phenomenon over the next few years due to the cost of the service and the difficulty of wiring a large country like India with a significant rural population.

  Lack of availability of broadband at homes leads to restricted consumption of internet content and consequently, also to lesser exposure to internet ads.

  The government of India has taken cognisance of the low broadband penetration in the country and has set a target of achieving 175 million broadband connections by 2017 (as per the National Telecom Policy 2012). It is also planning to provide high-speed and high-quality broadband access to all village panchayats, primarily through optical-fibre deployment by 2014. The long-term intent is to provide broadband access to all villages by 2020. If these initiatives are implemented successfully, it will provide a major boost to the internet advertising market, albeit the benefits will start accruing a few years from now.

- **Literacy and local content barriers also continue to pose challenges**

  In India, there are major barriers in terms of literacy and local content. The literacy rate in India is less than 75% and only a small fraction of the literate can read English, making a large proportion of Indian websites (which primarily use English) inaccessible to them. Another major problem for internet advertising in the market is that there is not enough premium content produced in local languages and most advertising players are still focussed on English-language content and the English-speaking Indian audience. Therefore, there is an urgent need to encourage the development of internet content in local languages in order to spur greater adoption and engagement (in terms of frequency of use and time spent online per session) by users who are not familiar or comfortable with English.

Mobile internet advertising

- **Mobile ads to witness strong growth with increasing adoption of smartphones and mobile internet**

  The Indian mobile ad market will be driven by the increased penetration of smartphones as prices drop below 10,000 INR and become more affordable for a much greater range of Indian internet users. The rising adoption of tablets will also spur usage of mobile internet.

  Mobile internet is also expected to witness rapid growth over the near term. Already, over 140 million mobile subscribers accessed the internet through wireless phones in Mar 2013, as per the TRAI. Considering India had about 865 million mobile connections in Dec 2012, the potential for growth in mobile internet subscribers remains high. Driven by the rationalisation of tariff plans and the launch of innovative plans (e.g. trial packs and daily usage plans) by mobile operators, the number of mobile internet users can increase dramatically to about 450 million by 2017.

Large screen sizes of smartphones and tablets, coupled with high-speed internet connections (initially through technologies such as EDGE/EVDO and progressively through 3G and 4G) will encourage greater use of the internet by mobile users for information, education and entertainment. In turn, this will also lead to significant growth in the mobile advertising market.

- **Importance of effectively delivering ads with relevant content, context and formats**

  Mobile-specific ad formats are still in their infancy and due to small screen sizes, fewer ads can be displayed while a consumer is browsing the internet through a mobile device as compared with browsing through a PC or a laptop. However, these challenges are faced by advertisers and advertising networks worldwide.

  A significant proportion of the Indian mobile ad market is currently still taken up by 'legacy' formats such as WAP and SMS/MMS advertising to address the large base of basic-handset and feature-phone users. There is a lack of sophistication, in terms of inadequate customisation and use of limited unformatted text, in many ads. Greater adoption of smartphones will allow advertisers to mitigate the challenges of legacy formats and deliver more relevant, context-aware and meaningful ads. This can help achieve higher response rates to mobile ads, thereby increasing advertisers' budgetary allocation to the mobile platform.

Future outlook

- **Robust growth expected in the wired internet advertising market**

  Rising internet usage will ensure that advertisers divert increasing shares of total ad spend to this platform. Growth will also be driven by advertisers recognising the importance of the internet in reaching out to relevant target audiences, especially the urban youth. Additionally, increase in internet usage in rural areas will not only encourage regional advertisers to use internet advertising but also lead to national advertisers tailoring their campaigns.

  Consequently, India's wired internet advertising market is expected to increase at a robust CAGR of about 28% from 21.0 billion INR in 2012 to 71.0 billion INR in 2017.

  However, in spite of this rapid growth, India's wired internet advertising market will continue to appear minuscule in comparison with corresponding markets in other large emerging countries as well as developed nations. In this context, achieving significantly higher pan-India penetration of broadband is critical for ensuring that the wired internet advertising market reaches its true potential.

- **In spite of rapid growth, the mobile internet advertising market to remain relatively small**

  India's large mobile connection base and increasing adoption of high-speed mobile internet will also ensure that mobile internet advertising grows at an even faster clip. Revenues are expected to touch about 12.8 billion INR by 2017.

  In spite of the number of mobile internet subscribers being significantly greater than the number of (wired) broadband subscribers, it is evident that the size of the mobile internet advertising market will only be a fraction of the wired internet advertising market. Contributing factors include high penetration of basic-handsets and feature-phones (as against smartphones) and relatively low usage of mobile internet by users due to high prices and lack of adequate local language content.

  Thus, availability of low-cost smartphones and tablets, affordable high-speed mobile internet plans and the availability of local language mobile content will be critical to drive greater usage of mobile internet and compensate for the relative shortcomings of mobile devices (e.g. in terms of small screen sizes leading to limited area being available for ads) from the point of view of advertising. It will also be important for ecosystem players to work together and deliver relevant, targeted ads to consumers that integrate seamlessly with the content on sites such as social networking, web-mail, search and other online content (browsing).

Gaming

The Indian video games market, comprising console gaming, mobile gaming, PC gaming and online gaming, generated revenues of about 17.9 billion INR in 2012. Backed by strong growth drivers, India's video games market is on a sharp upward trajectory with robust growth expected over the next few years.

Key trends

- **Large subscriber base and favourable demographics driving mobile gaming**

  Mobile gaming has emerged as one of the major contributors to the Indian gaming market over the past few years. Mobile gaming revenues were estimated at about 7 billion INR in 2012.

  The sharp growth in mobile gaming witnessed since 2008 can be attributed to the increasing popularity of social and casual gaming, combined with India's large mobile subscriber base, which was about 865 million in Dec 2012. Rising penetration of smartphones (estimated at 40 million devices in Jan 2013) is also a significant contributing factor. Other growth drivers include favourable young demographics, rising disposable incomes and rising adoption of mobile internet (typically 2.5-2.75G, and increasingly 3G speeds as well).

  These driving factors are expected to remain robust over the next few years and propel the mobile gaming market to greater heights.

- **Physical console-based games to show modest growth**

  Console-based games[4] are popular in developed markets and the demographics of India are also quite favourable for its sustained growth in this market. A youthful population (50% of people under the age of 25), increasing awareness of latest gaming titles due to the interconnectedness offered by the internet and rising ability to pay for devices and games make India a potentially high-growth market.

  In spite of these favourable drivers, adoption is relatively constrained due to relatively high prices of these consoles (when compared with Indian income levels) coupled with the need to purchase additional games. Online and mobile games, in contrast, offer greater variety in terms of content and price points without the need to get locked in to a particular platform.

- **Online games hampered by low broadband penetration**

  As India's internet user base continues to increase, the uptake of online games also continues to increase. The popularity of social networking websites is also driving the growth of games integrated with such websites.

  However, the uptake of online games (in terms of people playing games and time spent playing online games) is relatively low when compared with the total potential, considering India's vast population and the large number of young people. This is primarily due to low broadband penetration. India had only about 15 million broadband connections in Dec 2012. This represents only about 6% broadband household penetration (far lower than developed countries and many emerging countries).

  Nonetheless, the government of India has set aggressive targets, in the National Telecom Policy (NTP) 2012, for making affordable broadband connections available across the country.

  Although challenges remain towards successful execution of the NTP on a pan-India basis, the Indian government's emphasis on improving internet access is expected to boost broadband penetration significantly and drive growth in online sales of video games.

