Confederation of Indian Industry

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India Entertainment and Media Outlook 2014

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Foreword

Welcome to the 2014 edition of the India Entertainment and Media (E&M) Outlook, which analyses key trends and developments across nine major E&M industry segments in the country. This year also marks the 10th anniversary of the report.

With Indian economy stabilising over the last few months, the E&M sector continued its upward growth journey. Internet access and internet advertising led this growth path beyond expectations to keep the sector buoyant and self-sustaining. The demographic shift in India has impacted the digital growth combined with better infrastructure.

The key theme of our report this year is ‘monetisation strategies in media sector’. Widespread technological advances and the digital experience has brought a new mindset to make business – quicker, more targeted, experimental and collaborative. It has become imperative for emerging business models to move beyond digital innovation to customer engagement innovation to reap the benefits of digital transformation in India.

CII and PwC thank our key industry stakeholders for sharing their valuable insights and supporting us in developing these industry insights. We 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 enjoy reading this edition!

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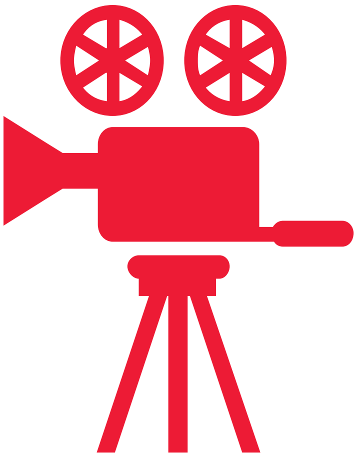
The Entertainment and Media industry: 2013 -2018



In the next five years, global entertainment and media revenues will continue to grow, slightly behind global GDP, as it always has. Yet, in this seeming sameness dichotomies abound.

In 2018, non-digital media will continue to account for the largest share of global spending, TV will still be the biggest advertising medium, and the US will be the world's biggest entertainment and media market. But, respectively, digital revenues, internet advertising and China will all have dramatically narrowed the gap. This evolving environment will be characterised by six underlying shifts.

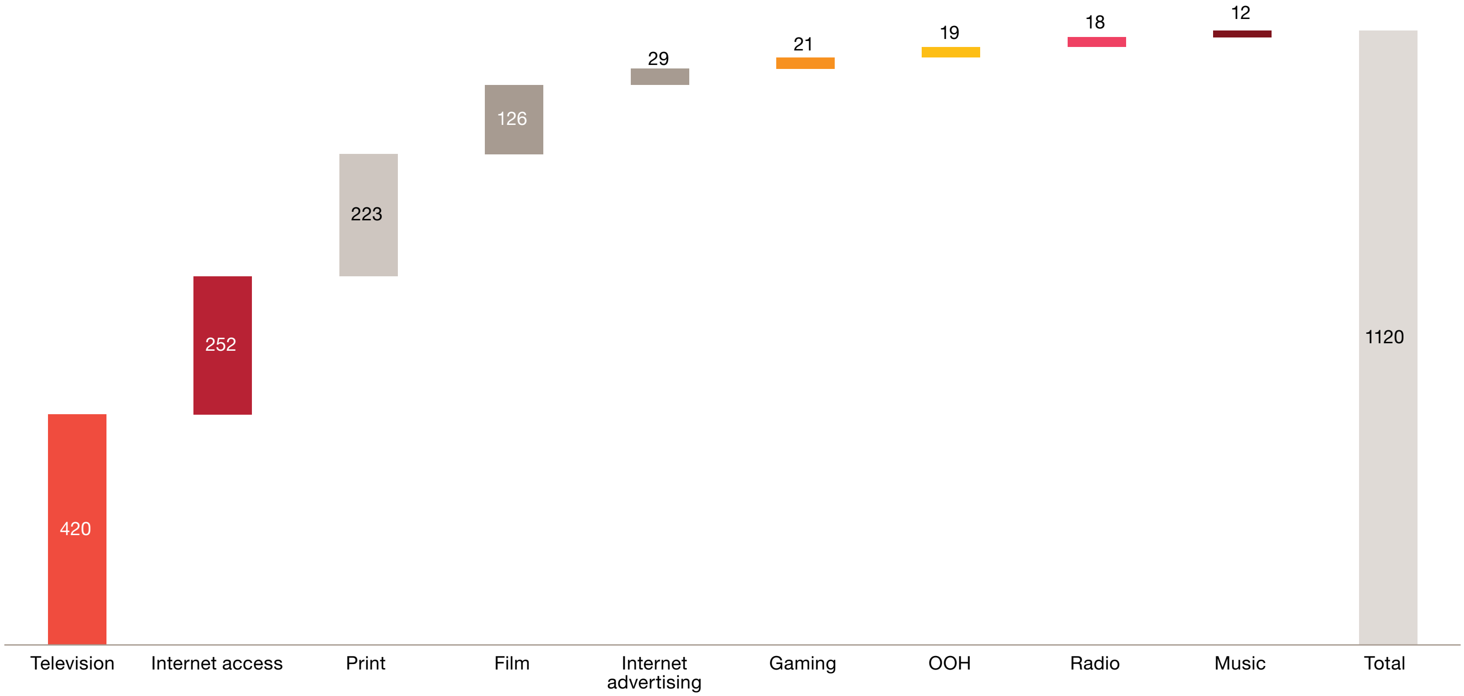
- Advertising revenue is outpacing consumer revenue in the migration to digital.
- By 2018, internet advertising will be poised to overtake TV as the largest advertising segment.
- The biggest challenge is monetising the digital consumer.
- Rising consumer revenue may be driven by 24/7 access.
- Revenue growth is being driven by internet access rather than content spending.
- Two-thirds of revenue growth from consumers and advertising will be digital.

Decoding the India story

The Indian E&M industry generated 1,120 billion INR in revenue in 2013, an increase of 19% over the previous year. The largest segment, India's television industry, continued its strong growth momentum with revenue increasing from 366 billion INR in 2012 (Revenue from subscription in 2012 has been revised due to change in the number of DTH subscribers, as per TRAI) to 420 billion INR in 2013, representing year-on-year growth of about 15%. This growth was led by an increase in subscription revenue, driven by the ongoing process of digitisation. Internet access and internet advertising have been the fastest-growing segments with annual growth rates of 47% and 26%, respectively.

The increasing shift towards the digital medium was perhaps most evident in the fact that internet access overtook print as the second-largest segment. It contributed about 22% to the overall E&M sector in 2013, driven by growth in adoption of mobile internet in the country.

Indian E&M industry revenue in billion INR, 2013



Source: PwC analysis

Note: Excluding internet access revenue, the size of the Indian E&M sector is about 869 billion INR in 2013, representing a y-o-y increase of 12%

Based on our analysis, the industry is expected to grow at a CAGR of 15% between 2013 and 2018, to reach 2,272 billion INR. The television sector is expected to continue its robust growth during this period, to reach 846 billion INR, at a CAGR of about 15%. Internet advertising and internet access are projected to be the fastest-growing segments, with CAGR of 28% and 21%, respectively. Driven by Phase 3 auctions, the radio sector is also projected to grow strongly at a CAGR of 17%. Film contributed 126 billion INR to the industry, growing steadily at a y-o-y growth rate of 13%, on the back of higher domestic and overseas box-office collections as well as cable and satellite rights. The share of the music sector, though minor, is expected to grow at a healthy CAGR of 13%, reaching 22 billion INR 2018 from 12 billion INR in 2013. With the rapidly increasing adoption of smartphones and tablets, the gaming sector is fast emerging as a promising source of revenue for the Indian E&M industry. Efforts by industry players as well as support from the government are expected to provide a major boost to the gaming sector, which is still in its infancy. Out-of-home advertising is gradually expected to slide to the last position in terms of revenue contribution to the sector, with its share declining to 1% in 2018, the same as music.

In 2018, television will continue to lead the industry in terms of revenue contribution with 37% share of revenue. Internet access is expected to emerge as the second-highest contributor with a share of 29%, up from 22% in 2013. With the increase in share of internet access, the relative sector contribution of large segments such as print and film is expected to decline. The share of print is likely to decrease from 20% in 2013 to 14% in 2018, while the share of film is expected to decrease from 11 to 10% during this period.

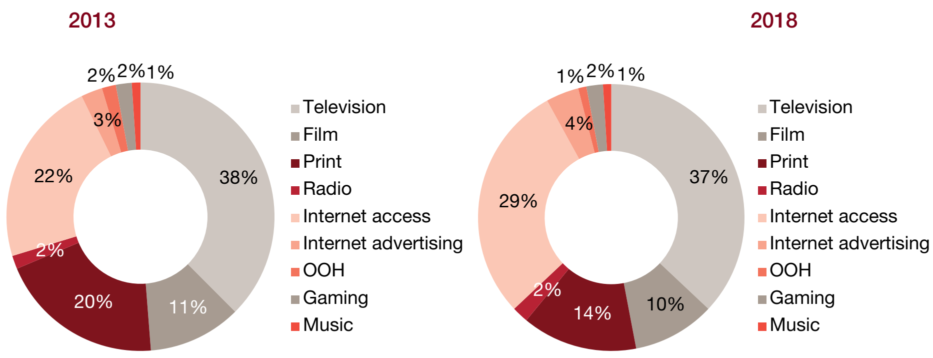
Projected revenues of the Indian E&M industry in billion INR, 2013-2018

Segment	2013	2014	2015	2016	2017	2018	CAGR
Television	420	486	568	648	756	846	15%
Print	223	241	259	278	298	314	7%
Internet access	252	352	446	552	613	662	21%
Film	126	141	161	179	198	217	12%
OOH	19	21	23	25	26	28	8%
Radio	18	20	23	27	32	40	17%
Music	12	13	14	16	19	22	13%
Gaming	21	26	30	35	38	43	15%
Internet advertising	29	38	52	68	87	100	28%
Total	**1,120**	**1,337**	**1,576**	**1,827**	**2,068**	**2,272**	**15%**

Source: Industry discussions and PwC India analysis

Note: Excluding internet access, the Indian E&M sector is expected to grow at about 13% cagr over 2013-2018 and reach revenues of about 1,610 billion INR in 2018

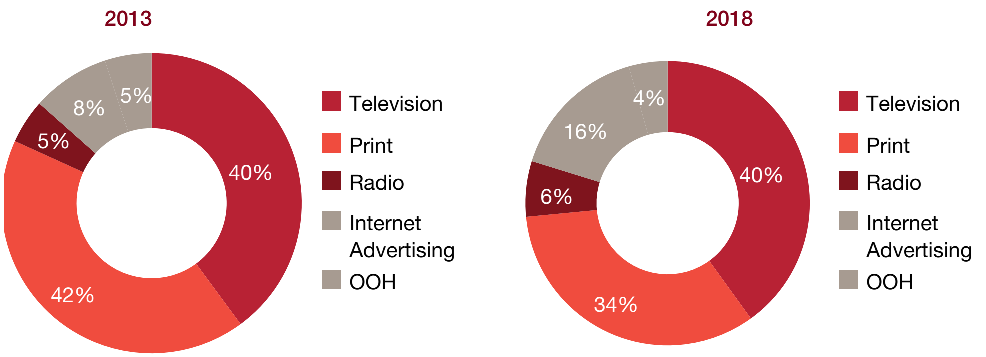
Segment revenue contributions



Source: PwC analysis

The revenue from advertising is expected to grow at a CAGR of 13% to reach 632 billion INR, from 350 billion INR in 2013. Overall, the share of consumer spend is expected to increase. Consumers spend's share is expected to increase from about 69% in 2013 to about 72% in 2018. Television and print are expected to remain the largest contributors to the advertising pie in 2018 as well. Internet advertising should emerge as the third-largest segment, with a share of about 16% in the total E&M advertising pie. While this marks a major shift, the Indian internet advertising segment is still way behind its US counterpart, which is expected to be nearly as large as TV advertising in 2018.

Segment contributions to advertising revenue



Source: PwC analysis

So how does the future look?

Gamechangers include projected growth for the film industry, driven by domestic box-office collections and increasing global collaborations. Online players are expected to keep pace with the content consumption experience for varied devices and speeds. Mobile internet connections in India are expected to increase at over 20% CAGR to reach about 543 million in 2018. Clearly, digital is the future with the wired internet advertising market expected to grow by 26% CAGR and the mobile internet advertising market to grow even more sharply to about four times its current size.

Yet, the Indian internet advertising market is expected to remain minuscule as compared with the market in the US, which is expected to reach revenues of about 66 billion USD in 2018. This might owe itself to the predominant position of traditional media such as print and radio in India.

Contrary to trends in developed countries, newspaper circulation will continue to grow and will be supported by a corresponding growth in advertising. Interestingly, out-of-home advertising is expected to grow at a CAGR of about 8% to reach about 28 billion INR by 2018. This will be triggered by the thrust on infrastructure.

Radio in India is expected to grow at a heartening 17% over the next five years with the Phase 3 auctions being the primary driver. Digital radio is expected to gain further popularity, backed by increased device adoption. Alongside, India is expected to be among the fastest-growing market in terms of television subscription revenue from 2013 to 2018. Pay TV penetration will improve. Television content, to quote a cliché, will continue to be king.

Digital imperatives in the E&M industry

Digital success is not just about technology. It's about applying a digital mindset to build the right behaviours.

Towards an embedded digital culture

What does 'digital' really mean for today's entertainment and media companies? It's no longer just about technology. Instead, it's shorthand for 'the world has moved on – and business has moved with it'.

What's more, the changes have much further to run. We're in a world where internet advertising spend will virtually catch up with global TV advertising within five years, where consumers expect 24/7 access on demand to their favourite content, and where growth in digital advertising revenue is rapidly outpacing digital consumer spending.

Alongside these disruptive impacts, technology has also brought entertainment and media businesses the ability to deliver the new experiences that consumers are seeking across myriad environments and contexts. But the underlying shift it has triggered is even more profound: an irreversible migration to a more complicated world, where businesses move faster and it's ever harder to sustain the competitive advantage. A world where businesses must have a strong digital IQ and where digital must be an enterprise capability woven throughout the business.

This change has impacted not just digital media, but analogue too. It's long been accepted that online delivery is not the ultimate end game in every case. But now offline media must also follow the same rules.

...that drives ever closer to the customer

As a result, the most important impact of digital has not been to generate a step change in technology.

Instead, it's been to create a new mindset towards doing business: not just quicker, **but more targeted, experimental, experiential, inclusive, collaborative.** We believe this shift towards a more personalised customer-centric organisation is the single biggest change since the advent of digital media

What's more, this decisive step has now become mainstream: a pervasive part of the industry's 'new normal'. It's a mindset that focuses unwaveringly on applying the core principles of digital – which are about getting ever closer to the customer – across everything the organisation does, whether digital or analogue, from service development to cyber security, and from talent management to entering new markets.

This mindset underpins a concept that we call the innovation decathlete – an organisation that excels at innovation across multiple disciplines. What sets these businesses apart in the marketplace is that they can make the audience of one a reality across every experience, whether digital or analogue.

So the most important impact of digital has not been to generate a step-change in technology. Instead, it has created and embedded a new mindset towards doing business: not just quicker, but more targeted, experimental, experiential, inclusive and collaborative. We believe this shift towards a more personalised customer-centric organisation is the single biggest change since the advent of digital media.

Not just digital strategy: but business strategy

This in turn means businesses no longer need a digital strategy. What they need is a business strategy fit for a digital age—a world where offline media and programmatic advertising both have a place in the mix, but with a unique balance in every case.

Sure, there's a digital component. But it's just one part of an overall strategy that identifies what's needed for success in a world that's very different from yesterday.

... focused on relationship innovation

The new mindset for this changed world also encompasses a further step forward: from digital innovation to relationship innovation.

The emergence of digital ignited a blaze of innovation in technology, as companies scrambled to roll out digital platforms and processes. But with digital products and platforms now in place, the focus is shifting to innovating in data insights and analytics to drive personalisation and deeper two-way relationships.

Differentiating on digital technology was just a transition phase: we've now reached the stage of differentiating on relationships.

Putting the consumer at the centre of their own world

How can companies build these relationships?

Many people talk about social, mobile, analytics and cloud—SMAC—as the route to relationships. But those technologies are just the plumbing. The most momentous advances aren't in delivery platforms, but in consumers' psychology—which has undergone a shift every bit as profound as companies' move to a digital mindset. What's changed for consumers is that they've realised they can be at the centre of their own world of entertainment and media, constantly enjoying content experiences that are shaped around them as people. Through personalisation and recommendation engines, online services have shown consumers they can switch from finding content experiences they have liked, to being found by content experiences they will like—via every channel and device.