- **Piracy continues to hamper the gaming industry**

  Piracy continues to impede the gaming industry, with illegally made copies of games readily available in the grey market. The prices of pirated games are only a small fraction of the prices of legitimate versions of the games.

  It is important that industry stakeholders work collaboratively with the Indian government to address piracy. Improving consumer education and affordability of gaming titles are also crucial.

4 Console-based games typically require an output device (PC, laptop or TV screen) and an input device (controller). Popular gaming consoles include Play Station 3 (Sony), Xbox 360 (Microsoft) and Wii (Nintendo).

Future outlook

- **Video gaming revenues to continue on a sharp upward trajectory**

  Buoyed by favourable demographics, rising disposable incomes and increasing penetration as well as usage of online and mobile internet, video gaming revenues are expected to continue increasing sharply over the next few years. The market size is expected to reach about 42 billion INR in 2017 representing a CAGR of about 19% over 2012-2017.

  Mobile gaming is expected to continue dominating the video gaming market with about 20 billion INR revenues in 2017, growing at a CAGR of 23% over 2012-2017. India's strong mobile subscriber base (second only to China), rising adoption of smartphones as well as mobile internet and availability of a wide variety of games will continue driving consumer interest and usage.

  Apart from mobile gaming, online video gaming will also continue to grow over the next few years, from about 1.9 billion INR in 2012 to 4.0 billion INR in 2017, representing a CAGR of about 16%. This growth will be driven by increasing levels of internet access across India, faster broadband speeds and developers electing to produce online video games as an alternative to their easily-pirated physical equivalents. However, the growth can be higher if internet penetration improves significantly.

  Console gaming is also expected to increase robustly at about 16% CAGR over 2012-2017 and reach 17.0 billion INR in revenues in 2017. Apart from favourable demographics and the currently low market penetration, the expected launches of new generations of gaming consoles by Microsoft (Xbox One) and Sony (PlayStation 4) will also help drive growth in this space.

Radio

India's radio market is still a long way from realising the potential presented by its vast addressable radio audience. Nonetheless, this market is now making up ground, and is growing faster than the average growth rate of the global radio market.

Over recent years, the Indian radio market has continued to grow at a fast clip and, unlike many other countries, did not experience a dip in response to the global recession. In 2012, India's radio market revenues increased by about 10% to 15.3 billion INR from 13.9 billion INR in 2011 (including revenues of All India Radio).

Key trends

- **Phase III licensing to be a potential game-changer for the industry**

  Phase III of FM radio licensing is expected to extend FM radio services to about 227 new cities, in addition to the present 86 cities (with a total of 839 new FM radio channels across 294 cities). Successful completion of Phase III licensing is expected to result in FM radio coverage of all cities with a population of one lakh and above.

  This will be a shot in the arm for the radio industry, and will help increase listenership as well as radio's share of advertising revenues. More importantly, it will help expand the pool of advertisers, since many local advertisers will also be attracted to use advertising over a broadcast platform, possibly for the first time.

  Another key element of the licensing process involves providing radio broadcasters the opportunity to own a larger number of stations than is currently permitted. The new extended limits will allow individual broadcasters ownership of up to 40% of the total FM stations within a single city, and up to 15% of the total FM stations on a national basis. This is expected to encourage existing radio players to offer content across diverse genres and cater to different customer segments through dedicated radio channels.

- **Local and regional radio broadcasters to play a key role in driving market growth**

  Currently, there are only 242 private FM radio stations operating in India, a comparatively small number for a geographically-spread large population. Also, the fact that India's population is split between multiple languages and is spread across highly diverse regions including large swathes of low-income, rural population, creates significant challenges for the country's radio broadcasters.

  However, these factors also present strong opportunities for the local and regional radio broadcasters as well as their advertisers. They also indicate that radio has the ability to reach out to the more remote rural areas of India, where mediums such as television and the internet are not yet well-established.

- **Streaming music services and internet radio channels likely to challenge traditional radio players, especially in urban areas**

  Streaming music services and internet-only radio channels are also beginning to establish a foothold in India, with the launch of services such as *Saavn, Gaana, Dhingana* and *Myopusradio.*

  Such new emerging digital entertainment services from music-streaming services and internet-only radio providers can blur consumers' perceptions of what constitutes radio and therefore, traditional radio players need to meet this challenge head-on with innovations in product as well as business models in order to ensure that their listening hours do not steadily drift away.

  Some traditional players have responded to this threat by viewing it as an opportunity to reach out to the attractive demographic segments within India as well as abroad. For instance, Entertainment Network India Limited (owner of *Radio Mirchi* chain of FM stations across the country) now has four internet radio stations namely, *Meethi Mirchi* (contemporary Hindi songs), *Purani Jeans* (old Hindi songs), *Club Mirchi* (dance numbers) and *Mirchi Edge* (non-film music).

Future outlook

- **Phase III auctions likely to boost radio channels focussing on regional languages and across diverse genres**

  Phase III auctions are critical for the radio industry, as they can propel the industry to ascend to a significantly higher level. It is expected that most of the new radio channels will be aired in regional languages in order to cater to local consumer bases. This will drive greater audience connect and also encourage local advertisers to use radio as a platform to achieve targeted messaging.

  It is also expected that existing players in a city will launch additional radio channels (as allowed by the Phase III licence conditions) that will cater to different demographic or behavioural segments. This will foster growth of radio channels across diverse genres as well as consumer segments (e.g. the youth, senior citizens, women).

  Nonetheless, the key challenge of developing and offering content that will engage relevant target audiences (while at the same time optimising costs) will remain and will need to be mastered by players aspiring for success in this market.

- **The Indian radio market expected to be among the fastest growing in the world**

  Over the next few years, the Indian radio market is expected to grow the fastest in the Asia-Pacific region and will also be among the top performers in the world. Industry revenues are expected to grow at a CAGR of about 16% over 2012-2017 to reach 31.5 billion INR in 2017.

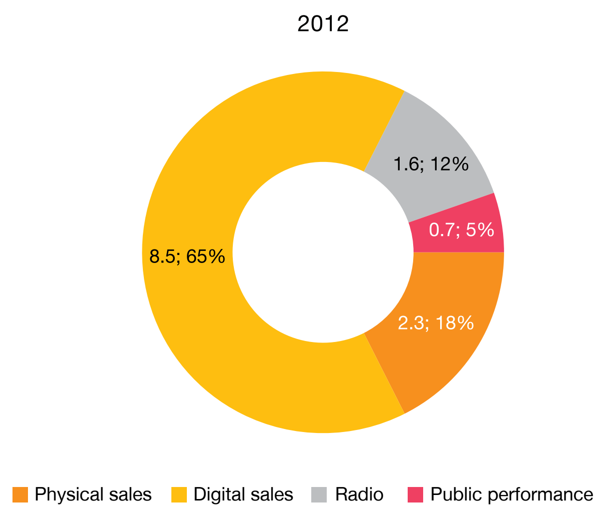
  Successful completion of the auction of Phase III licences followed by a roll-out of radio stations will be the major enabler, as it will increase the radio advertising inventory manifold. Radio stations will thereby be made available to the hitherto unpenetrated and under-penetrated markets. This will also spur local advertisers to leverage radio as a medium for promoting their products and services. Additionally, increased budget allocation towards radio in the overall advertising spends, in order to cost-effectively achieve a wider geographic reach, will also drive growth in the radio market.

Music

The Indian music industry continues to stay vibrant with numerous launches of new albums, most of them linked to Hindi and regional films.

Digital music sales (including mobile VAS and internet) contributed 8.5 billion INR out of total industry revenues of 13.1 billion INR in 2012. In contrast, physical music sales accounted for only 2.3 billion INR in 2012. Thus, the structural transformation of the Indian music market has already happened with digital music sales towering over physical music sales.

Key revenue constituents of the Indian music industry in billion INR and as percentage of the overall market, 2012



Source: Discussions with industry experts and PwC India analysis

Key trends

- **Music market continues to rely excessively on Hindi and regional films**

  Continued popularity of music from Hindi and regional movies remains the driving force for the industry. Nonetheless, the mode of music delivery has changed significantly over the years -from vinyl records to audio tapes to CDs and now to digital distribution. Digital distribution, especially through the mobile platform, has also created different ways of monetising the same piece of music through not only digital downloads and streaming but also re-packaging the music in the form of ring-tones and call-back tunes. Nonetheless, most of the music sold in India across various formats is from Hindi and regional movie albums.

  Although this dependence on music from Hindi and regional movies is not hurting the industry presently, it is important that music industry players also aim to boost music and artistes from other genres in order to diversify revenue streams and grow the market further.

- **Mobile market driving significant monetisation of music**

  India now has more than 860 million mobile subscribers. At the same time, demand for mobile content has continued to escalate dramatically, particularly driven by tech-savvy young people.

  Consumption of music on mobiles in the form of ring-tones, caller ring back tones, song downloads and streaming continues to contribute a significant amount to digital music revenues. The mobile market has already become the dominant contributor towards industry revenues with mobile operators offering a wide variety of music content, at attractive price-points, to their subscribers.

- **Piracy to continue to spoil the party for music; streaming music and affordable price plans could provide relief**

  It is well-known that physical sales of music (in the form of CDs, etc.) have already been adversely impacted through piracy. Even for digitally distributed music, the threat of piracy through the sales of unauthorised peer-to-peer sharing, etc. is quite high. If the threat of piracy is not mitigated adequately, the music industry stands to lose out significantly.

The popularity of music streaming (on wired or mobile internet) can provide some relief to the music industry as it makes it difficult for users to store the music they listen to - they have to access the website every time they want to listen to music. This will also help mitigate the issue of unauthorised peer-to-peer distribution.

Mobile operators now also offer songs for download to consumers who do not prefer streaming either due to poor quality of internet connection or the charges associated with repeat internet downloads (e.g. in the case of popular songs). Here, it is important that operators price songs appropriately so that most individual users prefer to download songs themselves rather than copy them from their peers.

Although cloud-based music storage and retrieval services such as iTunes have not gained in popularity yet in India, they are likely to gain traction over the next few years. Typically, these services allow the retrieval and playback of music only from pre-identified devices or accounts and will help mitigate piracy and unauthorised sharing.

Nonetheless, it is important that music industry players and the government of India continue to fight the battle against piracy through enforcing laws, blocking illegal websites, raising awareness among consumers about piracy being a crime and facilitating easy reporting of piracy.

Future outlook

- **Digital distribution of music to continue dominating the fast-growing Indian music market**

  The Indian music industry is expected to grow at a fast clip with about 15% CAGR over 2012-2017 and reach 26.5 billion INR in revenues by 2017.

  The bulk of the increase in industry revenues will come from digital music sales, expected to rise from 8.5 billion INR in 2012 to about 20 billion INR in 2017, representing a CAGR of almost 19% over 2012-2017.

  This rapid growth will be driven by changes in consumer behaviour as larger sections of consumers will prefer listening to music on their PCs or laptops, mobiles or smartphones, tablets and other portable device players such as iPods and similar digital music players. The convenience of listening to music on devices whenever convenient with high quality playback will continue driving the sales of digitally distributed music.

  More specifically, digital distribution will continue to be dominated by the mobile platform and distribution of music to consumer mobiles is likely to grow at a rapid pace. Increasing penetration of smartphones (India already had about 40 million smartphone users in January 2013) and high-speed data plans (especially with widespread usage of 3G and 4G) will improve the download and consumption experience of users, thereby fuelling growth.

  It is also likely that the key drivers of the music-on-mobiles market will change from ring-tones and caller ring back tones to music download and streaming.

- **Phase III radio licensing to potentially help drive industry revenues further**

  Under Phase III of FM radio licensing, 839 new FM radio channels have been envisaged across 294 cities. Music is likely to continue being the preferred content for new radio stations, especially in a majority of the 227 cities that currently do not have any FM radio stations.

  Thus, music content owners across various genres and languages (Hindi, English and regional) will be able to negotiate higher revenues for their library music content and new releases.

- **Public performance revenues to grow strongly from a low base**

  In spite of a rich history that includes classical music, India's public performance market does not contribute significantly to overall industry revenues.

  Going forward, with rising income levels among India's predominantly young population, the public performance market is expected to grow strongly. India's youth, especially in urban areas, follow both national and international stars from the world of music and are increasingly willing and able to pay to watch them perform live. Thus, the market is expected to grow rapidly over the next few years.

Out-of-home advertising

Out-of-home (OOH) advertising continues to remain a significant component of the overall media mix for advertisers. The OOH advertising market consists of spends on media such as billboards, street furniture (bus shelters, kiosks, etc.), transit displays (e.g. buses, trains and taxis), sports arena displays and captive advertisement networks (in venues such as office lobbies).

The OOH market size increased from about 16 billion INR in 2011 to 17 billion INR in 2012. India's OOH market is benefiting from advertisers looking to appeal to those consumers with rising disposable incomes who tend to spend more time out of the home at restaurants or shopping malls, or in transit to and from work.

Key trends

- **A wider set of advertisers promises to grow and de-risk the OOH market**

  Till recently, the OOH market was dominated by advertising from a few industry sectors such as automotive, financial services and telecom. However, 2012 saw encouraging signs with other sectors such as retail, real estate, white goods, consumer electronics, healthcare and entertainment and media increasing their spend in the sector.

  Additionally, the OOH market is also expected to attract local advertisers that currently do not have too many other alternatives for their marketing messages. These local advertisers include players in various sectors such as gems and jewellery, radio (especially after the allocation of Phase III licences), television (local or regional channels), education, etc. Players in the fast-growing e-commerce space are also expected to spend more as a part of their overall promotional push.

  These new entrants will not only help grow the market but also make the sector less dependent on few key industries.

- **Infrastructure development by government and private players boosting OOH advertising**

  A significant stimulus for OOH is coming from the Indian government's infrastructure spend on roads, metro railways and airports, apart from improvements to existing parts of the transport network, such as train and bus stations. Such infrastructure is facilitating a significant increase in the inventory of OOH displays next to roads, in metro and train stations and in airports. For instance, the Mumbai airport offers a captive audience of relatively affluent Indians and the airport has responded accordingly with banks of advertising screens.

  Also, with improvements to infrastructure being undertaken in Tier 2 and Tier 3 Indian cities as well, there has been a push by OOH providers into those cities. These providers are also benefiting from increasing interest from local advertisers to use the medium.

- **Increasing automobile ownership levels and air travel to also drive growth**

  The Indian OOH market will continue to benefit from a number of trends prevalent world-wide. These include rising automobile ownership levels and increasing air travel.

  In spite of a relatively quiet year in terms of growth in automobile sales, vehicle ownership continues to grow steadily in India. Similarly, over the next few years, the usage of airports is expected to continue to grow steadily due to rising income levels as well as improved connectivity among cities and towns.

  Advertisers are expected to note the corresponding increase in potential viewership of advertising billboards (next to roads) and in-airport displays. This will drive further growth of the OOH market.