Relevance: now a target across all industries

Delivering such an experience demands much more than crunching data: it means getting to know people as individuals—and them knowing you back.

This requires not just the right technology, but also the right mindset and talent for relationship innovation. When these elements all mesh around the consumer, the result is relevancy—which brings the company that delivers it a disproportionate share of that individual's lifetime value.

Entertainment and media companies have been pursuing relevancy for years. And they're escalating their efforts to achieve it, as they seek to tap into new opportunities such as the emerging middle classes in markets worldwide witness too the rapid advances in mobile advertising, and the rising engagement with 'super-fans' as key influencers and arbiters of taste. Consumers' individualised experiences from media mean they increasingly expect the same level of personalisation and recommendations from all their other providers, from utilities to retailers to carmakers. So the race for relevancy—and indeed the migration to a digital mindset—is being joined by a vast array of participants from beyond entertainment and media, all competing head-on for relationships with the same individuals.

It's a mindset that focuses unwaveringly on applying the core principles of digital—which are about getting ever closer to the consumer. The bedrock of a strategy fit for a digital age is the digital mindset. This provides a solid plinth for a successful strategy. Companies must build on this by developing and exhibiting three behaviours: forging trust; confidence to move with speed and agility; and empowering innovation.

…demanding operational innovation

In the long term, this intensifying battle for the consumer will see formerly separate value chains coalesce into a matrix around the customer, triggering wide scale cross-industry reshaping and collaboration.

But more immediately, the widening struggle for relevancy brings operational and infrastructure implications for entertainment and media companies, as the relationships between content creators, distributors and advertisers blur.

In an environment when consumer relevancy is imperative, companies need to rethink how they engage the consumer. This means looking beyond innovation in products and services to examine new operational and infrastructure models—including new and previously undreamt-of collaborative relationships. And at the heart of every successful collaboration will be a shared digital mindset.

Three behaviours to build a successful strategy

What does all this mean for entertainment and media companies' strategies? In our view, the bedrock of a strategy fit for the digital age is the digital mindset, characterised by a remorseless focus on relationship innovation. This provides the solid plinth for a successful strategy. Companies must then build on this foundation by developing and exhibiting three behaviours.

First, forging trust. This means more than generating trust among customers by delivering relevant product and services. Increasingly, it also requires giving them full control over their own personal privacy, and respecting society's evolving expectations on issues like tax payments. It also means embedding trust internally between everyone in the business—understanding why what they do is relevant, and how it'll remain so.

Internal and external trust feed into the second behaviour: **creating the confidence to move with speed and agility.** As soon as a trusted business has an idea, it can execute on it quickly and decisively.

The third behaviour **is empowering innovation.** This means energising everyone in the business to recognise and celebrate its successes in the past, while innovating in a way that's unconstrained by that legacy—building on it to stay valuable and relevant to consumers going forward.

The adjectives that describe the mindset of today's leaders in entertainment and media—targeted, experimental, experiential, inclusive, collaborative—are easy to trot out. The hard part is developing and embedding the day-to-day behaviours and that turn these words from corporate mantra into strategic reality. Those companies that achieve this will have a business strategy fit for a digital age.

Television

The Indian television industry grew from 366 billion INR in 2012 to 420 billion INR in 2013, representing a growth of 15%. This was driven largely by growth in subscription revenue, which grew by 18% to reach 282 billion INR, led by an increase in the number of digital cable subscribers and rise of DTH average revenue per user (ARPU). The soft macroeconomic environment tempered the growth in advertising revenue, which grew from 127 billion INR in 2012 to 138 billion INR in 2013 at a y-o-y growth rate of 9%.

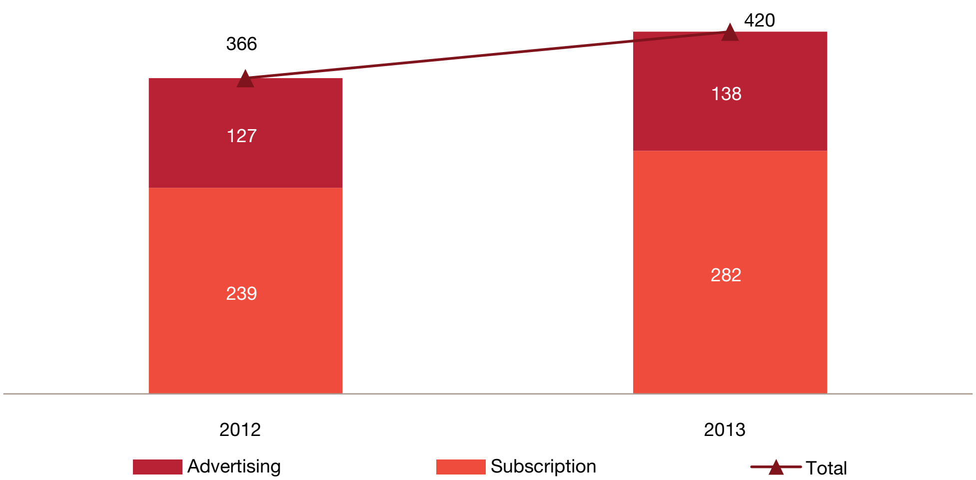
Digitisation has proven to be a boon for the Indian television distribution industry. With the process still ongoing, industry players have not yet realised the full gains of the exercise, but are on track to doing so. The full impact of digitisation in terms of growth in subscription revenue, reduction in carriage and better addressability is expected to be realised in the next two to three years.

Key trends

- **While digital cable has gained subscribers, ARPU has not yet risen significantly**

  With digitisation, analogue cable subscribers have been migrating largely to digital cable, which has gained about 10 million subscribers in 2013, while net DTH subscribers increased by approximately 3 million. The reason for this shift is that digital cable provides customers a large number of channels with better signal quality, without any major increase in the price. This is being reflected in the slow growth of digital cable ARPU, which rose to 180 INR in 2013 from 170 INR in 2012, an increase of only about 6%. DTH ARPU, on the other hand, rose from 170 INR to 200 INR in 2013, witnessing a healthy increase of about 18%, on the back of price hikes and rising HD subscriber base.

Growth of the industry in billion INR, 2012-2013



Source: PwC analysis

Note: Revenue from subscription in 2012 has been revised due to change in the number of DTH subscribers, as per TRAI

Going forward, implementation of channel packages, bundling of services like cable and broadband, and provision of value added services such as video on demand (VoD) will provide a boost to digital cable ARPU, which is expected to reach about 310 INR in 2018.

In 2013, Hathway, SiTi Cable and inCable launched innovative channel packages. Hathway's packacage provides high-speed cable broadband services across 20 cities. It also provides high-speed broadband services with DOCSIS 3.o technology and is expanding its footprint in Mumbai and Pune. SiTi's packages allow its subscribers to access internet on their television sets through internet-enabled set top boxes (STBs). DEN's package includes a high-speed cable broadband service for its subscribers across geographies.

Even in developed markets in the West, where cable markets are largely saturated, cable operators are successfully providing bundled services and triple-pay packages to boost ARPU. In particular, they provide VoD, which is well-suited to cable owing to its two-way network, an advantage over satellite. In the UK, Virgin media (the largest cable TV provider in the country) provides TiVo, an advanced STB, which provides access to linear content, on-demand programming and online-video services (including Netflix), and has been adopted by more than half of its TV subscribers, who pay a premium for it.

- **Regulatory push helping MSOs gain transparency in billing subscribers**

  The main deterrent limiting subscription revenue were lack of visibility of subscriber base, (as LCOs controlled the last mile) and low digital cable ARPU. In 2013, the collection and submission of customer application forms (CAFs) gained traction after TRAI's final deadline for submission of CAFs for the 38 cities under Phase 2 of digitisation, and all major MSOs have nearly completed the process.

  This will facilitate inclusion of customer details in the MSO's subscriber management systems and ensure smooth implementation of gross billing and provision of channel packages to consumers. MSOs will be able to get actual revenue based on their customer base and the packages and other value added services that customers opt for. Gross billing, as mandated by TRAI, has also commenced in Delhi and Kolkata since December 2013.

  A key success factor for MSOs will be the ability to actually realise higher revenue share from LCOs. TRAI has recommended a revenue share of 55:45 (MSO:LCO) for the basic free-to-air (FTA) tier and 65:35 (MSO:LCO) for a combination of FTA and pay channels.

- **Broadcasters are seeing lower than expected gains in subscription revenue**

  With the first two phases of digitisation, broadcasters have witnessed a 10 to 15% growth in revenue. While digitisation brought a reduction in carriage fees, it was below the expectations of broadcasters. Carriage fees reduced by about 10 to 20% in the first phase, but no significant drop was seen thereafter. It is expected that with the implementation of all four phases of digitisation, MSOs will be able to increase their subscription revenue and further reduce carriage fees.

Status of cable digitisation in India

Phase	Rollout targets	Announced completion date
I	Delhi, Mumbai, Kolkata, Chennai	30 Jun 2012 (revised to 31 October 2012)
II	38 cities with population greater than 1 million	31 Mar 2013
III	All urban areas	30 Sep 2014 (Revised to December 2015)
IV	Rest of India	31 Dec 2014 (Revised to December 2015)

Source: Telecom Regulatory Authority of India

- **Phases 3 and 4 digitisation to be led by regional MSOs and LCOs**

  In Phases 3 and 4, considerable investment will be needed to set up the technology infrastructure in smaller towns. Phases 1 and 2 saw nearly 30 million STBs being seeded, while phase 3 and 4 will require about 70 million more boxes to be placed. Larger MSOs such as DEN and Hathway have started installing STBs in these markets. However, digitisation in phases 3 and 4 will largely be led by smaller MSOs and LCOs. These smaller players will face significant challenges in funding, logistics and do not have the experience of Phases 1 and 2. Nonetheless, regional MSOs are seizing the current opportunity and have started seeding STBs and plan to provide broadband services as well.

  As per reports, Punjab-headquartered Fastway Transmissions has seeded 450,000 STBs in Amritsar, Chandigarh and Ludhiana, and another one million in areas of Himachal Pradesh, Punjab and Haryana that are covered under Phases 3 and 4. The company also plans to provide broadband services. Other regional MSOs such as Gujarat Telelink Private Limited (GTPL) in Gujarat and Kolkata, Asianet Satellite Communications Limited (Asianet) in Kerala, Ortel Communications Limited (Ortel) in Odisha and Meghbela cable and broadband Services in West Bengal have also started setting up digital STBs in Phase 3 and 4 towns.

  Various initiatives are also being taken by the LCOs to maintain their position in the new digitised world. LCOs are trying to retain control of the consumers by forming cooperatives and investing in headends and STBs. LCOs from various states across the country have decided to form a pan-India association. At present, six state cable TV associations from West Bengal, Maharashtra, Andhra Pradesh, Karnataka, Gujarat and Madhya Pradesh have come together to be a part of this pan-India platform, with more state associations expected to join. LCOs are also trying to upgrade their technical skills. The Telecom Sector Skill Council of India (TSSCI) and Mumbai-based Druv Tech Systems have launched courses to provide LCOs with technological, sales and marketing and customer management skills.

The direct-to-network (DTN) digital cable TV service, based on Headend-in-the-sky (HITS) technology is also gaining focus. HITS uses a virtual headend from one location and broadcasts its signal via transponders to multiple LCOs, who then downlink the signal, add local customisation and send to their customers. Encryption, SMS, billing, etc are handled centrally by the HITS provider. Currently two groups have invested in HITS–Hinduja Venture's entity Grant Investrade, also known as GHITS (which received government permission to provide HITS services in March 2014), and Noida software technology park (NSTPL) promoted JAINHITS.

- **Moderate growth witnessed in television advertising**

  Owing to the economic slowdown and rupee depreciation, television advertising grew by 9% in 2013 to 138 billion INR, lower than the projected growth rate of 12%. Growth in advertising was sustained by the fast moving consumer goods (FMCG) category, which continued to increase spend, especially in the second half of the year, marked by the festive season.

  India was ranked 11th globally in terms of growth in television advertising revenue in 2013. However, most of the countries ahead of India are showing high growth on a very small base of advertising revenue. Argentina, Indonesia, Turkey and Russia are the only countries that have grown faster than India, on a comparable base.

  Advertising on television continued to contribute significantly to the overall E&M industry advertising pie, with a share of about 40%.

  Advertising revenue from digital platforms is still in a very nascent stage in India; however, genres such as English entertainment are seeing growth in revenue from digital advertising, and in the coming years, other genres are also expected to follow suit.

- **Indian delivery platforms have started on the multiscreen journey**

  The trend of viewing content on multiple screens, either simultaneously or at different times is slowly catching up in India. In 2013, Tata Sky launched multiscreen service 'Everywhere TV' in India, allowing users to watch live TV, catch up TV and VoD on multiple android devices, using the Tata sky mobile app. Dish TV also provides a similar service (Dishonline) via its mobile app.

  Indian consumers are increasingly watching a second screen, like a tablet or a smartphone, in addition to the television screen, mainly using the second screen to engage on social platforms during ad breaks. Continuous increase in smartphone subscribers, increasing tablet usage, larger screen sizes of mobiles and drop in smartphone prices are factors driving multi-platform viewing in India.

  In global markets, there was a concern that viewership of content on multiple devices may cannibalise viewing on traditional screens. However, the second screen has actually increased the appeal of television by making it more interactive and increasing viewer engagement with the content. Though this trend is fairly new in India, it provides an opportunity to deliver an integrated multiscreen campaign that captures viewers' attention as they shift between screens.

  In the US, Twitter has launched Twitter Amplify, a service that allows advertisers to promote television ads on Twitter. It enables campaign managers to monitor when an ad has aired on TV and send out promoted tweets, with five- to 10-second video clips, that coordinate with them. All major television networks in the US have subscribed to this service.

  In the UK, Sky provides its multiscreen service 'Skymultiscreen', which lets consumers watch shows on different screens in the house at the same time and 'Sky GO Extra' which lets users download shows on up to four devices and view later without an internet connection.

- **Leveraging the power of social media: Increasing popularity of social TV**

  TV viewing on multiscreen platforms has also given rise to the trend of social TV, which allows viewers to regularly engage with the television content via social platforms such as Facebook and Twitter, making TV viewing a real-time group experience. All broadcasters have enhanced their social media presence and are carefully monitoring viewer's response. Social media platforms serve as effective marketing tools to increase viewer engagement, drive popularity and enhance viewership. They also provide content owners with real-time feedback on the content, which can be used as an input to the storyline and characters.

  Popular TV shows such as Star Plus's *Satyamev Jayate*, Sony's *Bade Achhe Lagte Hain*, Colors's *Bigg Boss*, Star World's *MasterChef Australia* and MTV's *Coke Studio* have run successful Twitter campaigns. Social media is also being used innovatively by various broadcasters. For example, Fox Traveller launched an innovative and highly engaging social media campaign for its horror drama series *The Walking Dead*. As part of the campaign, zombie pranks were carried out in a phone booth and the videos were then shared with fans on social media platforms, along with contests held on Facebook and Twitter.

  NDTV has launched a personalised gratification model 'Graphity,' which enables sending a personalised tweet or any other gratification. Graphity was used by the film *Jai Ho* to send a personalised poster autographed by Salman Khan to anyone tweeting @ BeingSalmanKhan with #jaiho.

  Star Sports has launched a new interactive experience on Twitter called 'Tweeplay,' which allows users to watch replays of sports events by sending a tweet.

  In the US, ABC network employed Twitter Amplify for the 86th Academy Awards. Facebook is also planning to add a feature that will automatically recognise the TV shows or music playing in the background, allowing users to share that information with friends.

- **Digital as a delivery channel: Lack of original content for over the top (OTT) viewing**

  Most large broadcasters in India have started providing OTT services. Examples include 'Ditto TV' from Zee Entertainment, 'Sony LIV' from MSM India and 'Star Player' from Star India. However, OTT is being used as an alternate delivery channel, with no original or differentiated content being made for this platform. These platforms are mostly ad-funded as the Indian television consumer is very price sensitive and has access to content on cable and satellite (C&S) television platforms at very low prices. Creation of content specifically for the OTT platform will be determined by the availability and coverage of high-speed broadband, evolution of subscription business models and development of robust payment mechanisms. Going forward, as television ARPUs on C&S platforms rise with digitisation and 4G services are launched, broadcasters are expected to create original content for online television viewing and charge subscribers for it.