- **Digital OOH taking root**

  The OOH market is evolving from one dominated by traditional posters, on pavements or inside shopping malls, to one where posters are replaced by digital panels. The so-called digital out-of-home (DOOH) advertising market is a key growth area for the overall OOH market.

  Digital OOH has already made an entrance into the Indian market via infotainment platforms. Digital advertising is now available in many commercial and residential buildings, leisure centres, bookstores and salons. For instance, LiveMedia has over 5,000 screens at venues

In what is a first-of-a-kind initiative in India (and possibly the world), telecom giant Vodafone and Indian handset maker Micromax have been allowed to add their names to metro stations in Gurgaon, a part of the National Capital Region (around New Delhi).

Rapid Metro Gurgaon, a privately owned metro rail service, has signed five-year agreements with Vodafone and Micromax such that these companies can not only include the names of their companies in station names (the two stations have been named Vodafone Belvedere Towers and Micromax Moulsari Avenue) but also use their respective brand's colour schemes in parts of the station. They will also get a portion of the advertising space in the stations apart from some retail space. It has also been reported that more corporate sponsors are being sought for the remaining four stations of the metro line apart from an umbrella sponsor for the entire metro line itself.

This is a truly innovative approach for OOH advertising and can be replicated across India where new metro lines and other public transport systems are being built by private players.

such as shopping centres, corporate offices, restaurants, salons, hospitals, etc. across the country. The screens support ads while participants have the opportunity to access a series of electronic games. In cities such as Mumbai, new premium avenues are becoming available with private taxi operators installing screens (touch-screen tablets) on the back of head-rests.

Such innovation and customisation has helped advertisers successfully reach out to target groups. Already, there are many examples of digital OOH being used innovatively and successfully, albeit in Tier 1 cities. For instance, the LED display screen measuring 12 square meters on DLF Cyber City (one of Gurgaon's busiest commercial buildings) catches the attention of commuters travelling to and from Gurgaon on NH8 (National Highway no. 8). This screen has been mounted on the top of the multi-storeyed building, has excellent visibility and runs both video campaigns as well static ads.

Although penetration of digital billboards is currently not too high in India, they are likely to become more widespread over the next few years.

- **Current market fragmentation as a dampener**

  Currently, the barriers to entry for OOH advertising providers are low. Consequently, the market is fragmented with different players dominating different city and town markets. Such fragmentation leads to challenges in running nationwide or regional campaigns as many players have to be involved in negotiations.

  However, over a period of time, it is expected that there will be some amount of consolidation among suppliers. International players are also likely to grow their footprints in India and expand in terms of the scale of their networks.

- **Audience measurement a challenge**

  One of the major challenges faced by the OOH industry is the justification of advertising expenses on the platform. Determining returns on investment has been difficult for OOH due to multiple factors - running of campaigns simultaneously on multiple platforms (OOH, TV, print, radio, etc.), lack of adequate data on the number of people exposed to a particular campaign, etc.

  In this context, it is important that Indian OOH ecosystem players work together to devise appropriate audience measurement systems, possibly along the lines of work already done in the US and Europe, in order to enable advertisers and media planners to better determine not only the response to specific OOH campaigns but also the right usage of OOH in the overall advertising mix.

Future outlook

- **Digital OOH will start occupying a prominent place in the advertising media mix of advertisers**

  With its benefits of customisation and integrated management, digital OOH will continue to rise in India. Other contributing factors include the increase in malls and overall footfalls in malls, especially in metros and Tier 1 cities.

  Another driving factor for digital OOH will be the proliferation of modern retail outlets that offer captive audiences shopping inside the stores or waiting in check-out queues. Digital OOH will also be increasingly used inside metro and train stations, coffee shops and fast-food chains and lobbies of offices as well as hotels.

  The next step of evolution for digital OOH will be greater integration with the mobile platform (e.g. users scan a QR-code to receive marketing messages and offers), especially in malls and other high-end locations such as lobbies of offices and five-star hotels. This will also lead to greater consumer engagement apart from facilitating audience measurement.

- **The Indian OOH market is expected to continue to grow robustly over the next few years**

  India's OOH market is expected to grow strongly at about 11% CAGR over 2012-2017 to reach revenues of about 29 billion INR in 2017. The forecasted growth rate is likely to be the second highest in the world and the highest in the Asia-Pacific region, albeit from a lower base as compared with countries such as China, Japan and Australia.

  The key drivers behind this strong projected growth include the following:

  - Rise in OOH inventory with expansion of infrastructure across India
  - National and local advertisers leveraging OOH in Tier 2 and Tier 3 cities
  - Increase in adoption of digital OOH, especially with rising proliferation of malls and modern retail outlets

Deals in E&M

The rapid pace of industry growth and changing industry dynamics, especially the increasing digitisation of the content delivery chain, continue to drive deals, both M&A and private equity transactions, in the E&M space.

Key factors contributing to deal-making in this space include the following:

- Increasing attractiveness of the overall E&M industry with favourable demographics and steady macro-economic growth leading to rising disposable incomes and increasing consumer spend on content
- In the TV sector, improving business prospects of key stakeholders such as multi-system operators (MSOs) and broadcasters (as compared with the era dominated by analogue cable) on account of increasing proliferation of pay TV households and the ongoing nationwide digitisation drive
- Consolidation in sectors such as film to drive economies of scale and gain greater bargaining power vis-a-vis other players in the value chain
- National players in sectors such as print wishing to increase their presence in the resilient and growing regional markets
- Rapid growth of internet access and advertising (wired and mobile) attracting attention of traditional players in the E&M space.

Television

Month and year of announcement	Type of transaction	Acquirer	Target	Description
Jan 12	M&A	TV 18 Broadcast/ Network 18	Eenadu TV	• In this multi-layered deal, TV18 Broadcast acquired 100% stakes in Eenadu's regional news channels, 50% stakes in Eenadu's non-Telugu entertainment channels and 24.5% stakes in Eenadu's Telugu channels. • To fund the acquisition, Network 18 and TV18 together raised 4,000 crore INR (40 billion INR) through rights issues. • Reliance Industries Limited (RIL) provided funds, reported to be around 1,500 crore INR (15 billion INR), to Network 18 group promoters through an independent trust in the form of optionally convertible debentures. • In return, RIL will be granted preferential access to content from 30 channels and web properties of TV18 and Network 18 for its broadband venture.
Nov 12	M&A	News Corp	ESPN Star Sports (ESS) Limited	• News Corp acquired ESPN's 50% stake in ESPN Star Sports (News Corp already owned 50% in ESS; thus, the transaction effectively made ESS a 100% subsidiary of News Corp).
Mar 12	Private equity	Providence Equity Advisors, Macquarie Bank	Hathway Cable and Datacom Ltd (Hathway)	• Providence Equity Advisors and Macquarie Bank acquired 17.3% stake (jointly) for about 358 crore INR (3.58 billion INR) from Asian Cable Systems (a subsidiary of News Corp).
Apr 12	Acquisition	CA Media	Endemol India Pvt. Ltd	• CA Media acquired 49% stake in Endemol India. • The intent is to develop Endemol India into a leading content production company across television, films and digital content.
Apr 12	M&A	ABP TV Pvt Ltd	Media Content and Communications Services India Pvt Ltd (MCCS) (STAR News, STAR Ananda, STAR Majha channels)	• ABP bought out Star Group's stake from the 74:26 joint venture. • After the transaction, STAR News, STAR Ananda and STAR Majha were rebranded as ABP News, ABP Ananda and ABP Majha respectively.

Film

Month and year of announcement	Type of transaction	Acquirer	Target	Description
Nov 12	Acquisition	PVR Ltd	Cinemax India Ltd	• PVR announced the acquisition of 69.27% stake in Cinemax India for 395 crore INR (3.95 billion INR). • This helped PVR consolidate its presence in the Indian multi-plex (film exhibition) space; PVR became the largest multiplex player in the country immediately after the transaction.
Aug 2012, Nov 2012	Private equity	L Capital, Multiples Alternate Asset Management (Multiples)	PVR Limited	• PVR's acquisition of Cinemax was part-funded by private equity players L Capital and Multiples, who acquired equity stakes in PVR. • Multiples invested 153 crore INR (1.53 billion INR) in Nov 2012 for 15.8% stake. • L Capital made the investment in two tranches in Aug 2012 and Nov 2012 to get 15.8% stake.

Print

Month and year of announcement	Type of transaction	Acquirer	Target	Description
May 12	M&A	IGH Holdings Private Ltd (The Aditya Birla Group)	Living Media India Ltd (holding firm of the India Today Group)	• The Aditya Birla Group, a large diversified conglomerate, purchased 27.5% stake in Living Media India – The India Today's Group holding company, for about 350 crore INR (3.5 billion INR).
Apr 12	Acquisition	Jagran Prakashan Ltd	Suvi Info Management (Indore) Private Ltd (parent company of NaiDunia Media Pvt Ltd)	• Jagran Prakhashan acquired Suvi Info Management (Indore) Private Ltd, whose subsidiary publishes the Hindi newspaper *Nai Dunia* in Chhattisgarh and Madhya Pradesh (with a circulation of nearly 5 lakh a day), for effective enterprise value of 150 crore INR (1.5 billion INR). • The acquisition helped Jagran Prakashan to strengthen pres-ence in central India.
Apr 12	Private equity	Future Ventures India Ltd	Amar Chitra Katha Pvt Ltd	• Future Ventures increased its equity stake in Amar Chitra Katha Pvt Ltd from 56% to 65.84% through a buy-back pro-gramme.

Other important deals included JWT (part of the WPP group) acquiring 51% stake in Hungama Digital Services, the digital and promotions marketing unit of Hungama Digital Media Entertainment Pvt Ltd. Japan's Dentsu acquired 51% stake in the critically-acclaimed creative ad agency Taproot, the force behind popular recent campaigns such as *'Har ek friend zaroori hota hai'*, for an estimated deal size of 140 crore INR (1.4 billion INR).

Going forward, deal-making activity is expected to remain robust over the next few years as key growth drivers (sustained growth of various E&M industry sub-sectors) remain strong. Also, the on-going cable digitisation drive is expected to lead to more deals in the MSO space as strategic or financial investors desire exposure to a fast-growing and more transparent cash-generating business and MSOs themselves need funds to upgrade their networks as well as systems and install set-top boxes.

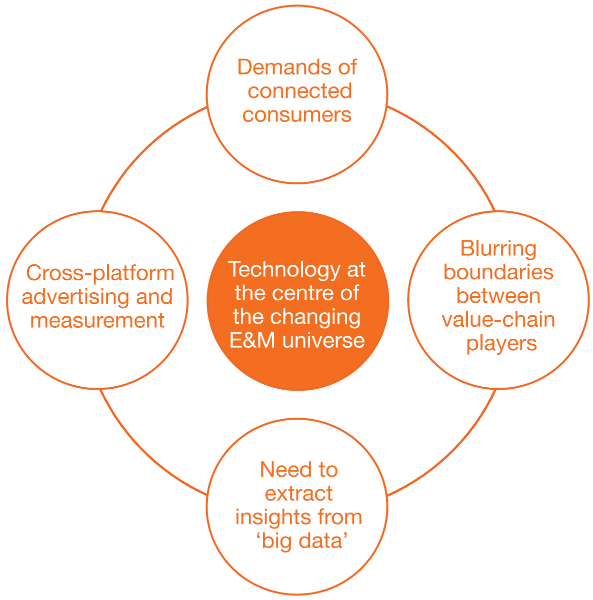
Other E&M sub-sectors where more deals can be expected are print (with continued focus on regional media) and digital (as traditional players aim to gain a foothold or increase their capabilities in the area).

Technology: A key E&M enabler

With increasing proliferation of digital platforms, technology will play an even more important role in the E&M space in the near future. As the number of 'connected consumers' rises, a host of opportunities and challenges will arise for E&M players, as these consumers will not only expect flexibility and choice in their content consumption experience but also generate a wealth of data through their behaviours. Further, the competitive scenario of the E&M industry has also started to change with the entry of traditional technology players such as Google.

Therefore, E&M players will increasingly need to leverage technology to stay relevant in this scenario of changing consumer expectations and competitive moves by traditional technology players. Industry players will also need to extract relevant insights into consumer behaviour and engage consumers at an ever-more-personal level through effective customisation of their offerings. Lastly, the development of cross-platform advertising and measurement tools will help build the confidence of advertisers and ad agencies for ramping up their expenditure in the digital space.

Technology at the centre of the changing E&M universe



Catering to the connected consumer

Media consumption choices have increased significantly for consumers worldwide over the past few years. In India as well, more and more content will increasingly be consumed through alternative platforms such as over-the-top/streaming and through devices such as computers, laptops, smartphones and tablets. Content consumption will not just be 'linear' or 'passive'; consumers will want to be in control and decide what, when and how to watch (e.g. a TV show can now typically be viewed on the TV set itself or through a laptop and a broadband connection or on the smartphone).

As media consumption undergoes fragmentation across devices and with the possibility of time-shifted viewing, consumers will increasingly want personalised experiences - their chosen content on their chosen devices when they want it. This shift towards 'my media' is evident from consumers' growing use of the 'second screen' smartphones and tablets to comment and share the experience of TV content with friends, often via social media.

In this context, E&M players need to leverage technology to ensure that consumer expectations of having the choice of viewing and interaction platforms are met. Further, they should be able to offer consumers flexible consumption plans (which could be a mix of subscriptions and transactions) that facilitate them to view or hear what they want, where they want. Also, E&M players will have to acknowledge the important role likely to be played by social media and leverage it effectively to encourage consumers to provide their views and interact with each other. For instance, many E&M companies now have a well-defined social media strategy to encourage consumers to form emotional connections with their brands (or their shows and events) and provide them a platform through which they can give feedback.

Companies across the E&M sector will need to revisit their business and operating models in order to establish positions in the emerging digital media ecosystem around such connected consumers. By innovating in agile ways and harnessing technologies to gain deep insight into consumer tastes and behaviours, E&M companies will need to define a profitable consumer-centric and multi-platform future.

Blurring boundaries between E&M value-chain players

Traditional E&M players such as content distributors are also facing the challenge of blurring divisions between their own role and that of technology companies, which have now decisively entered the media space. For instance, Google has started becoming an important player in the E&M space, even in India, with its offerings of renting and purchasing Hollywood movies as well as films in Indian languages through YouTube and Google Play services. It has already built a good catalogue by tying up with various content owners.

However, there are opportunities for traditional E&M companies to expand the other way by leveraging technology and establishing direct connects with consumers. Many E&M players are now experimenting with direct-to-consumer digital distribution models, micro-transactions and other advertising opportunities. In India, most large GEC broadcasters have now started offering catch-up TV on their websites and news broadcasters now offer catch-up (short clips) and live TV on their websites to ensure that consumers can stay engaged, regardless of their chosen platform. Mobile apps are also emerging as important ways in which E&M players can personalise content delivery to consumers.