  In the US, online video service providers, such as Netflix and Amazon, are investing in content for online video to become exclusive providers of original content. Netflix outbid HBO to commission the political drama *House of Cards*, for 100 million USD in 2011. Amazon has also come out with a slate of original programming; pilots of two dramas and two comedies were released in February 2014.

  In the UK, Sky has launched 'Now TV', an internet-based TV service, to provide its sports content. Sky has been aggressively pricing these services to compete with Netflix.

In developed markets, cord cutting is not expected to have a significant impact, with overall pay-TV subscription growth forecast to continue over the next five years. However, there is the risk of pay-TV customers downgrading their packages, retaining basic packages and supplementing with OTT services. No such threat is envisaged currently in India and online television viewing will continue to supplement and not threaten traditional TV viewing, at least in the next five years.

- **TV audience measurement on path to resolving long-standing issues**

  In 2013, TAM included LC1 (less than Class I—towns with under 0.1 million population) markets in its television ratings to expand its footprint to include local towns. However, broadcasters questioned the accuracy of the data as television viewership habits are very different in small towns, which face recurrent power cuts. TAM subsequently shifted to measuring TV viewership per thousand (TVT) from the traditional TV rating points (TVRs) to reflect viewership in absolute numbers.

  Establishment of the Broadcast Audience Research Council (BARC) and its plan to set up a parallel TV ratings system is a welcome step in addressing the long-standing issues with television ratings. Concerns such as inadequate sample size, inadequate representation, lack of transparency and interference should be addressed in this system. However, a smooth transition is essential and regular audits are necessary as a competing ratings agency is not expected to become operational in the near future.

  With the growing popularity of multiscreen viewing, it is also imperative that the system effectively captures viewership on multiple platforms, including social media. In the US, for example, Nielsen (a provider of US TV ratings) started measuring online TV viewing on a range of screens and devices in 2013 and combining it with its traditional ratings.

- **Ad cap limits to favour long-term growth in advertising; may impact news and music channels in the short term**

  The implementation of the 12-minute ad cap rule is likely to benefit the television industry in the long term as it will ensure a better consumer experience, leading to higher viewership and reduced fragmentation in the industry. However, in the short term, broadcasters are wary of the ad limit as they have still not fully realised the benefits of digitisation and continue to rely on advertising revenue.

  Hindi general entertainment channels (GECs) aired about 16 to 18 minutes of advertising per hour. They have compensated for the loss in ad time by hiking ad rates in the order of 20 to 30%. News broadcasters show as much as 30 minutes of commercial time per hour and cater to many local and regional advertisers. Hence, it is more difficult for this genre to significantly increase ad rates. Similarly, smaller music channels are likely to face challenges as advertisers may now focus on channels with higher ratings and reach.

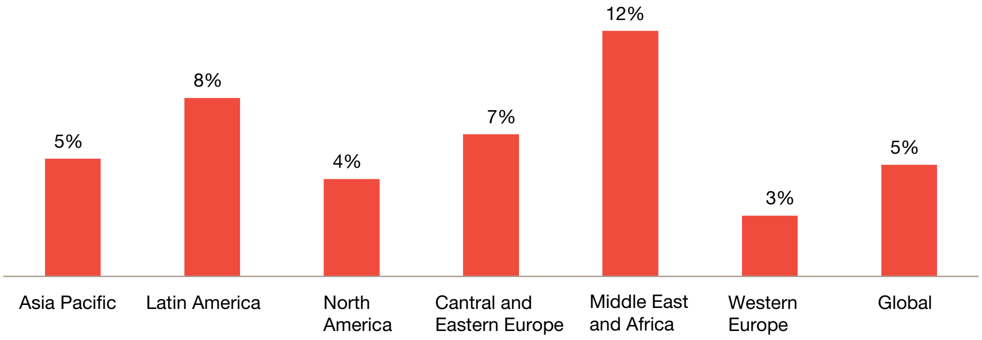
  Advertisers are not planning to increase their ad budgets owing to the limit. Instead, they may focus on getting higher returns from their ad spend. If the ad cap gets implemented, advertising spend may shift from television to other mediums, especially digital.

Key global trends: Television advertising

- **Despite the growth of digital media, TV advertising remains the place to be**

  Global TV advertising revenue is successfully responding to the rise of newer forms of digital media. Global TV advertising revenue will grow at a CAGR of 5.5% over the next five years, confirming TV as the 'place to be' for advertisers looking to reach big audiences.

TV advertising revenue CAGR by region (%), 2013-2018



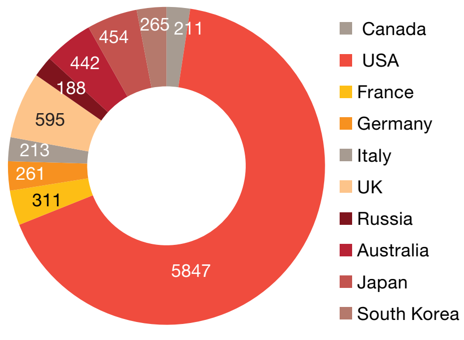
Source: PwC Global Entertainment and Media Outlook: 2014-2018, www.pwc.com/outlook

- **Online TV advertising will double its share of total TV advertising revenue in the next five years**

  Online TV advertising revenue from traditional broadcasters will increase from about 4 billion USD in 2013 to about 10 billion USD in 2018, and more than double its share of total TV advertising from about 2% in 2013 to about 5% in 2018. Traditional broadcasters still dominate and are adapting to the online video opportunity, so creating themselves a significant new revenue stream, despite competition from internet rivals.

US dominates online TV advertising from traditional broadcasters

Global online TV advertising from traditional broadcasters, top ten markets by revenue (million USD), 2018



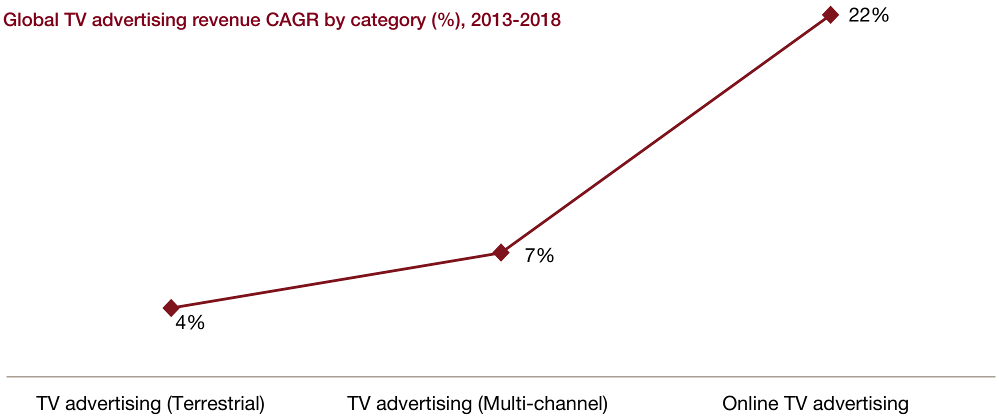
Source: PwC Global Entertainment and Media Outlook: 2014-2018, www.pwc.com/outlook

- **Terrestrial's share of advertising will fall as multichannel and online grow**

  Terrestrial TV is the primary contributor to advertising revenues, but its share of the TV advertising market will fall from 73% in 2013 to 68% in 2018. Multichannel's share, by contrast, will grow from 25% to 27%, while online TV advertising's share will rise from about 2% in 2013 to 5% in 2018.

Terrestrial TV advertising to grow at a CAGR of 4%

Global TV advertising revenue CAGR by category (%), 2013-2018



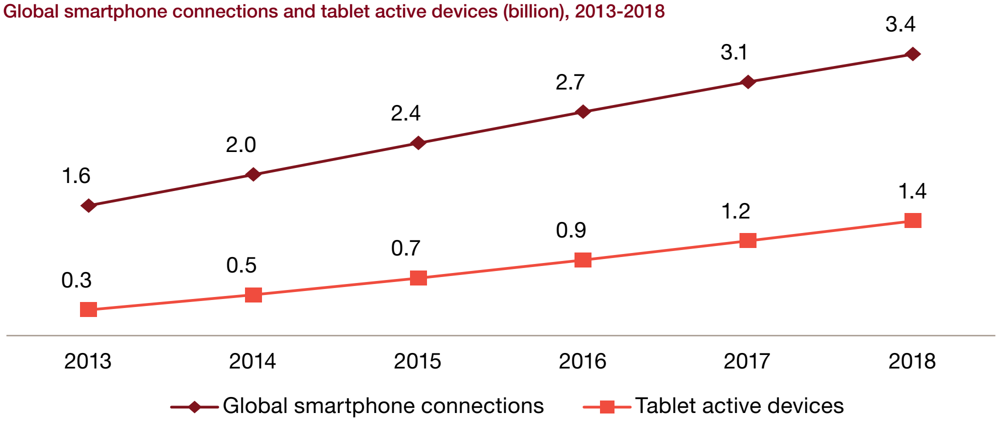
Source: PwC Global Entertainment and Media Outlook: 2014-2018, www.pwc.com/outlook

- **Failure to embrace new audience measurement metrics will see TV lose advertising revenue to other digital media players.**

  Even in the most advanced TV markets, broadcasters and advertisers are still unclear how audiences consume their content. Digital media metrics will quickly gain ground in the next five years and despite the apparent resilience of the current TV model, existing players need to adopt new metrics if they are to compete for advertising revenue in the long term.

Global smartphone connections approach 3.5 billion in 2018

Global smartphone connections and tablet active devices (billion), 2013-2018



Source: PwC Global Entertainment and Media Outlook: 2014-2018, www.pwc.com/outlook

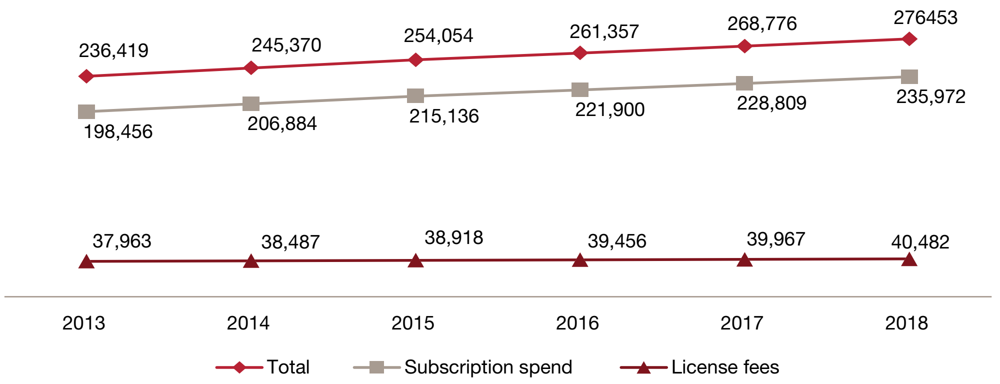
Key global trends: Television subscription

- **Subscription TV will not be daunted by the rise of OTT, as it grows across global markets**

  Global subscription TV revenues will grow at a CAGR of about 4% over the next five years to 236 billion USD in 2018. This growth demonstrates that subscription TV is in a healthy position, assisted by the initiatives it has implemented to counter the impact of OTT and other disruptive influences.

Pay TV growth continues as the industry innovates to ward off OTT disruption

Global expenditure (million USD)on TV subscriptions and licence fees, 2013-2018

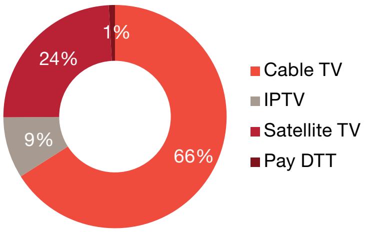


Source: PwC Global Entertainment and Media Outlook: 2014-2018, www.pwc.com/outlook

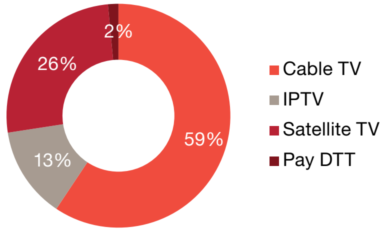
- **Cable TV will fight back in the next five years, boosted by the switch to digital**
  Digital cable will grow at a CAGR of about 10% over the next five years to reach 455 million subscribers in 2018. The move towards a digital-focused industry means cable will return to growth in the longer term.

Cable TV's share of the pay TV market will decline over the next five years

Global subscription TV household market share (%) by technology, 2013



Global subscription TV household market share (%) by technology, 2018

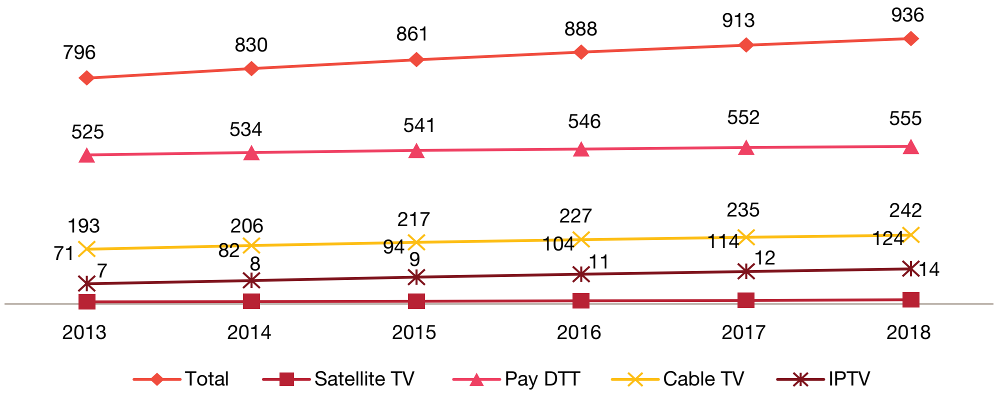


Source: PwC Global Entertainment and Media Outlook: 2014-2018, www.pwc.com/outlook

- **IPTV enjoying sporadic success, but fails on a global scale**
  IPTV subscriber numbers are growing quickly, but this success is limited to a few markets. China is one of the few countries making progress and its sheer scale makes it the clear market leader with 31% of all IPTV households globally in 2013.

IPTV fails to challenge cable and satellite on a worldwide basis

Global subscription TV household numbers (million) by technology, 2013-2018

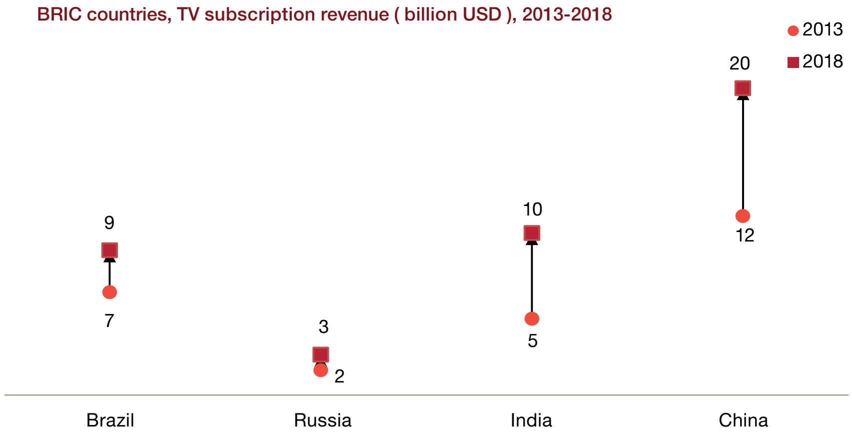


Source: PwC Global Entertainment and Media Outlook: 2014-2018, www.pwc.com/outlook

- **BRIC investment in sophisticated subscription TV technologies creates big gains over the next five years**

  All BRIC countries – but particularly India and China – have prioritised investment in subscription TV technology. They are reaping the benefits of this by moving up the global TV rankings.

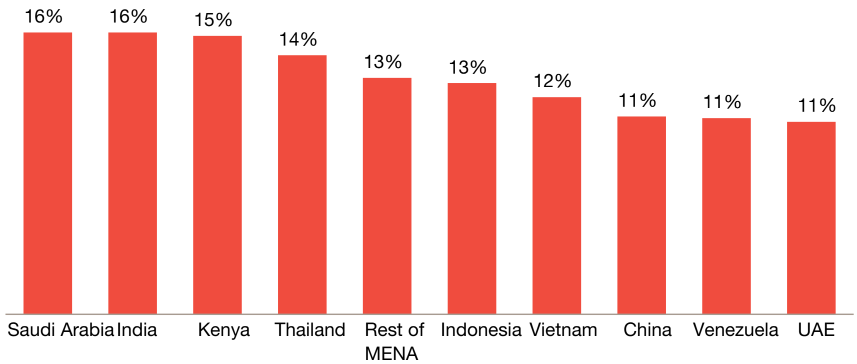
China is approaching 20 billion USD subscription revenues in 2018



Source: PwC Global Entertainment and Media Outlook: 2014-2018, www.pwc.com/outlook

...but smaller emerging markets will see double-digit growth rates. In the next five years, TV markets in smaller emerging territories are set to show the most impressive revenue growth levels. Along with India, markets like Saudi Arabia, Kenya and Thailand are also showing high growth.

The fastest growing countries for TV revenue growth (CAGR%), 2013-2018



Source: PwC Global Entertainment and Media Outlook: 2014-2018, www.pwc.com/outlook

Note: Based on combined value of TV subscription revenue and TV license fees, where applicable

Future outlook

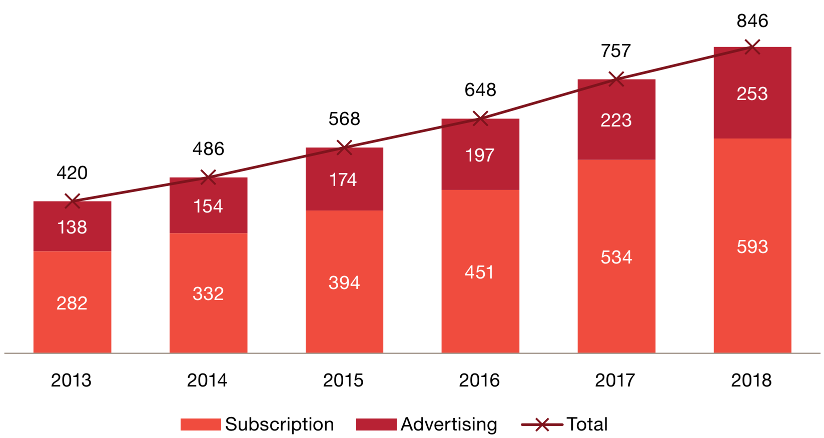
- **Steep growth expected in overall television market**

  The Indian television industry is expected to grow from 420 billion INR in 2013 to 846 billion INR in 2018, at a CAGR of about 15%.

  Subscription revenue is expected to increase from 282 billion INR in 2013 to 593 billion INR in 2018 at a CAGR of 16%. This growth will be driven by an increase in TV penetration, pay-TV subscribers and growth in ARPUs. Looking at a global comparison, India is among the fastest-growing markets in terms of forecasted growth in television subscription revenue from 2013 to 2018.

  Advertising revenue is expected to grow at a CAGR of about 13% to reach 253 billion INR in 2018 from 138 billion INR in 2013.

Projected growth of the industry in billion INR, 2013-2018



Source: PwC analysis

- **Increase in pay-TV penetration will drive growth in the television industry in the coming years**

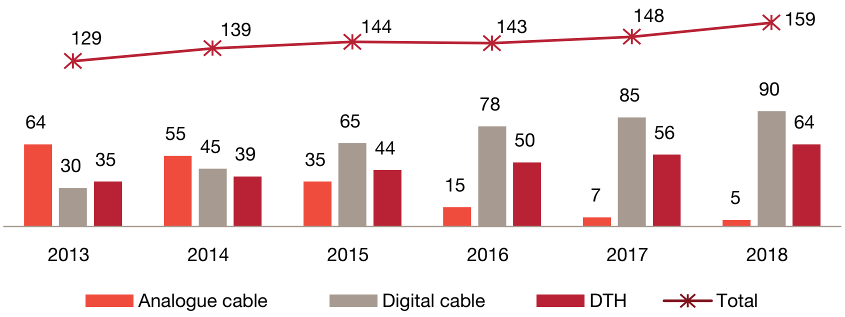
  TV penetration in India is around 60%, much lower than that in developed countries where it is greater than 90%. Hence, there is considerable potential to increase the number of TV households in India. Pay-TV penetration among TV owning households is also expected to increase steadily in the next few years, driving growth in the television industry.

  In the coming years, while the total number of cable subscribers is not expected to change considerably, a major shift is expected in the structure of the industry. Driven by digitisation, the number of digital cable subscribers is expected to rise, resulting in a steep fall in the analogue cable households. In the next five years, digital cable subscribers are expected to grow at a CAGR of about 25%, to reach 90 million in 2018.

  DTH subscribers are also expected to grow robustly to reach about 64 million in 2018 (active subscribers, net of churn) in 2018, at a CAGR of 13%.

Projected growth of pay-TV subscribers in India, 2013-2018

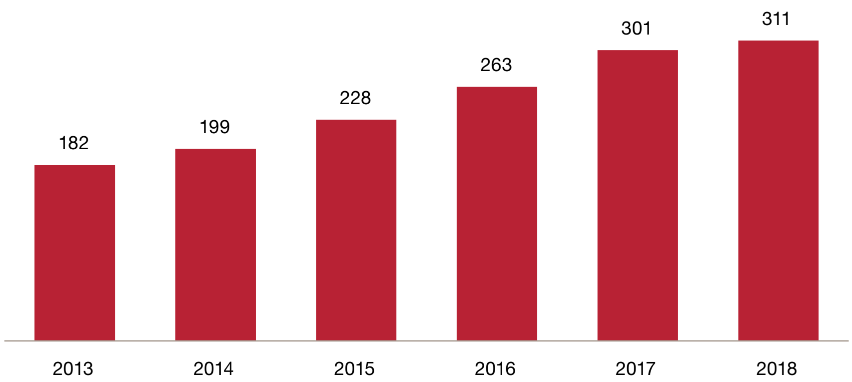
Pay-TV subscribers in India (million), 2013-2018



Source: PwC analysis

- **Pay-TV ARPUs set to increase with implementation of cable digitisation**
  TV viewing experience for consumers will be greatly enhanced post digitisation, with significant improvement in the quality of signals. Consumers will also have access to more number of channels, channel packages and value-added services such as VoD. DTH ARPUs are already on the rise and are expected to grow further with the launch of premium channels and uptake of HD subscribers. Driven by these factors and higher realisation levels post digitisation, the pay-TV ARPU is expected to reach about 311 INR by 2018, up from about 182 INR in 2013.

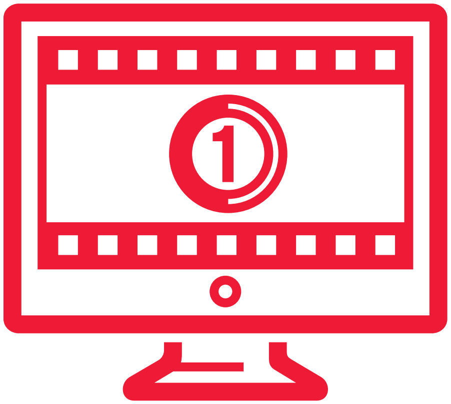
Projected growth of pay-TV ARPU (INR/month) in India, 2013-2018



Source: PwC analysis

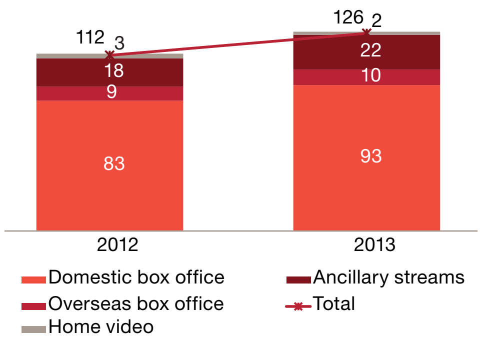
- **Niche content on premium channels will aid in revenue growth**
  Cable TV digitisation will facilitate the launch of new channels, and broadcasters will need to innovate and serve niche content to differentiate them from competition. As television audience measurement evolves and viewership of niche channels is adequately captured, broadcasters will be able to target specific audiences, especially in the upper SEC segments. This will help reduce their reliance on advertising and earn higher subscription revenue (from both traditional and digital platforms), as these segments have a higher propensity to pay for niche content. Initial headway in this direction has already been made with the launch of ad-free premium HD channels such as HBO Hits, HBO Defined and Star World Premiere HD.

Film



India's film industry has overcome the challenges posed by the economic slowdown and has grown strongly. The industry grew from 112 billion INR in 2012, to 126 billion INR in 2013, representing a growth rate of 13%. Domestic box-office collections continued to contribute a lion's share with revenue of about 93 billion INR. This growth was driven by the increase in the number of multiplex screens and average ticket price. Other components of the Indian film industry such as overseas box-office collections, cinema advertising and ancillary streams such as cable and satellite rights also grew robustly in 2013. However, the physical home video market continued to decline in 2013.

Growth of the industry in billion INR, 2012-2013



Source: PwC analysis

Key trends

- **Acceptance of content-driven films as the norm, as against 'star driven' blockbusters**

  Films released in 2013 such as *The Lunchbox, Madras Cafe*, *Jolly LLB* and *ABCD – Any Body Can Dance*, which were not led by 'stars' were successful at the box office. In early 2014, *Queen*, a heroine-focussed, liberal-themed movie did well, completely defying the accepted convention of a male-led star cast. Large studios too are now focussing on promoting new talent, both on-screen as well as behind, by means of such content-led films.

Net domestic box-office collections of select content-driven films in 2013

Film	Net domestic box-office collections in billion INR	Month of release	Studio
Kai Po Che!	0.50	February	UTV Motion Pictures
ABCD – Any Body Can Dance	0.46	February	UTV Spotboy
Madras Cafe	0.45	August	Viacom18 Motion Pictures, J.A. Entertainment, Rising Sun Films
Fukrey	0.37	June	Excel Entertainment
Jolly LLB	0.32	March	Fox STAR Studios
Lunchbox	0.22	September	UTV Motion Pictures, National Film Development Corporation of India (NDFC), others

Source: Industry discussions and press articles

- **Digital cinema enabling larger release of films and faster recovery of investment**

  A quiet transformation has already taken place in the Indian exhibition business with most theatres migrating to digital projection systems. It is estimated that over 90% of screens have already been digitised. Interestingly, India is at the forefront of this change occurring throughout the world. By 2013, about 75% of the world's screens were digitised with considerable variations across regions. For instance, over 80 and 70% of screens in the US and Europe have been digitised respectively, whereas in Latin America, only 45% of cinemas have been digitised.

  The Indian film industry has already started reaping the fruits of digital exhibition. Releases are now much wider especially in terms of deeply penetrating Tier-1 cities and reaching Tier-2 and Tier-3 cities. As a result, films are ramping up collections at a fast clip, allowing them to recoup most of their investments in production and publicity in the first week. The total collections of successful films have reached a much higher level than earlier.

Net domestic box-office collections and number of screens of select films in 2013 and 2012

Film (released in 2013)	No of screens	Net domestic box-office collections in billion INR	Film (released in 2012)	No of screens	Net domestic box-office collections in billion INR
Dhoom:3	4,500	2.8	Ek Tha Tiger	3,500	2.0
Krrish:3	4,000	2.4	Dabangg 2	3,000	1.6
Chennai Express	3,700	2.3	Rowdy Rathore	2,800	1.3
Yeh Jawaani Hai Deewani	3,000	1.9	Agneepath	3,000	1.2
Goliyon ki Rasleela… Ramleela	2,000	1.1	Jab Tak Hai Jaan	2,500	1.2

Source: Industry discussions and press articles

- **Improving performance of Hollywood film releases in India**

  The market share of Hollywood movies in India is estimated to be around 10% of total box-office revenues. Although individual US studio films often perform impressively, they face fierce competition from Indian movies.

  Nonetheless, US studios have continued to make gains in India in recent years, due to multiplex expansion, better marketing and dubbing films into local languages such as Hindi, Tamil and Telugu. However, US studios are still some way from witnessing a boom similar to the one seen in China, where marquee Hollywood movies can earn over 100 million USD through box-office collections. For instance, *Iron Man 3* earned about 120 million USD in its theatrical release in China, whereas in India, the movie earned about 12 million USD (gross).

Gross box-office collections of select Hollywood films

Film (2013)	Studio	Total gross box-office collection in India (million USD)
Iron Man 3	Disney	12.2
Fast & Furious 6	Universal	10.2
Man of Steel	Warner Brothers	6.3
Gravity	Warner Brothers	6.2
The Wolverine	Fox	4.6
G.I. Joe: Retaliation	Paramount	4.2
The Conjuring	Warner Brothers	3.8
Thor: The Dark World	Disney	3.6
World War Z	Paramount	3.0
A Good Day to Die Hard	Fox	2.3

Source: Industry discussions and press articles

- **Film studios increasing focus on regional films**

  With films in multiple languages, the regional film market in India is highly diversified. While films in the southern markets of Tamil, Telugu, Malayalam and Kannada dominate with the maximum number of releases, those in other regional markets such as Bengali, Marathi, Bhojpuri, Gujarati and Punjabi are also gaining significance. Tamil film *Vishwaroopam* was the highest grossing regional film in 2013 and made about 2 billion INR. Telugu film *Attarintiki Daredi* also did excellent business of about 2 billion INR.

Number of certified films: Top 10 Indian languages

Language	Number of certified films (FY2013)
Tamil	292
Telugu	280
Hindi	255
Malayalam	195
Kannada	133
Bengali	127
Marathi	121
Bhojpuri	99
Gujarati	67
Punjabi	31
Total	1,600

Source: Film Federation of India

All the large film studios in India are also focussing on regional films, and not just for the southern markets. Punjabi, Bengali and Marathi markets are also gaining attention.

Select regional films produced by large studios (2013/H1-2014)

Major studios	Select regional films released in 2013/H1-2014
Eros International	Punjabi: • Saadi Love Story • Rangeelay Tamil: • Aandava Perumal • Karuppampatti
Fox Star Studios	Tamil: • Vathikuchi • Raja Rani
Reliance Entertainment	Bengali: • Deewana • Mahapurush O Kapurush • Ganesh Talkies • Boss • Jaatishwar Telugu: • Sahasam • Attarintiki Daredi • Bhai • Manam • Thoofan
UTV Motion Pictures (Disney)	Tamil: • Settai • Theeya Velai Seiyyanum Kumaru
Yash Raj Films	Tamil: • Aaha Kalyanam (dubbed version also released in Telugu)
Viacom 18 Motion Pictures	Marathi: • Zapatlela 2

Source: Industry discussions and press articles

- **Indian films being distributed in wider overseas markets and beyond the Indian diaspora**

  Overseas box office collections of Indian films continued to increase at a healthy rate, driven in part by wider releases in traditional geographies (US-Canada, UK, Australia-New Zealand, Middle East, etc) and through release *in new territories*. For example, *Chennai Express* was reportedly the first Hindi film to be released on the same day in Peru as in India. It was also released in Morocco, Germany, Switzerland, Austria, France and Israel.

  Bhaag Milkha Bhaag also received a wide overseas release spanning countries such as the US, Australia, Britain, Fiji, Singapore, Thailand, Malaysia, Hong Kong, East Africa, South Africa, Indonesia, the UAE and New Zealand. Additionally, it opened in Japan with over 70 prints. *The Lunchbox* achieved stunning success in the overseas market. The total overseas box-office revenue (gross) of *The Lunchbox* was about 700 million INR (70 crore INR), far higher than its domestic box-office collections (gross) of about 280 million INR.

Box-office collections of *The Lunchbox* in select overseas markets

Country	Box office collections (gross) in million INR
France	272.2
US	155.8
Germany	112.9
Switzerland	43.6
Italy	36.8
UK and Ireland	32.0
Canada	22.9
Hong Kong	10.3
Netherlands	8.1
UAE	5.0

Source: Industry discussions and press articles

- **Leveraging the power of social media: An essential part of film promotion**

  As advertising on television and print becomes increasingly expensive, social media provides a cost-effective means to effectively promote films prior to their release. Social media is now an essential part of a film's promotional strategy and platforms are being used in creative ways to create a buzz and keep the audience interest piqued till the release.

  For example, Yash Raj ran a campaign across YouTube, Facebook, Twitter and Pinterest for the promotion of *Dhoom 3*. YouTube was the primary platform and multiple teasers, trailers and the theme song was released on it. The theatrical trailer was released both in the IMAX format and simultaneously launched on YouTube. The trailer garnered 12 million views in 20 days.