Harnessing the power of big data

Advertisers, who absolutely must keep pace with the consumer shift towards ‘my media’ and digital consumption behaviours, will increasingly need to harness ‘big data’ in order to understand, target and engage consumers at an ever-more-personal level. This will require that they generate and apply analytics-driven insights into connected consumers’ behaviour, expectations and buying intentions while they use new measurement techniques to ensure relevance and demonstrate returns on ad-spend.

The real opportunity lies not in the abstract notion of big data, but in the information derived through analytics, which gives insights into customers’ actual and likely behaviour in response to a particular message or experience. One of the most exciting areas is the emerging opportunity around the second screen, which has huge potential in building consumer engagement, especially in combination with mobile wallets and e-commerce transactions.

However, it is also important that E&M players leverage technology in order to strike the right balance between consumers’ desire for relevance and their emotional and regulatory right to personal-data privacy. Regulators and content providers will need to establish a level of information-sharing that benefits consumers without intruding into their personal space.

On the upside, experience shows that consumers are happy sharing information if they can see tangible benefits for themselves.

Developing cross-platform advertising and measurement systems

To keep pace with consumers’ ongoing migration to digital media consumption and adoption of associated behaviours, the advertising industry must think innovatively about how it uses media. Advertising spend is migrating at a slow pace to new digital platforms, but the traditional tendency to separate digital from other forms of advertising is arguably part of the problem. As audiences increasingly consume media across multiple screens, devices and platforms, advertising must also evolve and digital advertising strategy needs to become an integral part of the overall advertising plan.

In this context, it is also important that the outcomes of advertising spend are measured in a way that convey effective feedback to advertisers. Publishers and broadcasters are working hard to establish new formats and tools that will both create and demonstrate value for advertisers. However, advertisers also need compelling evidence that migrating spend to new platforms will help achieve their desired outcomes in terms of reach and engagement.

Therefore, it is important that E&M players leverage technology in order to develop systems that not only measure reach but also track consumer behaviour and engagement effectively across multiple platforms in a credible manner. It is important that advertisers (and advertising agencies) get a 360-degree view of the manner in which consumers are consuming and interacting with content. This will help them track changing consumption patterns regularly and also assess the effectiveness of media spend on various platforms. Ultimately, this will also boost advertising spends on digital platforms.

Tax issues

Television

- **Taxability of income of telecasting companies**

Advertisement revenues
Foreign telecasting companies (FTCs) are liable to tax in India if they have a permanent establishment (PE) or a business connection (BC) in the country, and only on the income attributable to such PE or operations carried out in India. In India, FTCs generally appoint an agent for the purpose of marketing of advertisement airtime slots as well as for the collection of ad revenues from their respective advertisers. Tax authorities in the country have been contending that the beaming of channels of FTCs in India constitutes a BC and the agent, who concludes contracts or secures orders on behalf of these FTCs, constitutes its PE in India.

While the FTCs have been denying the creation of a BC or a PE, alternately, they have been contending that even if a PE is created, considering these agents are paid an arm's length remuneration, no further tax liability can arise in India from such an agency PE. While the Bombay High Court (HC) has accepted such an alternative argument, which in turn, can bring respite to these FTCs, who have been facing substantial tax demands in India, however, at the ground level, the tax office continues to take an adverse stance on specific facts.

Subscription fees
FTCs generally grant distribution rights for television channels to an Indian company, which in turn, sub-licenses these rights to the multi system operators (MSOs), cable operators, etc. FTCs have been taking a stand that the payment for the grant of distribution rights is not for any 'copyright' and hence, is not in the nature of royalty (which is generally taxable in India on a gross basis), but constitutes a business income which will not be taxable in India in the absence of any PE or business connection in India.

The Indian tax authorities in some cases, have contended that the payment by MSOs, etc, for the distribution rights is in the nature of business income, and is not taxable on similar lines as ad revenues. In some other cases, they have contended that the payment is for grant of copyright and therefore, constitutes royalty. The issue is currently pending adjudication at various appellate levels.

- **Deductibility of expenditure incurred for acquiring telecasting rights in films and programmes**

In a situation where telecasting companies acquire the rights on an outright basis or for limited airings that may span over different financial years, an issue arises as to whether such a cost can be claimed as a deduction in the year of acquisition, or whether the cost will have to be claimed over the licence period.

While this issue is fact-specific, in the case of television programmes, one view is that, since the significant value of programmes is derived at the time of its first airing, after which there is hardly any residual value of the programme, the entire expenditure on the acquisition of rights related to such a programme should be allowed as a deduction in the year of its first airing. In the case of film rights acquired for a limited period or limited airings, the view is that, the expenditure should be allowed over the period of time or the number of airings. The contrary view is that the expenditure on the acquisition of rights should be treated as incurred on the acquisition of capital assets, that is, for acquiring of the copyright or licence, specifically covered as an intangible asset, eligible for depreciation at a specified rate. This issue continues to be a bone of contention between the telecasting companies and the tax authorities of the country. Reports also suggest that the Comptroller and Auditor-General of India (CAG) has recommended the contrary view.

- **Payments for acquiring broadcasting rights of live events**

Broadcasting live events have a typical issue. A classic situation is whether the payment made to the foreign company, for acquiring the right to telecast the live feed of an event is taxable in India. Broadcasters are of the view that there is no copyright in the live feed, and therefore, ought not be regarded as royalties taxable in India. However, tax authorities seem to disagree on such a stance, and some cases are pending before the appellate authorities.

- **Key withholding tax-related issues**

Payment for the lease of transponders
Broadcasters use satellite transponders in order to distribute (transmit) TV channels to intermediaries (such as DTH head hands, and MSOs) and consumer premises (DTH). There has been a protracted litigation during the pre-Finance Act 2012 phase, in terms of whether the lease payments for transponder capacity should be treated as royalty in the hands of overseas transponder companies. Therefore, such expenses are subject to withholding tax. However, the Finance Act 2012 amended the royalty provision within the domestic tax law to bring such lease payment within the purview of the domestic tax law. However, depending upon specific facts, overseas transponder companies eligible for tax treaty benefits can still argue that the amendment of the Finance Act 2012 does not impact payments received by them.

Payment by FTCs for acquiring content
FTCs generally acquire television content either on a licence basis or on an outright basis, and have been arguing that such a payment is not subject to withholding tax in India, as the transaction is between two non-residents stationed outside the country. However, tax authorities have been contending that, since FTCs acquire licence in the content for telecasting within Indian territory, such content payments should be subject to withholding tax in India. In one such case of litigation, the Mumbai Tax Tribunal has held that an existence of an economic link between the payments of content royalties and the PE of FTCs is necessary for such content royalties to arise in India and to attract any withholding tax in India.

Other key withholding tax-related issues
There is an array of other withholding tax issues which the television sector has been facing like withholding tax obligations on the following:

- Payments by television channels to acquire television programmes from producers, for broadcasting or telecasting through their channels
- Payments for purchase of on-air time slots from channel companies
- Discounts given to advertising agencies, sale of recharge coupons or DTH set-top boxes, etc.

Considering the significant possible exposure due to the failure or short withholding (such as the non-deductibility of such payment, penalty and interest, etc.), it is important to take an informed view on the above and other such similar issues.