  Microblogging site Twitter was used to host an inter-city competition for the promotion of *Bullett Raja*. Fans were asked to tweet why they would want the *Bullett Raja* trailer to be released in their city first with the hashtag #wewantBullettRaja. By the end of this contest, the number of Twitter followers for *Bullett Raja* rose to 1227.

  The first trailer of *Dedh Ishqiya* was launched exclusively on Facebook for 24 hours, before its full release.

- **Digital as a delivery channel: Electronic home video gaining ground in India**

  The electronic home video market is growing strongly across the world, even in India. Over-the-top (OTT) distribution has acquired strong roots in the Indian market with multiple producers, rights owners and aggregators using the internet and mobile platforms to monetise their content libraries better. Significant OTT offerings include Eros Now (from Eros International), Lukup, SPuul and Box TV (from Times Internet). Google's YouTube and Google Play Movies also have a number of Indian movies available ad-funded and on payment.

The upside to getting the online and mobile content distribution strategy right is quite high. For instance, in North America, the electronic home video market is seeing double-digit annual revenue growth. In fact, the overall home video market in North America has started increasing after years of decline and the electronic market revenue is expected to exceed physical market revenue within the next two to three years.

In India, electronic home video consumption is expected to receive a fillip with the increasing adoption of 3G and eventually 4G mobile technologies. Nonetheless, it is important for industry players to ensure that their business models are aligned with consumer interest and the propensity to pay.

Developed markets such as the US are witnessing increasing moves by digital distributors to develop their own content in order to reduce their dependence on acquired content. For example, in 2012, Netflix struck an agreement with Disney for exclusive access to new films from Disney, Pixar and Marvel from 2016. It also plans to commission original feature films in the US.

Amazon and other players in the OTT space are also increasing their investment in content production. Digital distributors are also partnering with major US studios. For instance, Sony is reportedly providing original filmed content to Netflix.

The physical home-video sales and rental market is continuing its downward journey. The market has already declined significantly over the past few years and it is unlikely that this trend is going to be broken anytime soon. Wider releases, smaller release windows and piracy have made the offering unattractive for consumers. In addition, the proliferation of electronic home video alternatives has led to continuing decline in the physical home video market.

This is consistent with global trends. For instance, in late 2013, Blockbuster, a leading home movie and video game rental service provider, announced that it would close its last remaining stores in the US. This highlights the problems facing physical home video distributors in the face of fierce competition from digital distributors. Across the world, outlets for buying and renting VCDs, DVDs and Blu-Ray are continuing to vanish. Nonetheless, the physical home video market is still significant and will remain so till 2018 and beyond.

Key global trends

- The global cinema business is resilient. The boom in film production and cinema going in China (now the largest market for film after the US) Russia, India and Brazil will ensure that this spike continues.
- According to the Motion Picture Association of America (MPAA) statistics, the number of cinema screens increased 5% worldwide in 2012 due to major increases in Asia Pacific and the Middle East.
- There will be more and more ways to watch films. Alongside the state-of-the-art cinemas showing big-budget, first-run movies in 3D or IMAX at premium ticket prices, the opportunities to download and watch filmed entertainment will continue to multiply.
- In the US alone, according to the MPAA, 42 million homes had internet-connected media devices (smartphones, tablets, smart TVs, etc) capable of streaming and downloading films in 2013.
- In the past few years, filmed entertainment revenues saw minor declines in some Western European markets. For example, the Spanish box office revenue fell between 2010 and 2013 as the country struggled to cope with piracy, a new sales tax on tickets and an ailing economy. However, European cinema will continue to benefit from state aid in the form of ongoing tax breaks. The global competition to attract international film production and thereby drive inward investment and create jobs will intensify further.
- Developed markets continue to take steps to control piracy. In December 2012, the US and Russia developed an IPR Action Plan that addressed the areas of greatest mutual concern in IPR protection and enforcement. Russia also enacted a law to establish a specialised IPR court in 2013 and amended its criminal code to revise criminal thresholds for copyright piracy. Meanwhile in China, the Supreme People's Court is cracking down on internet piracy.
- The US film sector will continue to generate huge profits internationally but will face increasing competition from new production hubs in China and Russia.
- Digital distributors will continue to rely primarily on acquired content. However, Netflix's signature success with 2013 drama *House of Cards*, which 'premiered' on the streaming service, underlined the appetite among digital distributors for investing in original first-run product. Led by Amazon and Netflix, providers of movie streaming services will increase their investment in the production of filmed content.

- Amazon already has well over 200 million customers worldwide and Netflix is aiming to increase its subscriber base to 90 million in the US and even more overseas. In late 2013, Netflix had more than 44 million subscribers globally with some 10 million overseas. Of the 2 billion USD it invests on content annually, only a small proportion (150 million USD) has gone on original programming, but that is expected to rise.
- 3D is no longer the key driver for the introduction of digital screens; digitisation is now driven by 2D installations.

Future outlook

- **Indian film industry poised for strong growth with bulk of the increase driven by domestic box-office collections**

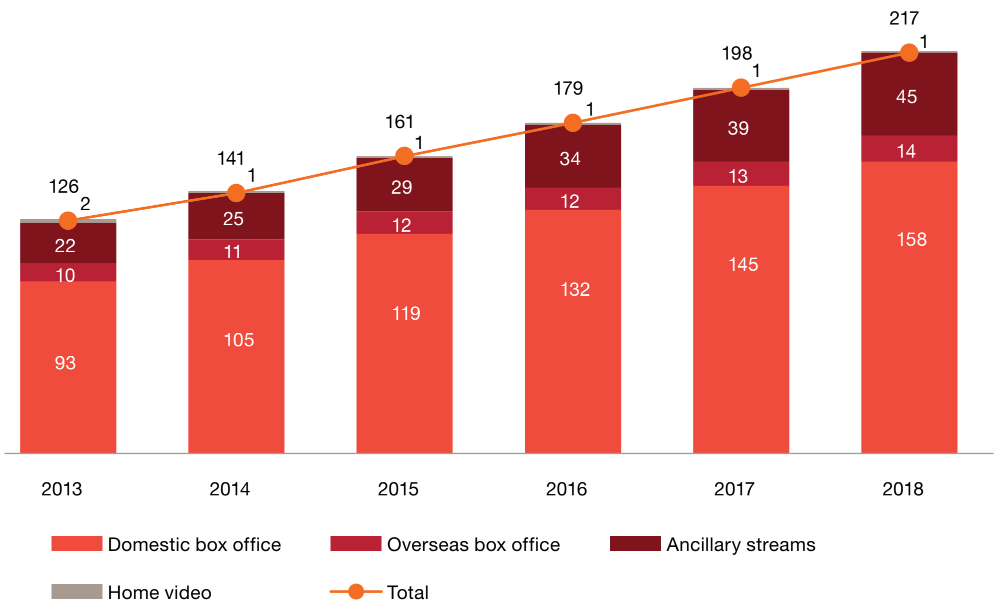
  The revenue of the Indian film industry is expected to increase strongly at about 12% CAGR from 126 billion INR in 2013 to about 217 billion INR in 2018.

Domestic box-office collections will continue to dominate the market with revenues increasing robustly due to sustained increase in average ticket prices as well as rise in the availability of theatre-seats.

The Indian market is highly under-penetrated at present with only about eight screens per million people as compared with over 100 screens per million in developed markets. The increase in screens will happen over time and most of the new screens will be housed in multiplexes that offer a superior viewing experience albeit at higher prices. Additionally, with sustained increase in purchasing power and lack of entertainment alternatives and leisure activities, especially in Tier-2 and Tier-3 cities, occupancy rates of multiplexes will also inch up. This will also contribute to an increase in box-office collections.

Accordingly, revenues from domestic box-office are expected to increase at over 11% CAGR from about 93 billion INR in 2013 to almost 160 billion INR in 2018.

Projected growth of the industry in billion INR, 2013-2018

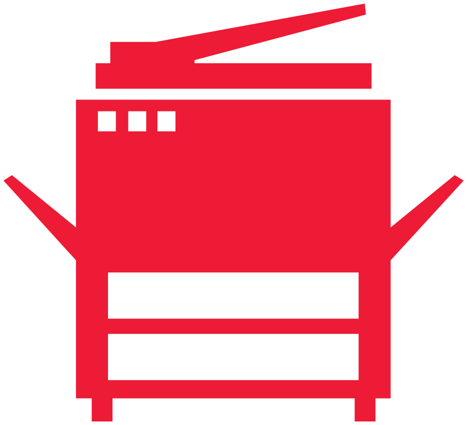


Source: PwC analysis

- **Increasing globalisation of Indian film industry**

  The industry is witnessing increasing global collaborations. India recently signed an audiovisual co-production treaty with Canada and is in discussion with China and Australia for a similar arrangement. In these treaties, resources and expertise from the two countries are agreed to be shared for film production. Member countries award benefits to each other's industries in terms of providing qualified manpower, access to shooting locations, financing programmes, etc. India has also recently announced a single-window clearance system to facilitate the shooting of foreign films in the country.

Print



The Indian print industry grew from 209 billion INR in 2012 to 223 billion INR in 2013, representing a growth rate of 7%, driven substantially by an increase in advertising revenue. Newspapers accounted for 207 billion INR (93%), whereas consumer magazines contributed about 16 billion INR (7%) of the print sector revenue.

Newspaper advertising revenue grew by 7% to reach 136 billion INR, whereas circulation revenue grew from 66 billion INR in 2012 to 71 billion INR in 2013, registering a growth of 8%. Growth in circulation was boosted by the launch of new editions throughout the year, focussed especially on the large regional language segments in the country.

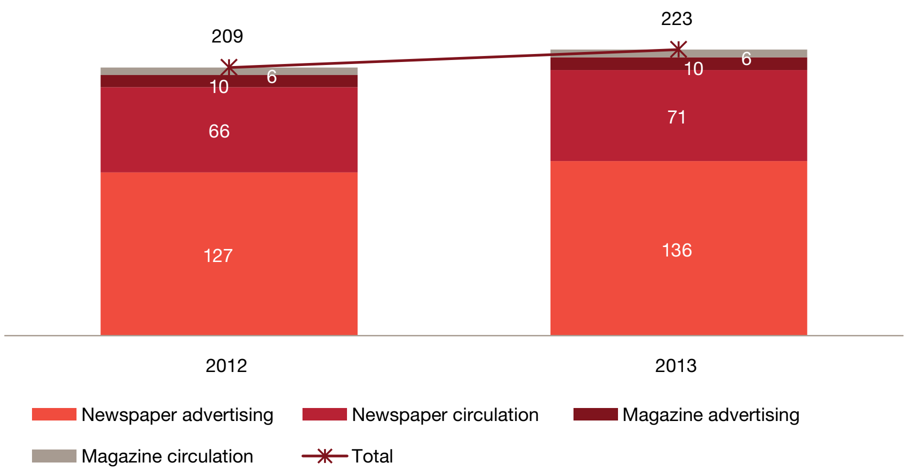
The Indian magazine publishing industry grew marginally to around 16 billion INR in 2013, representing a growth of 2%, driven largely by growth in advertising revenue, which also grew by around 2%.

Key trends

- **Continued growth in circulation of newspapers driven primarily by Hindi and regional language dailies**

  Contrary to global trends, the circulation of physical newspaper copies in India has been on the upswing, with overall newspaper circulation revenues increasing at the rate of 8% from 2012 to 2013. This makes India the third ranked country (in terms of growth in circulation revenue from 2012 to 2013) among global markets. The top 10 markets in this list are primarily from Asia and Latin America, as other developed markets in North America and Europe are witnessing a steady decline in circulation.

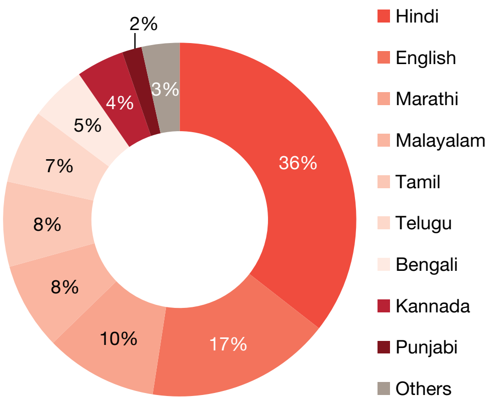
Growth of the industry in billion INR, 2012-2013



Source: PwC analysis
Note: To avoid double counting, digital advertising revenues of print have been included in internet advertising

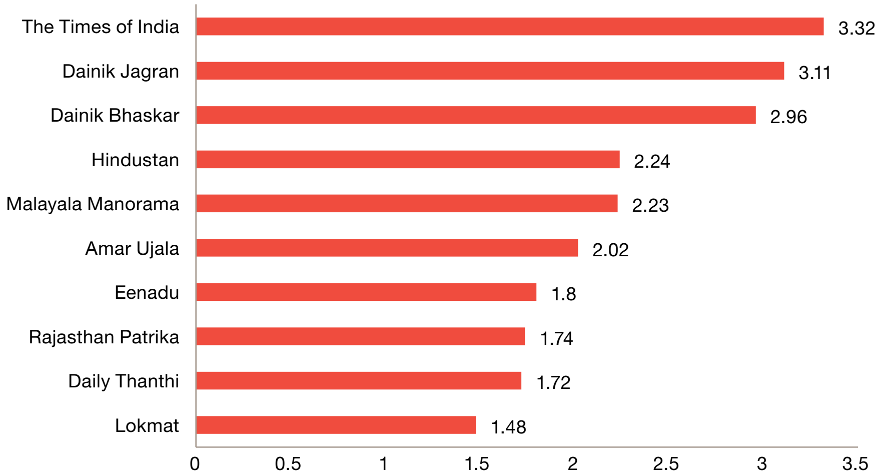
Within India, circulation growth continues to be primarily driven by Hindi and regional language publications. Based on figures released by the Audit Bureau of Circulation, Hindi language dailies account for approximately 36% of total certified newspaper circulation in India; and English language newspapers account for 17% of the total. The other regional languages account for the remaining 47%, with Marathi, Malayalam, Tamil, Telugu and Bengali being the most popular.

Language-wise contribution (certified circulation for daily newspapers), Jul–Dec 2013



Source: Audit Bureau of Circulation

Average qualifying sales of top 10 dailies (million copies), Jul-Dec 2013



Source: Audit Bureau of Circulation

Five of the top 10 newspapers (by certified circulation) are Hindi language dailies, with only one English language daily, *The Times of India*, featuring in that list. *Dainik Jagran, Dainik Bhaskar* and *Hindustan* are the top three Hindi language newspapers, and *Malayala Manorama* is the highest ranked non-Hindi regional language daily.

In 2013, growth in circulation was driven by the launch of fresh editions especially in regional language markets. In September 2013, Kasturi and Sons launched the Tamil language edition of daily *The Hindu*. This is the group's first entry into the regional language market, with the earlier focus being only on English language publications. The Tamil newspaper is priced at 3 INR on weekdays and 4 INR on weekends, and the initial print run was estimated to be 5.25 lakh copies. *The Hindu* (Tamil) also includes a single business page that contains translated reports from the Group's financial English daily, *The Hindu Business Line*.

In January 2014, DB Corp launched its foray into the Bihar market, with the Patna edition of *Dainik Bhaskar*. The 24-page edition is priced at 2.50 INR and the initial print run was estimated to be 1.65 to 1.70 lakh copies. Prior to the launch, DB Corp conducted a two-phase reader survey, reaching out to more than 3.38 lakh households in the city, to understand and study their preferences and then to take pre-launch bookings in the second phase.

- **Strong growth in advertising revenue for newspapers**

Newspaper advertising revenue continues to exhibit robust growth in the Indian market. This growth was primarily driven by the continued focus of sectors such as FMCG and retail, and real estate on newspapers as a core medium for advertising. Elections in several states have also provided a boost to advertising revenues.

In 2013, the government announced a 19% increase in the newspaper advertising rates it pays, disbursed by the Directorate of Audio Visual Publicity (DAVP). This was announced in mid-November 2013 with the price increase being implemented retrospectively from 15 October 2013. This rate hike is expected to have a positive impact on newspaper advertising revenues, with the central government spending approximately 4 billion INR on print advertisements the previous year. After this announcement, the state governments are also expected to increase their advertising rates which may have a much larger impact on the sector, as the print advertising spend for state governments is estimated to be four to five times higher. The DAVP rate hike was also announced at an appropriate time, prior to the Indian general elections which saw heightened advertising activity, both from leading political parties as well as the government.

- **Increased cost pressure on publishers due to rising cost of newsprint**

Demand for newsprint in India continues to grow at a steady rate of over 9% over the previous year, driven primarily by increased circulation of newspapers as well as a rise in the number of pages in some editions. India also continues to rely heavily on imports, with more than 60% of the demand met through international newsprint.

This increased volume of demand in India has coincided with a rise in prices as well. While globally, the price of newsprint declined last year, the landed price in India was severely impacted by depreciation of the Indian rupee leading to an increase in price by over 5%. This impact was felt more by English language dailies as they use more imported newsprint as compared to Hindi and vernacular language newspapers.

Innovation in newspaper advertising: India

Continuing with the trend in 2012, newspaper companies and advertisers have attempted to develop and deploy fresh ideas for advertising campaigns to differentiate themselves and create high visibility among readers. An example is the advertisement launched by Johnson & Johnson India, where the pages were infused with the smell of their baby powder, to draw the reader's attention to their flagship range of products. This campaign was launched across eight metro cities, in leading dailies such as *The Times of India*, *The Hindu*, *Malayala Manorama* and *Mathrubhumi*.

Another such example of innovation in advertising last year was the campaign for the relaunch of Skoda Octavia in the *Hindustan Times* and *The Times of India*. In the *Hindustan Times*, the advertisement featured a gatefold innovation, with the headlights image of the car along with the message 'Unfold this page to find out why legends come back better'. Unfolding the pages led to a full-size image of the new Skoda Octavia spread across four pages. For the same campaign, in *The Times of India*, the front page had been transformed into a classifieds page for selling cars with the message, 'Reasons to sell your car are just around the corner'. This was followed by a full-page Skoda advertisement on page 3, with the front news page moved to page 2.

Innovation in magazine advertising: Global

Magazines in the Western markets are experimenting with innovative advertising models, such as augmented reality, to boost reader engagement beyond what is possible with print-only or digital-only content.Net-a-Porter, a reputed brand in online luxury retail, entered into the print realm by launching *Porter* magazine. With the custom Net-a-Porter app, readers can scan the pages to reveal links and instantly buy items of their choice as they see them in the magazine. The magazine provides convenient links back to Net-a-Porter's online outlet to buy the items.

A new magazine from Hubert Burda Media, *Meet*, a lifestyle publication aimed at male food enthusiasts, launched with Layar's interactive print. Readers can use Layar to scan the pages of the magazine, filled not only with recipes for men, but also many lifestyle suggestions, in order to gain access to bonus digital content, including shopping lists and videos. It remains to be seen whether such models will gain further traction.

- **Formation of alliances among major publications to collaborate in advertising sales**

  The Telegraph, *The Hindu*, *Hindustan Times* and their vernacular publications, *The Hindu Tamil*, *Hindustan* and *Ananda Bazar Patrika* came together in 2013 to form an alliance, OneIndia, with the aim of collaborating and connecting with select advertisers (by invitation) through a single point of contact. The alliance claims that it offers the unique benefit of a single-platform reach comparable and incremental to television. Such an initiative has the potential to provide benefits to advertisers and publications alike, with advertisers having a single-window opportunity to reach out to a large reader base. On the other hand, the publications have the opportunity and scale to further tap into new and large advertisers in the Indian market. However, seamless implementation and collaboration between the different entities will be critical for realising the true potential of the alliance.

- **Issues in readership measurement**

  The year 2013 yet again witnessed issues in readership measurement when the Indian Readership Survey 2013 released in January 2014. A large number of publishers including Bennett, Coleman and Co. Ltd (BCCL) and Kasturi and Sons Ltd questioned the findings and pointed out anomalies in the report. As a result, The Readership Studies Council of India (RSCI) and the Media Research Users Council (MRUC) decided to temporarily suspend the findings of the latest IRS 2013 report and keep the survey findings in abeyance. In the meantime, revalidation and audit of the field work is being conducted by a third party.

- **Supreme Court ruling on Majithia Wage Board recommendations expected to have adverse impact on cost structure**

  The Supreme Court has upheld the recommendations of the Majithia Wage Board and asked newspapers and news agencies to pay employees the revised pay scale with arrears from November 2011. Employees will also be paid revised wages from April 2014 onwards. It is believed that these recommendations, if fully implemented, may drive an 80 to 100% growth in wages, resulting in increased pressure on profit margins, especially for smaller newspapers.

- **Specialised magazines in India to be a key growth driver**

  Specialised magazine companies have been successful, in India as well as in the West. Conde Nast (Vogue, GQ) or Vikatan (Aval Vikatan, TimePass) have found profitable niches in the lifestyle segment. As per industry estimates, the auto and kids genres in the magazines segment are among the fastest growing in India. This is corroborated by the acquisition by Delhi Press of motoring magazine *BS Motoring* and the launch of *Highlights Champs* and *Highlights Genies,* magazines for kids, in collaboration with US-based *Highlights Kids*.

  According to research conducted by the Association of Indian Magazines, (AIM) magazines are the preferred source for information on auto, travel and beauty and health. In addition, according to the same survey, 83% readers don't see magazine ads as interruptions. This reinforces the belief that readership will grow among niche magazines due to preference for the medium for information on certain sectors. Advertising alongside will grow as ads are not perceived as irksome.

- **Digital as a delivery channel**

  Digital newsstands such as Magzter sell digital versions of English and vernacular magazines alike, as major vernacular publications have gone online and are gaining popularity. *Champak* and *Sarita* are examples of magazines that went online in 2013. Digital magazine stores such as Zinio sell only niche magazines, while sites such as Groupon have offered discounts on digital magazines by the India Today Group.

  For standalone magazines that do not enjoy economies of scale, digital distribution is expected to bring down the costs of operation. Significantly however, digital circulation revenue is almost negligible, as the audience for digital is niche and focussed, and as a result, volumes are low.

Next Issue, a digital content subscription service in the US, charges a flat monthly subscription fee, to cater to those who read magazines in high volume. The subscription fee of 10 to 15 USD/month, when compared with similar services in other industries, such as Netflix, Hulu Plus, Spotify Premium and Amazon Prime, is high.

Netflix: 8 to 12 USD/month

Hulu Plus: 8 USD/month

Spotify Premium: 10 USD/month

Amazon Prime: 8 USD/month (99 USD/yr)

It is yet to be seen if subscribers who consume magazines in high volume will help make up for the low digital subscription revenue elsewhere in the market.

- **Social media used by newspapers to create brand visibility**

  Leveraging the power of social media in India is now a critical focus area for all leading brands in the country, as this enables them to reach out and connect with a large consumer base in a cost-effective manner. In line with this trend, newspaper publishers have also started to focus on social media platforms to drive visibility for their brands. As an example, *Mint* extensively uses Twitter where it has more than 124,000 followers. Reporters and editors tweet and retweet their stories on the platform, thereby providing visibility across a wide reader base. *The Times of India* is another example of newspapers successfully using social media, with a follower base of over 2.1 million users on Twitter and 6 million likes on their Facebook page.

  Newspapers are also using social media to promote and create visibility for their public campaigns. One such example is the 'No TV day' campaign by *Hindustan Times*, for residents in Mumbai. Facebook was used as the chief medium to create engagement and excitement among readers, especially around the various events planned for the day.

  This phenomenon is not limited only to English language dailies, with Hindi papers such as *Dainik Bhaskar* and *Dainik Jagran* having a sizeable following on Facebook. Overall, social media provides an effective medium for newspapers to engage with readers throughout the day, as well as to reach out to new audiences and create visibility for the brand.

- **Social media being used by magazines to drive community building**

  English language and vernacular magazines alike are embracing the community building model. *Chitralekha* has used an immensely successful social media strategy through Facebook, comprising nearly 350,000 fans coupled with 85,000 talking about it.

  An example of a co-creation project is the 'Made by You' edition of *Femina* magazine in April 2013, an edition containing only reader-produced articles. The endeavour was considered a success, as *Femina* doubled the price of the edition. Circulation numbers are said to have increased.

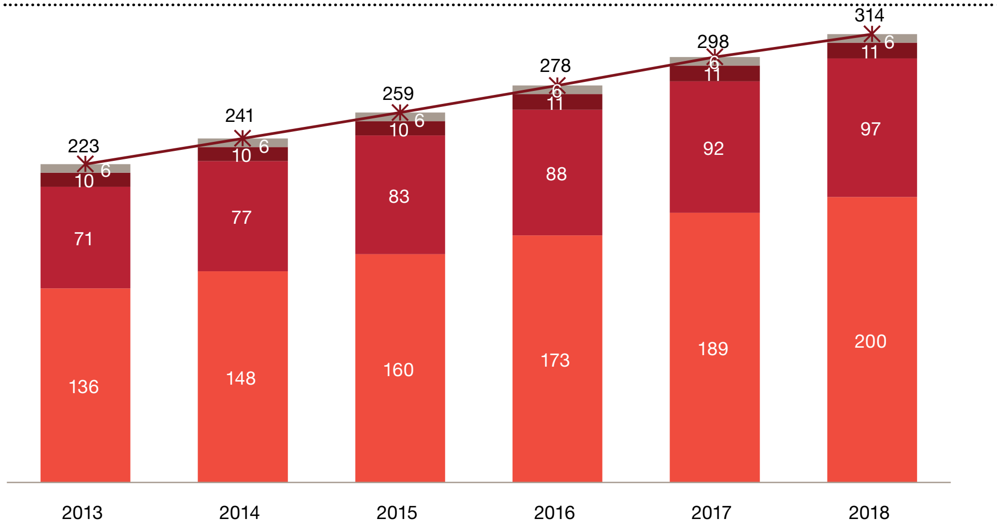
  At the outset, the magazine tested the appetite of readers to be involved in co-creation through Twitter, and subsequently raised awareness by engaging with the blogging community. A Facebook app was built through which stories were received, and Google+ Hangouts were used to hold editorial meetings with contributing members. The experience of co-creation highlighted to *Femina* new opportunities in advertising, with the possibility of getting relevant advertisers to sponsor the entire magazine. *Femina* has also come across a potential new business which could see its readers more regularly writing fictional content, under the name of *Femina Fast Fiction*.

Key global trends

- The global newspaper industry has endured a difficult few years. Against the backdrop of ongoing digital disruption, which has pulled readers to alternate digital media sources, the worldwide economic crisis further impacted sector fortunes. However, aggregate decline has improved to become just a crawl, for three main reasons: the worst of some Western markets' decline is itself in the past; digital payments promise new consumer income; and emerging economies are fuelling fresh growth in print newspaper fortunes. All this has contributed to keeping annual industry revenue decline globally, which was 10.2% in 2009, to just 0.7% in 2013.
- In North America and Western Europe, the newspaper market remains one in recession. Publishers are trying to make up for circulation decline by raising consumer prices. Wringing more money from their remaining readers sounds like a recipe for turning newspapers into an artisan product for an ever-dwindling number of premium customers, not a mass commodity. Yet this is working to minimise circulation revenue decline. However, advertising revenue to publishers in these established markets is declining faster than circulation revenue, as agencies start to migrate budgets towards consumers online, where advertising can be better targeted.
- Tablet and mobile devices are among the biggest change drivers for the industry. As adoption of the devices, and subsequently of digital content on those devices, continues to grow, there is a clear threat to traditional printed newspapers. However, tablet and mobile users are noted to be more inclined to pay for content than website users. So many news publishers have tried charging for digital content for the first time in a generation; first for tablet editions and then for associated websites. Revenue from these digital projects is growing fast, but in 2013 comprised just 2% of total, cross-platform circulation revenue. Against the backdrop of ongoing declines in print circulation revenue and advertising revenue plus a digital advertising stream whose growth is yet to compensate for losses elsewhere, these Western markets are seeing ongoing decline.
- Emerging economies of Latin America and Asia Pacific, however, have booming markets for newspapers. Here, growing populations, increased literacy and, often, a political thirst for information, are fuelling a growing appetite for news products, some of which defy overbearing regulation and threats to their staff to report the news. In fast-growing economies like Vietnam and Peru, advertisers are turning on to the opportunity to showcase their services to growing numbers of newspaper readers, whose rising spending power is making them more and more interested in advertisers' goods.
- Digital will prove a major driver for the global magazine publishing market, with increasing fixed broadband penetration in emerging markets enabling access to digital magazines and increasing tablet penetration in developed markets enabling access to magazine apps, which can be used to purchase subscriptions.
- Print magazines have fallen in popularity with the rise in internet access and, in particular, tablet penetration. There is a wealth of free content available online and it can be updated far more frequently so, for topics like celebrity news, magazines are inferior to websites.
- Advertisers have been slow to abandon magazine advertising but the market will be sluggish in the future. Subscriber information is an attraction for advertisers; when they purchase an ad spot, they can be reasonably sure of the demographics of the people who will see it and the size of the audience without relying on historical trends to estimate this. Subscriber information is highly detailed as consumers give a large amount of information about themselves when purchasing a print subscription.
- Growth – or the lack thereof – is the Achilles heel of the consumer magazine market. When compared with segments such as filmed entertainment, broadcast and cable TV, and even radio, consumer magazine publishing is an underperformer in both subscriber revenue growth and advertising revenue growth.
- Magazine publishers will have looked carefully at the newspaper industry's experiments with paywalls and have begun to experiment with paywalls of their own. Esquire, for instance, charged 1.99 USD for access to an investigative article which took months to produce. *Sports Illustrated* has tested a model which asks readers to watch an ad before giving them access to certain articles from the current issue. Growth generation is challenging, especially given that strategies to increase one revenue element can reduce growth in another.

- Publishers are looking at recently launched digital 'all-you-can-read' subscription services, with Next Issue, Zinio and Readr already on the market. These have only seen small take-up so far but, as tablet ownership increases and publishers refine their business models, they are likely to seem more attractive to consumers. It should be noted that the magazine with the largest digital circulation in the US is *Game Informer*, which is bundled with GameStop's reward card. Game Informer has a certified circulation of nearly 3 million. To put this in perspective, there were 10.2 million certified subscribers to the entire digital magazine market in the first half of 2013. This is rather indicative of the entire online content ecosystem: where consumers can consume quality content for free, they will.
- Piracy will hinder digital revenues since digital content is significantly easier to reproduce. Magazine piracy has not yet been a problem for publishers but there is no doubt that magazine piracy will grow as digital circulations grow, particularly in countries where piracy is widespread.

Projected growth of the industry in billion INR, 2013-2018



Source: PwC analysis

Future outlook

- **Growth will be led by newspaper sector**

  The newspaper industry is expected to grow at a CAGR of 7% from 2013 to 2018, with overall revenues reaching 297 billion INR in 2018. Newspaper circulation revenue is expected to increase from 71 billion INR in 2013 to 97 billion INR in 2018, at a CAGR of 6%. In addition, advertising revenue is expected to grow at a faster rate of 8% between 2013 and 2018, reaching 200 billion INR in 2018. The Indian general elections 2014 saw a blitzkrieg of advertising from leading political parties. This is expected to have a significant impact on newspaper advertising revenues for the year. The advertising revenues for the sector are projected to increase to 148 billion INR in 2014, at an annual growth rate of 9%.

  The revenue of the Indian magazine industry is expected to increase gradually at about 2% CAGR to increase from 16 billion INR in 2013 to about 17 billion INR in 2018.

Contrary to trends in developed countries in Europe and North America, the circulation of newspapers in India will continue to show robust growth. Looking at a global comparison, India is ranked fourth in terms of forecasted growth in circulation revenue from 2013 to 2018, behind Peru, China and Vietnam.

The robust growth in circulation is supplemented by a corresponding growth in advertising as well. In terms of forecasted growth rates between 2013 and 2018, India is ranked fourth on the global scale. Newspapers are expected to remain a popular platform for advertisers to reach out to a large consumer base in the country.

Digital as a delivery channel: Increasing popularity of digital news platforms

The rapidly growing penetration of the internet in India, both through broadband and mobile networks is expected to further drive consumers to access news through digital platforms. Readers are increasingly looking for real-time access to the latest from across the world. This has also led to the launch of a few 'digital-only' news platforms and blogs in India like Firstpost.com, Scroll.in and Newslaundry which provide quality editorials and commentary on relevant topics, and are already popular in social media forums. Similar changes are expected to drive rapid growth in advertising spend on news in the digital domain over the next five years. However, in the short term traditional newspaper advertising will continue to dominate in India.

Wired and mobile internet access

Revenue from wired and mobile internet access grew from 171 billion INR to about 252 billion INR in 2013, representing a growth of 47%, driven by growth in mobile internet access revenue. Mobile internet access revenue grew by 95% to 177 billion INR in 2013. The ubiquitous presence of mobile phone connections (estimated at 886 million in December 2013), availability of cost-effective smartphones and feature-phones, technology upgrades by mobile operators and the tech-savvy young generation have driven the growth in mobile internet access revenues.