Film

- **Deduction of expenditure on film production and the acquisition of distribution rights**

Rules 9A and 9B of the IT Rules provide for the manner of determining the quantum of expenditure incurred in connection with the production of a film or the acquisition of distribution rights which can be deductible, in order to determine the tax liability of the film producer or the distributor. Broadly, these expenses are deductible, depending upon the time when the film gets released or when the distribution rights to the films are exploited. Depending on the facts of the case, either the entire film production or the distribution expenditure is allowed as a deduction in the first year or over a period of two years.

There is a debate as to whether Rules 9A and9B can override all other business expense-related provisions of the domestic tax law, which allows the deductibility of business expenditure in its entirety, in a year or over a period of time, without any corresponding condition on the release or exploitation of the film, as specified in these rules. The interpretation and application of these aspects can have a significant impact on the taxability of revenue for producers or distributors, and are also important to ensure the correct and complete compliance with the provisions.

- **Joint production of films between Indian producers or between Indian and foreign producers**

In cases where the venture of a producing film was being undertaken jointly between Indian producers or between Indian and foreign producers, there have been instances of the tax office treating it as an association of persons (AOP). An AOP exposure can result in the combined income of the Indian and foreign producers from such a venture, getting taxed as an AOP, which is treated as a separate taxable entity within the purview of the Indian domestic tax law. This can result in multiple complexities for the producers. For instance, issues on the deductibility of inter-se payments between producers, availability of withholding tax credits, eligibility to claim the tax treaty benefits once treated as an AOP in India, etc. It becomes pertinent to capture the substance of the arrangement terms in the form of a written agreement between the producers, with a view to address any such AOP exposures.

- **Taxability of Hollywood companies in India**

Determination of taxable income of Hollywood companies has been a matter of interim controversy in the view of the practical difficulties faced while computing the net profit attributable to the Indian operations. In the past, the Motion Pictures Association of America (MPA) had entered into an agreement with the Central Board of Direct Taxes (CBDT), to agree upon that, a presumptive rate of 25% of the gross film receipts will be deemed as earned out of Indian operations for Hollywood or foreign companies. While, the agreement was effective only up to 31 March 1987, myriad Hollywood companies continued discharging their tax obligations on the aforesaid presumptive basis, which has been not accepted by the tax office in India. In one such instance, the tax tribunal has upheld the adoption of such presumptive taxation due to the absence of a better method of assessment of the Hollywood companies. One will have to wait and see if the CBDT considers issuing appropriate clarifications in order to address these concerns of the Hollywood companies having a footprint in India.

- **Withholding tax on payments made by film financiers to film producers and artists**

  Film financiers generally enter into film financing agreements or arrangements with different producers and directors of the films in order to provide financial assistance to them for making the film. These film financiers are neither engaged in producing the films nor in hiring the services of producers and directors for making the film. The film financier is entitled to recover the money advanced by him or her from the distribution of the film. There have been instances of requiring the film financiers to withhold applicable taxes on various payments advanced by them. However, the tax tribunals in India have held that financing of film projects does not amount to making any payment for carrying out any work, and also, the required relationship of principal and contractor does not exist between the film financier and the film producer or director to attract any withholding tax provisions. While these decisions are fact-specific, it will hopefully provide clarity on this issue.

Radio and music

- **Deduction of licence fees by radio broadcasters**

  With Phase III policy, radio broadcasters will need to consider whether the license fees (one time or recurring) will be in the nature of revenue expenditure, to be claimed as deduction during the year in which it is incurred, or is in the nature of capital expenditure entitled to depreciation at a specified rate. This has been a matter of litigation in the past as well, where one view had been that the annual licence fee should be allowed as a revenue expenditure, since it is a period cost necessary for the conduct of business, and that the one-time entry fee should be allowable as deduction over the period of licence. However, another view has been that such a licensee payment ought to be treated as expenditure incurred on creating capital asset, that is, for acquiring of licence, specifically covered as an intangible asset eligible for depreciation at specified rates. An informed decision on this issue will help in avoiding protracted litigation.

- **Taxability of royalty income and the deductibility of expenditure for acquisition of music rights**

  While the taxability of revenues arising from the sale of cassettes and CDs is fairly simple, issues can evolve vis- a-vis the taxability of income from the licensing of rights, since such income can be either in the form of a lump sum royalty or royalty based on the turnover of the licensee or a combination of both the factors. While on one hand, the royalty based on the turnover of the licensee is generally taxable in the respective years, on the other hand, a lump sum royalty could have issues around the year of taxability, that is, taxable in the first year of the grant of licence, or is taxable over the period of licence or is taxable only on completion of the transaction. Also, whether the cost of acquisition of the licence or the copyright in music, and royalty payments to film producers and artists (which forms a significant part of a music company's cost) will be entitled to depreciation at a specified rate or is deductible as revenue expenditure in the first year or is to be treated as amortisable over the licence period, needs consideration.

Animation, gaming and sports

- **VAS payments**

  Typically, there are two ways in which content flows within the VAS value chain. These are as follows:

  - **Scenario 1:** In a situation where the user transacts directly with the content creator or the content aggregator for availing VAS.
  - **Scenario 2:** In a situation where the user obtains the required content through the mobile operator, who in turn contracts with content creators, content aggregators, technology enablers, as may be required.

  Since the stakeholders in the VAS value chain may be tax residents of various countries, taxation of the income recipients within India and the Indian withholding tax obligations of payers necessitates a detailed examination as well as analysis, since such receipts or payments may be characterised as 'royalty' or 'fees for technical services' or 'business income', based on the facts of the case and the substance of the agreement.

Also, one will also need to analyse whether the payee has a 'taxable presence' in India for the purpose of determination of tax liability in India. Under the Income Tax Act, 1961 and various tax treaties, in certain cases, existence of agents in India, provision of services through employees and other personnel, availability of place at disposal, amongst others, creates a taxable presence for the payee in India. The proposition that the tax liability in India cannot be triggered in the absence of physical or other modes of presence of the payee in India, may not be free from litigation unless factually substantiated.

- **Taxability of sports or sports entertainment-related events in India**

  With various global sports events increasingly targeting the Indian market, it is important to consider the tax issues which can impact the overall Indian income tax cost and the withholding tax obligations in India, especially the following:

  - Taxability of revenue generated from exhibition (advertising subscription revenues) of the sports or sports entertainment events in India (for example, motor racing, boxing, wrestling, etc)
  - Taxability of arrangements with the Indian promoter, etc.
  - Taxability of the payments to sportsmen and other related withholding tax obligations
  - Related tax registrations and compliance requirements for the sports company as well as its sportspersons

Regulations and policy initiatives

- **Revised foreign investment norms**

  In September 2012, the government of India notified an increase in foreign investment limits to 74% for most broadcasting carriage segments. Earlier, foreign investment caps were different for different segments, ranging from 20% foreign direct investment (FDI) limit for DTH services to 74% for IPTV and HITS platforms.

  The revised foreign investment limits for carriage services segment is as under:

Revised foreign investment limits for various types of carriage services

Type of carriage service	Earlier limit	Revised limit
DTH	49% (FDI <20%)	74%
Teleport (uplinking hub)	49%	74%
MSOs operating at the national, state or district level and taking up digitisation with addressability	49%	74%
Mobile TV	No policy	74%
HITS	74%	74%
IPTV	74%	74%
Other MSOs	49%	49%
Local cable operators	49%	49%

As per these revised norms, foreign investment up to 49% will be permitted under the automatic route. However, foreign investment beyond 49% (and up to 74%) will continue to require prior government approval.

Proposal to liberalise FDI caps further

As a means to counter current account deficit, the Indian government has been focusing on attracting more and more FDI flows into the country. Further, through an inter-ministerial consultation process, the Ministry of Information and Broadcasting and the TRAI have agreed to further increase the FDI limits in the broadcasting sector.