Key trends

- **Mobile internet access to continue growing strongly**

  Mobile internet access continues to benefit significantly from the higher penetration of compatible mobile phones, making it a more attractive option to access the internet for many consumers. In rural areas, wireless technologies are enabling consumers to affordably access the internet, previously difficult due to inadequate wireline penetration. It is expected that mobile internet users in India will increase by about 30% in 2014, albeit from a low base.

  Steadily declining smartphone prices, are driving the adoption of mobile internet services further among the majority of the population. For instance, smartphone shipments in India increased almost three times from about 16 million in 2012 to over 44 million in 2013.

Growth will also be driven by continued rationalisation of prices for mobile internet access. In 2013, India's mobile operators focussed on bringing 3G tariffs in line with those for 2G services in order to encourage adoption. Most operators made steep tariff cuts to encourage the migration of 2G data users to 3G. Bharti Airtel, the only operator currently offering 4G LTE services in the country, went a step further and brought entry-level LTE pricing in line with 3G. However, the coverage of Bharti Airtel's LTE service is limited to just four cities and heavy data users continue to be its core target segment.

A number of other broadband wireless access licensees, including Aircel, Tikona and Reliance Jio Infocomm (previously known as Infotel), are expected to start offering LTE services in 2014/2015. Reliance Jio Infocomm has established network sharing deals with Reliance Communications and Bharti Airtel to minimise its network investments. With the planned launch of multiple LTE networks in 2014/2015, competition will increase and is likely to lead to more affordable LTE services. These developments are expected to continue driving the growth of mobile internet across the country.

Penetration of mobile internet in select developed and developing countries, 2013

Country	Penetration of mobile internet (%)
Japan	86%
Australia	61%
UK	61%
USA	60%
Germany	52%
France	46%
Russia	44%
China	38%
Brazil	31%
India	16%

Source: TRAI, PwC analysis

- **While mobile internet access continues to grow rapidly, India trails in wired broadband internet penetration**

  As per the Telecom Regulatory Authority of India (TRAI), India had only about 18.3 million wired internet connections, including 14.5 million wired broadband connections, in December 2013. The wired broadband household penetration in India is just 6%, an abysmally low figure when compared with developed countries as well as select emerging countries.

Household penetration of wired broadband in select developed and developing countries, 2013

Country	Household penetration of wired broadband (%)
France	89%
UK	79%
USA	79%
Australia	74%
Japan	72%
Germany	70%
Russia	52%
China	38%
Brazil	30%
India	6%

Source: TRAI, PwC Global Entertainment and Media Outlook 2014-2018, www.pwc.com/outlook and PwC India analysis

In comparison, the situation with mobile internet was better. As per the TRAI, there were about 220 million wireless internet subscribers in India in December 2013. The number of mobile broadband connections (typically using technology such as 3G) was reported by the TRAI to be about 40 million in December 2013; this is almost thrice the number of wired broadband connections in India.

- **Change in definition of broadband augurs well for consumers over the long-term**

  Towards the end of 2013, the TRAI changed the definition of broadband to mean download speeds of at least 512 kbps. While this is not significant when compared with global benchmarks, it is consistent with the National Telecom Policy (NTP) 2012, which has also specified that broadband speeds should increase to 2 Mbps by 2015.

- **Cable digitisation could support growth in wired broadband subscriptions**

  Cable TV networks are well established in India, especially in urban areas. Till recently, most cable TV networks were analogue and precluded the carriage of high-speed data. Therefore, the proportion of cable broadband connections among total broadband connections was quite low.

  The situation is changing dramatically now. The digitisation of analogue cable TV services is in progress across India. Phases 3 and 4 of the digitisation project are currently in progress and pan-India digitisation is scheduled to be completed by December 2015.

  Digitisation of cable TV networks will enable cable operators to offer broadband services using existing infrastructure, helping push the adoption of fixed broadband services.

- **Potentially transformational NOFN project progressing, albeit slowly**

  The NTP 2012 sets out a number of broadband-related targets, including 175 million connections by 2017. To help achieve these targets, the government had planned to deploy a fibre network to gram panchayats, local self-government bodies, at village level, which would be funded by operators via a Universal Service Obligation Fund (USOF) at a cost of about 200 billion INR (3.2 billion USD). The intent was to provide non-discriminatory access to enable operators to offer broadband services to the rural and remote areas at affordable prices. The project was planned to be completed by October 2013, but the progress of the National Optical Fibre Network (NOFN) project has been slow and the deadline has been pushed to September 2015. The government also plans to use the NOFN infrastructure to rollout wi-fi hotspots to the gram panchayats by March 2016.

This is primarily due to the inadequacy of existing wireline infrastructure in the country. There were less than 30 million fixed telephone lines active in India in December 2013 with almost 80% of them in urban areas. This continues to restrict the growth of wired broadband in India.

As per the new timeline, the NOFN will cover 100,000 gram panchayats by March 2014, followed by a further 100,000 by March 2015 and an additional 50,000 by September 2015. However, by October 2013, only three pilot deployments had been completed, connecting 58 gram panchayats, less than 1% of the target. At the current rate, the NOFN project is expected to continue well beyond the September 2015 deadline.

Key global trends

- Internet access – and increasingly fixed broadband – is being seen as a utility rather than a luxury in both advanced and emerging markets by consumers and governments, as more new and existing commercial and public services go online. As a result, broadband has risen up the political agenda around the world spurring government initiatives aimed at improving its availability, quality and affordability.
- Mobile internet services will drive the majority of growth, thanks to three factors: most mobile internet markets are underpenetrated; infrastructure is cheaper and faster to rollout on a widespread basis; and the growing availability of mobile internet-enabled devices. Where there is investment in fixed-line infrastructure, it tends to be focused on upgrading existing broadband networks to support superfast speeds rather than new lines.
- Growth in mobile internet access will be particularly strong in emerging markets, where fixed-line coverage, PC penetration and income levels are low and because of the relatively higher costs of rolling out fixed broadband.
- Countries with growing economies and increasingly large youth populations will see particularly strong growth, due to the growing popularity of smartphones and online services with this technology-literate demographic. Facebook and local social-networking services are proving to be particularly strong drivers of mobile-broadband adoption.
- The growing availability of sub-200 USD, followed by sub-100 USD, smartphones will also have a dramatic effect on mobile internet adoption by making it more viable for operators to bundle devices and services for lower-income segments, particularly in emerging markets.
- Innovative pricing and segmentation will also make mobile internet services more affordable to the wider population. The effect will be most dramatic in emerging markets where many cannot afford traditional postpaid-broadband plans.
- Operator strategies to bundle or cross-sell fixed broadband and mobile internet services with each other, and fixed-telephony and TV, will increasingly drive internet access adoption by broadening the appeal and affordability of services. The bundling of third-party online content and applications, such as Spotify's music-streaming service and Netflix's video-on-demand offer, will also make both mobile internet and fixed broadband services more compelling.
- 3G services will drive the majority of mobile internet growth, as the technology becomes standard in developed markets and a strategic priority for operators in emerging markets, where 2G still dominates.
- The availability of 4G mobile internet services will spur some mobile internet adoption in the world's more developed markets, especially once more compatible smartphones become available and competition between one or more operators leads to lower prices. But their effect will be greater on revenues and average revenue per user (ARPU) than on subscriber numbers, as customers will largely be existing mobile internet users migrating from 3G.
- But, while 4G broadband services might be able to command a premium in developed markets temporarily, pressure to migrate customers will lead to intense price competition and limit ARPU growth. Many markets now host two or more 4G operators.
- 4G is also becoming increasingly available in emerging markets, but its effect on both subscribers and revenue will be minimal because of the relatively high cost of handsets and tariffs. In the medium term, many operators in emerging markets in Latin America and the Middle East will largely seek to use 4G to attract higher-end subscribers, though prices will fall as more providers enter the market and smartphones become more affordable.
- In a number of other emerging markets, LTE is initially being used to provide fixed broadband access services in selected areas. It will only become a viable services for smartphones and other mobile devices once coverage improves and handset prices fall.

- The impact of the global financial crisis will vary. Growth in badly hit economies will suffer due to lower disposable income and governments prioritising spending and policymaking on other issues rather than making fixed broadband more available and affordable.
- Broadband's growing status as a utility in developed markets and an aspirational service in emerging ones means ARPU growth is likely to be hit harder than subscription adoption, due to operator strategies to make services more affordable to consumers.
- Growth in fixed broadband household numbers, however, will be inhibited by weaknesses in property markets. Fewer newly-built homes and fewer people moving home, which historically have been strong drivers of adoption, will mean fewer new subscriptions. The US and UK housing markets have begun to show signs of recovery and some major emerging economies remain strong, but others look likely to continue to suffer.
- Coverage of fixed-line infrastructure will place a limit on fixed broadband's potential, particularly in areas of developed and emerging markets that have low population densities and income levels, making it unprofitable to deploy networks.
- Low levels of PC ownership will also inhibit fixed broadband's growth, especially in emerging markets where low incomes mean that many people's first—and perhaps the only—internet service will be via a mobile broadband-enabled handset.
- High penetration levels will be the ultimate limit of internet access growth, even if other inhibitors are weak or absent.

Future outlook

- **Internet access market to be dominated by the mobile platform**

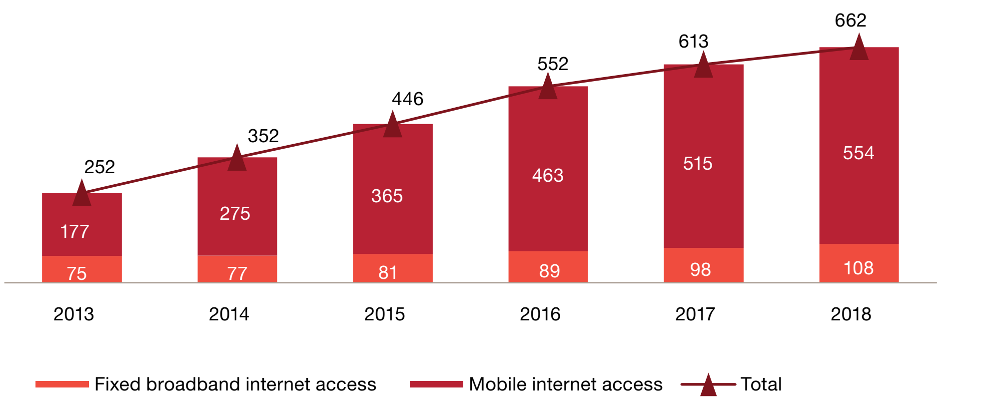
  The number of wired broadband connections is expected to increase by about 10% CAGR to reach about 23 million in 2018. This number could be higher, provided the government of India is able to accelerate the implementation of the NOFN project. Nonetheless, India will continue to lag behind developed and leading emerging countries in terms of household penetration of fixed broadband.

  Mobile internet is expected to continue growing robustly as more and more existing mobile subscribers start using their mobile devices for accessing information and other services on the internet. The roll-out of affordable 3G and 4G services and increasing availability of smartphones for less than 5,000 INR will lead to most consumers accessing the internet through their mobile phones.

  The number of mobile internet connections is expected to increase at over 20% CAGR to reach about 543 million in 2018. This will make India among the world leaders in mobile internet in terms of total number of connections, a sharp contrast to its abysmal performance in wired broadband.

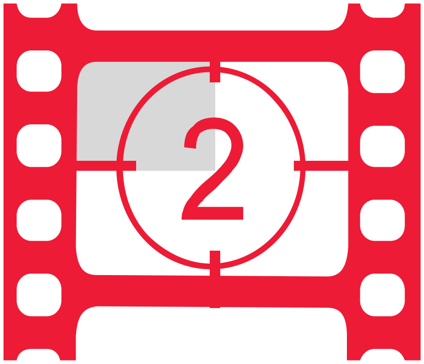
  This will present both opportunities and challenges to online players, who will have to optimise the content consumption experience for a multitude of mobile devices and connection speeds.

Projected growth of the industry in billion INR, 2013-2018



Source: PwC analysis

Wired and mobile internet advertising



The internet advertising market in India was estimated to be about 30 billion INR in 2013, which grew by about 26% from 23 billion INR in 2012. The market was dominated by wired internet advertising, which generated revenue of about 26 billion INR in 2013. Mobile internet advertising revenue also grew rapidly, albeit from a smaller base, and reached 3 billion INR in 2013.

Driven by the rapidly increasing adoption and usage of internet across the country, the wired and mobile internet advertising market is currently on the cusp of sustained rapid growth. It is expected to emerge as a significant component of advertisers' media mix over the next few years.

Key trends

- **Share of internet advertising is rising in the total advertising market**

  Wired and mobile internet advertising has started to emerge as a significant component of the media mix for advertisers. In 2013, internet advertising accounted for about 8% of the total advertising revenues, up from about 7% in 2012. This trend is expected to continue over the next few years and as consumers start spending more time on the internet, advertisers are likely to continue to increase their spends on this medium.

  The latent potential for growth in internet advertising revenues is also high. For instance, internet advertising accounted for nearly 25% of advertising revenues in the US in 2013 and the share is expected to continue rising over the next few years. The corresponding value in the UK is almost 45%, indicating that internet advertising is the dominant mode of advertising there. In many emerging countries, internet advertising accounts for a large share of total advertising revenues. For instance, in 2013, internet advertising contributed almost 40% of overall advertising revenues in China.

- **Leveraging the power of social media: Social networking sites will continue to be important for internet advertising**

  The adoption and usage of online social networks among the Indian internet user base continues to be high. As per reports, over 85% of Indian wired internet users use online social networks such as Facebook. Even in terms of time spent on websites, social networks continue to dominate other types of websites and portals with about 25% share of total online minutes.

  The popularity of social networks is also highlighted by reports indicating that India has over 100 million active Facebook users, making it the second-largest market in the world in terms of number of users. Facebook plans to ramp up this number significantly by tying up with mobile operators and device vendors to offer easy, cost-effective access to millions of mobile phone users in the country.

  Thus, with a large and growing base of active and engaged users, the importance of online social networks will continually increase from the internet advertising perspective.

  This is also consistent with trends observed in many countries across the world. The amount of time people spend using the internet continues to rise, even in developed markets. Social media sites, in particular, have proved enormously popular and have increased the amount of time that users spend on the internet. Some of this time is taken from other media, such as print, but much of this is 'new time' to the world of media and is often taken from non-media-related activities.

- **Video advertising gaining ground**

  Video advertisements can either be inserted in a video feed (eg on sites such as YouTube) or embedded in a webpage. Till recently, the low penetration of high-speed broadband was a significant barrier to the penetration of video advertising.

  However, this has started to change. For instance, the Telecom Regulatory Authority of India (TRAI) has changed the definition of broadband services to mean connections offering download speeds of more than 512kbps (earlier threshold was 256kbps). Further, 3G mobile services have already established a firm foothold in India and high-speed mobile subscribers are expected to increase rapidly over the next few years. As internet speeds continue to rise, there will be greater opportunities for advertisers to use video advertisements to target relevant customers.

  The past few years have seen video advertising grow rapidly in developed countries. For instance, the video advertising market in the UK witnessed a whopping 74% CAGR over 2009-2013. The US also witnessed robust year-on-year growth of over 30% in the same time-frame, albeit from a much higher base.

- **Mobile internet advertising growing strongly, but challenges remain**

  Although mobile internet advertising revenue is currently not very large, it is witnessing rapid growth on the back of increased penetration of smartphones, which are likely to become more affordable for a much wider range of Internet users.

  Developed countries have witnessed rapid increases in mobile internet advertising over the past few years. For instance, mobile internet advertising revenue in the US and the UK has witnessed CAGRs of over 100%, albeit from small bases, over 2009-2013.

  Yet there are issues, in all markets across the world, owing to the fact that mobile-specific ad formats are still in their infancy. Besides, the small screen that a smartphone offers allows fewer ads to be displayed.

- **Barriers such as low literacy, inadequate local-language content and poor fixed broadband penetration need to be overcome**

  In spite of the high latent potential for Internet advertising in India, there are still major barriers in terms of low literacy and inadequate local-language content. A major problem for internet advertising in India is that there simply isn't enough premium content produced in local languages. Most local ad players are still focussed on English-language content for the English-speaking audience.