The TRAI issued its recommendation paper proposing the FDI limits as under:

- FDI in carriage services (HITS, DTH, MSOs undertaking digitisation, teleport, mobile TV): 100% FDI (FDI beyond 49% with government approval)
- Uplinking of news channels from India: Increase of FDI from the current 26% limit to 49%; under the government approval route
- FM radio: Increase of FDI from 26% to 49% limit, but under the government approval route
- Downlinking and uplinking of non-news channels: To maintain status quo; i.e. 100% FDI under the FIPB approval route

It is pertinent to note that this recommendation will be applicable only when the government notifies the changes in due course.

- **TRAI consultation paper on media ownership**

In order to prevent vertical integration in the broadcasting and distribution segment and cross media holdings across the television, print and radio sectors, the TRAI in February 2013 issued a discussion paper seeking inputs from stakeholders on whether cross media ownership restrictions should be introduced.

Some of the important questions raised by TRAI in this consultation paper are as follows:

- What should be the threshold to determine ownership and control for applying media ownership and vertical integration restrictions?
- How does one ensure plurality of views in the media sector–print, television, radio, online media or all?
- Should concentration in media ownership be determined, from a relevant market perspective, regionally or on a pan-India basis?
- What should be the yardstick to measure the level of concentration–volume of consumption, reach, revenue, any other?
- Would it be appropriate to restrict any entity having ownership and control in a media segment of a relevant market with a market share of more than a threshold level (say 20%) in that media segment from acquiring or retaining ownership and control in the other media segments of the relevant market?
- In case cross media ownership rules are laid down in the country, what should be the periodicity of review of such rules?
- Should additional restrictions be applied for M&A in the media sector?

- **Mandatory digitisation of cable TV services**

The implementation schedule to achieve digitisation of cable TV services across India was as per the adjoining chart.

Timelines for digitising cable networks across India

Phase	Target areas for digitisation of cable networks	Deadline
I	All metro cities (Delhi, Mumbai, Chennai, Kolkata)	31 October, 2012
II	Tier 1 cities (having population more than 1 million)	31 March, 2013
III	Tier 2 cities (Urban areas under municipalities/ municipal corporations)	30 September, 2014
IV	Rest of India	31 December, 2014

There have been some delays in the implementation of digitisation under Phase I and II for some parts of the country, merely on account of issues such as availability and installation of set-top boxes, extension of deadline for Chennai territory through a High Court order, etc.

- **Distribution of TV channels from broadcasters to platform operators**

The TRAI has issued a consultation paper on 6 August 2013, proposing to amend the current regulatory framework by demarcating the roles and responsibilities to be assigned by the broadcasters to their authorised distribution agencies for distribution of TV channels to various platform operators.

These roles and responsibilities can be summarised as under:

1. The broadcaster to publish its reference interconnect offer (RIO) and enter into interconnection agreements with the distribution platform operators
2. Authorised distribution agent (of the broadcaster) cannot:
   a. Change the composition of the bouquet formed by the broadcaster while providing it to the distributors of TV channels
   b. Bundle bouquet or channels of the broadcaster with those of other broadcasters.

A three-month timeframe is proposed for reworking the RIOs, entering into interconnect agreements and filing them with the TRAI.

- **Duration of advertisements shown on TV channels**

In August 2012, the TRAI issued a notification amending the Standards of Quality of Service (Duration of Advertisements in Television Channels) Regulations 2012, mandating broadcasters to limit advertisement time to maximum 12 minutes in a clock hour.

Further, in March 2013, the TRAI has reiterated its position and now requires every broadcaster to submit the details of advertisements, in a pre-specified format, carried on the channel.

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List of abbreviations

3G	Third generation of mobile telecommunications technology
4G	Fourth generation of mobile telecommunications technology
AOP	Association of persons
ARPU	Average revenue per user
BC	Business connection
CAGR	Compound annual growth rate
CBDT	Central Board of Direct Taxes
CD	Compact disc
DOOH	Digital out-of-home
DTH	Direct-to-home
DVD	Digital video disc
DVR	Digital video recorder
E&M	Entertainment and media
EDGE	Enhanced data rate for global evolution
EVDO	Evolution - data optimised
FDI	Foreign direct investment
FIPB	Foreign Investment Promotion Board
FM	Frequency modulation
FMCG	Fast-moving consumer goods
FTC	Foreign telecasting company
GEC	General entertainment channel
GRP	Gross rating point
GDP	Gross domestic product
GSM	Global system for mobile
GVT	Gross viewership in thousands
HD	High-definition

HITS	Headend-in-the-sky
INR	Indian rupee
IPTV	Internet protocol television
IRS	Indian readership survey
LED	Light-emitting diode
M&A	Mergers and acquisitions
MIB	Ministry of Information and Broadcasting
MMS	Multimedia messaging service
MSO	Multi-system operator
OOH	Out-of-home
OTT	Over-the-top
PC	Personal computer
PE	Permanent establishment
PPV	Pay-per-view
QR	Quick response (code)
RIO	Reference interconnect offer
SMS	Short message service
TRAI	Telecom Regulatory Authority of India
TRP	Television rating point
TVT	Television viewership in thousands
USD	United States dollar
USOF	Universal Service Obligation Fund of India
VAS	Value-added service
VCD	Video compact disc
VoD	Video-on-demand
VSAT	Very small aperture terminal
WAP	Wireless application protocol

About PwC Entertainment and Media Practice

PwC firms help organisations and individuals create the value they're looking for. We are a network of firms in 158 countries with close to 180,000 people committed to delivering quality in advisory, tax and regulatory services.

The Entertainment and Media (E&M) practice of PwC has depth and breadth of experience across sectors such as television, films, print, radio and digital media. We offer insights gained from years of experience working with a broad range of industry clients on an extraordinary breadth of advisory, tax and regulatory services, apart from a tightly woven global network.

With new evolving revenue models in the entertainment space, our team of experts can help you with financial forecasting, finance transformation, project management, revenue recognition and supply chain management. With digital media being delivered across new mediums, intellectual property disputes and risk management have become common. Our team helps you resolve these disputes along with content and licensing management. Our practice also provides services around merger integration, financial and commercial due diligence, valuation and tax-effective restructuring solutions.

We have aligned our Entertainment and Media practice around the issues and challenges that are of utmost importance to our clients in this sector. We analyse and understand the environment in which our clients operate and how it impacts our clients' business.

India Contacts

Smita Jha
Leader Entertainment and Media Practice
Email: smita.jha@in.pwc.com
Tel: +91 124 4620 111

Sandeep Ladda
Leader Entertainment and Media - Tax Practice
Email: sandeep.ladda@in.pwc.com
Tel: +91 22 66891444

Mansi Bansal
Knowledge Manager
Email: mansi.bansal@in.pwc.com
Tel: +91 22 6669 1552

Kaushal Vaidya
Principal Author
Email: kaushal.vaidya@in.pwc.com
Tel: +91 22 66691500

Nandini Chatterjee
Brand and Communications
Email: nandini.chatterjee@in.pwc.com
Tel: +91 124 462 0756

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The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering industry, Government, and civil society, through advisory and consultative processes.

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Contacts

Amita Sarkar
Deputy Director General
Email: amita.sarkar@cii.in
Tel: +91 11 45771014

Atreyee Talapatra
Director
Email: atreyee.talapatra@cii.in
Tel: +91 11 45771053

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MS 68 - September 2013 E&M .indd
Designed by: PwC Brand and Communications, India