  Fixed broadband penetration is extremely low and, while it will grow, it will be far from a mass-market phenomenon even by the end of the forecast period, due to the cost of services and the difficulty of wiring a large country like India with a significant rural population.

  The rise of mobile internet and smartphone usage can mitigate these issues to some extent. For instance, many device vendors have started offering software-based mobile interfaces in local languages (eg Hindi, Marathi, etc). These work well with touchscreen-based smartphones, thereby overcoming the limitations of ordinary mobile handsets with rigid pre-printed buttons.

  Mobile apps, especially free apps on widely distributed mobile operating systems such as Android, can overcome the gap of inadequate local-language content. Lastly, the staggering rise in mobile Internet usage in India can certainly overcome the limitations of poor pan-India fixed broadband network penetration.

Key global trends

- The global internet advertising market has, by and large, been able to weather global economic circumstances and grow even where other media have flattened or contracted. It has achieved this for several reasons. The sheer number of internet users continues to rise, in terms of both broadband penetration, and those that have access to the medium in public places like schools, libraries or Internet cafes. In key markets like China and Russia, penetration remains below 55%; in the likes of India and Indonesia, fixed broadband penetration is under 10%. Even in markets like the US, there is room to grow: fixed broadband penetration in the US is only 79%, and several million users remain on dial-up connections.
- Broadband prices are also either generally flat, in developed markets, or declining in developing markets. The latter is a result of two factors: increased competition in some areas, such as Latin America, and a need for operators to increase their addressable market. Given this, we forecast increased take-up of fixed broadband in most markets, encouraging further online interaction.
- The range of devices through which users can access the Web, including tablets and mobiles, is also increasing the amount of time people spend online and its relevance in people's lives. Further, internet advertising, especially performance-based advertising, also continues to be an attractive option for even the most spend-cautious of advertisers.
- Search remains, arguably, the most accountable of any medium, offline or otherwise, with advertisers able to see exactly what value they get on every penny spent basis. Despite sites now having plenty of other sources for referrals—mobile apps, and social sites like Facebook and Twitter in particular—users still continue to make more and more searches. E-commerce continues to grow in tandem with, in some developed markets, a decline in shopping in physical retail outlets. Google and other search engines, such as Baidu, continue to innovate on their products to make them more attractive to both consumers and advertisers. In some local media markets, such search-related spending is therefore 'leaving' the local industry.
- Display, while not enjoying the meteoric growth it did in the early days of internet advertising, also continues to expand. The declining cost of display advertising, while not necessarily healthy for the medium, has turned it into an extremely cost-efficient way to build mass and reach quickly. New and more creative brand-oriented formats, new forms of targeting, and new forms of buying and trading display advertising, will continue to drive the medium forward.
- Video advertising and mobile advertising will start to play a significant role in the online ad market by the end of 2018, with an overall CAGR of 24% and 22%, respectively. Video brings some of the branding advantages that TV has enjoyed to internet-enabled devices, particularly as more and more premium content providers start to offer ad-funded content online. Its share of the total market will increase from 4% in 2013 to 8% in 2018, with North America and developed Western European markets driving the early adoption. Mobile devices are starting to become, for many users (particularly in developing markets), the primary rather than secondary way to reach the internet.This opens up new opportunities for advertisers, especially as smartphone penetration increases throughout the forecast period. Mobile advertising revenues will exceed classified revenues in 2014 and represent 19% of the online market in 2018.
- Advertisers still need to understand and quantify the return on their investment, and effective measurement of video and other display advertising will be a key factor in persuading advertisers to migrate more of their budget to these new formats in future. However, if that can be achieved, it's fair to say that online advertising is in good health.

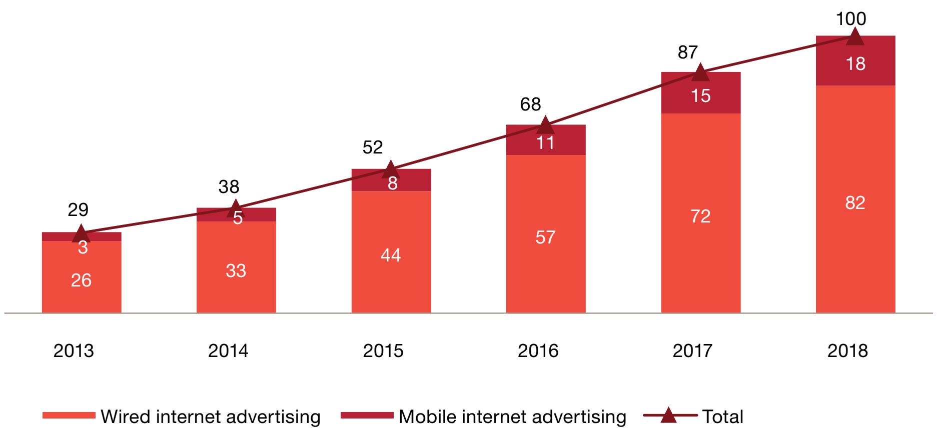
Future outlook

- **Both wired and mobile internet advertising markets expected to grow strongly over the next five years**

  Backed by strong growth in adoption and usage of wired as well as wireless internet, the Indian internet advertising market is expected to grow at a fast rate over the next five years.

  The wired internet advertising market is expected to grow by 26% CAGR from 2013 to reach 82 billion INR in 2018. The mobile internet market is expected to grow even more sharply, backed by rapid growth in the number of users of smartphones and high-speed mobile internet. The market size is expected to grow over five times to about 18 billion INR in 2018, representing a CAGR of about 41%. This translates to an expected overall market size of 100 billion INR in 2018, at a CAGR of about 28%.

Projected growth of the industry in billion INR, 2013-2018



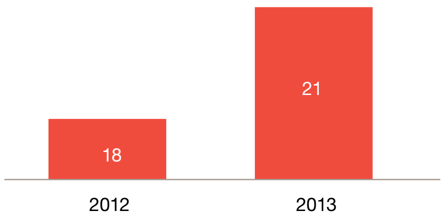
Source: PwC analysis

Despite the expected strong growth, the Indian internet advertising market (with projected revenues of 1.8 billion USD in 2018) is expected to remain minuscule in size as compared to developed markets such as the US, which is expected to reach revenues of about 66 billion USD in 2018.

Gaming

The Indian gaming industry grew to around 21 billion INR in 2013, representing a robust growth of about 20%. This growth was driven mainly by mobile gaming, which grew by 34% to reach 10 billion INR in 2013. Mobile and console gaming now comprise almost an equal share of the gaming market, with some cannibalisation seen in 2013, as console games took a hit on account of low-cost smartphones and tablets. The effort made by industry players and the government to promote gaming, both for sport as well as for business, has also helped grow the industry.

Growth of the industry in billion INR, 2012-2013



Source: PwC analysis

Key trends

- **Mobile gaming is fuelling the growth in the overall gaming industry**

  Mobile gaming grew to 10 billion INR in 2013, representing a 34% growth over the previous year, driven largely by consumer spending. Retail VAS, in the form of gaming cards is also expected to become significant in the near future, given that Indian consumers are more comfortable transacting with cash.

Rationalisation of revenue share between telcos and game developers has also led to more games appearing through carriers, further enhancing the growth of this segment.

The abundance of games on feature phones (as India is still a rich feature phone market), falling prices of smart phones—in some cases up to 5,000 INR—and a spurt in the entry-to-mid segment tablets priced between 5,000 and 20,000 INR have also led to the high growth in mobile gaming.

Mobile gaming has expanded the base of casual gamers in India, since several popular mobile games like *Angry Bird* and *Fruit Ninja* are available for free download and popular titles like *Fifa*, *Grand Theft Auto*, *Need for Speed* and *Max Payne* are priced much lower than their console versions. The 'freemium' model or the model of micro-transactions has worked well in India, since Indian consumers prefer to try out products before purchasing them. Monetisation currently remains a challenge for Indian publishers, as a majority of game downloads are funded by ads. However, gaming companies, having invested in consumers to aid the 'discovery', are now in a better position to obtain their returns. While console sales have taken a hit on account of smartphones and tablets, the opportunity for trial will eventually facilitate handholding to the next generation of consoles, if console makers rise to the occasion.

In developed markets such as the US and UK, growing popularity of handheld devices like Nvidia's Shield is an example of console makers developing more flexible mobile gaming devices. The Shield is a dedicated mobile game console built like a smartphone (running on Android OS and a Tegra CPU) which demonstrates that even home consoles face the threat of disruption by mobile devices.

- **Console makers rise to the occasion and lower prices to expedite the evolution to the next-generation consoles**

  While console makers such as Sony and Microsoft report that their sales have taken a hit since smartphones and tablets satiate the instant gaming urge, console companies are now reducing the prices of their games by 15-30% to lower the consumers' total cost of ownership. Sony has started local manufacturing of PS3 games, bringing down price of popular titles like *God of War III* and *Infamous*. Even Microsoft has brought down prices of some Xbox games like *Alan Wake* and *Crackdown 2*. Even in global markets, console makers are rising to the occasion and lowering the total cost of ownership. In the US, the growth in mobile and online markets has led Sony, Microsoft and Nintendo to offer various free-to-play titles, such as *Blacklight: Retribution* (PS4), *DC Universe Online* (PS4), *WarFrame* (PS4), *Killer Instinct* (Xbox) and *Project Spark* (Xbox). Even established games such as *Forza, Gran Turismo* and *Crimson Dragon* now offer micro-transactions.

- **Videogame advertising is gaining ground**

  Videogame advertising, which refers to advertising built into games, has shown some traction in 2013. However, industry players believe that there is much untapped potential as brands are not yet willing to spend the money to become local and achieve user engagement. Game developers are yet to make concerted efforts to promote gaming as an engagement mechanism to advertisers and showcase the innovations and storytelling that is possible. As agencies begin to promote game advertising as a part of the overall media strategy and not just an allocation of the overall budget (currently sub-optimal), the potential of this segment will be further exploited.

Companies such as Sponsorpay in Germany and Tapjoy in the US allow for user-initiated interaction with ads and allow for users to receive premium content in exchange for their engagement with advertisements. This concept of sponsored wallets is yet to become significant in India and can benefit the advertiser (through a targeted and engaged audience), the developer (via ad sales monetisation) and the consumer (through premium content and sponsored wallets).

- **Digital as a delivery channel:** The digital medium is helping gaming companies move up the value chain and build their distribution channels.

  The digital medium, including app stores, has given a great impetus to mobile and tablet game development. Independent developers are able to move up the value chain and publish a game by themselves, making the process of monetisation easier. Even in retail, e-commerce has given gaming a boost by facilitating the distribution of games to various cities. This, in turn, is helping the brick-and-mortar format of game retail to flourish, since there is now a ready base of customers who are exposed to gaming.

  For example, Game4u, a retailer of PC and videogames, gaming consoles and accessories, launched India's first online gaming store in 2009. The company subsequently established a national presence by opening nine physical stores and, in early 2014, launched its operations in Singapore and Malaysia.

- **Industry players and the government are promoting the industry, for sport as well as for business**

  Both the government as well as industry players are making efforts to promote gaming as a sport. The Indian Olympic Association is recognising Indian 'e-sports' professionals and sponsoring their trips to international championships. India now has its own gaming professional, Santanu Basu, who represents the country at major events, such as the Asian Indoor and Martial Art Games (South Korea), HKE Sports (Hong Kong) and Games 13 (Dubai).

Gaming tournaments are achieving massive size and publicity. The most recent edition of Bring Your Own Computer 2013 or BYOC 2013, a computer gaming event organised annually in New Delhi by Xtreme Gaming, witnessed around 5,000 attendees and 60-hours of non-stop gaming.

Many state governments are supporting the gaming industry in India. In 2013, the Andhra Pradesh government announced plans to set up an animation and gaming city in Hyderabad, which will have an incubation centre called Game Towers, a state-of-the-art 'walk-to-work' and 'plug and play' built-up office space, etc.

Key global trends

- In 2013, both Sony and Microsoft launched the 'next generation' of home consoles and sold over 8 million units globally by the end of January 2014 between them.
- Functions like cloud gaming, media management and better-value subscription services will serve the console gamer well as volumes ramp up and hardware prices drop.
- By January 2014, Sony had released the PS4 in 48 markets. The manufacturing scale of using a more PC-like architecture allowed a much quicker release than for previous generations of consoles.
- Microsoft launched the Xbox One in fewer markets but has still sold 3 million units globally by January 2014. The launch of these consoles will drive growth in console games, particularly digital games, with their greater focus on providing digital entertainment, both gaming and otherwise.
- Though Nintendo dominated home and portable gaming consoles with the Wii and DS, its Wii U console has fallen short of its management's expectations. The next year will be crucial for the company, the last of the original console players like Atari, Sega and Coleco.
- The market share of PC games is expected to gradually decline over the forecast period despite impressive increases in digital games distribution. However, innovative systems like Oculus Rift, Steam Machines and NVIDIA's Shield point to a new, potentially more exciting long-term for PC gaming.
- China is driving online and mobile gaming growth and is now the world's second-largest game market after the US. It surpassed Japan to be the largest gaming market (by revenue) in the Asia-Pacific region in 2013.
- The market for games is becoming ever more polarised. Big-budget games like *Grand Theft Auto V* and *Call of Duty: Ghosts* continue to perform well, with the former seeing record sales. Meanwhile, independent developers are being courted by players like Microsoft and Sony, with Steam looking to Kickstarter to raise funds. The medium-sized developer, with middling IP, struggles to survive (see the spectacular implosion of 38 Studios). Meanwhile, titles like the free-to-play *League of Legends* or tablet-based *Puzzle and Dragons* continue to pull in huge revenues in micro transactions.

Future outlook

- **The Indian gaming industry is expected to grow rapidly over the next five years**

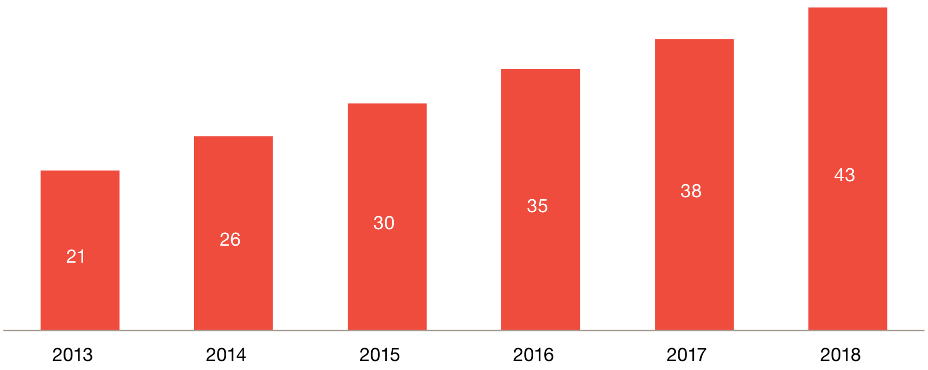
  The revenues of the Indian gaming industry are expected to grow rapidly at 15% CAGR, from 21 billion INR in 2013 to about 43 billion INR in 2018. India is ranked fifth in terms of forecasted growth rates. However, the size of the Indian gaming industry is not even a tenth of the gaming industry in China, the second-largest in the world.

  The growth of the Indian gaming industry is expected to be driven largely by mobile gaming as investments in the value-conscious consumer (through the provision of free games) eventually begin to yield returns, via both subscriptions and advertising.

Mobile gaming will help transition casual gamers to serious gamers, who are likely to adopt next-generation consoles. In addition, mobile gaming will facilitate the evolution of highly interactive and engaging videogame advertising. Hence, both subscription and advertising are expected to be significant growth drivers for the gaming industry over the next five years.

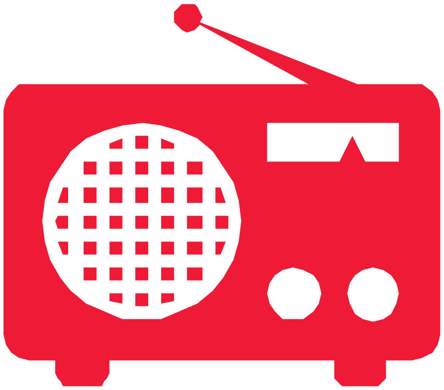
The potential of games with an Indian context is not fully explored. A few games around cricket and Bollywood have been successful, but there is much innovation that can be brought to the table, as most Indians are not familiar with international content. Women-centric games, perhaps based on popular TV soaps, could be targeted at urban homemakers, which is a segment with untapped potential.

Projected growth of the industry in billion INR, 2013-2018



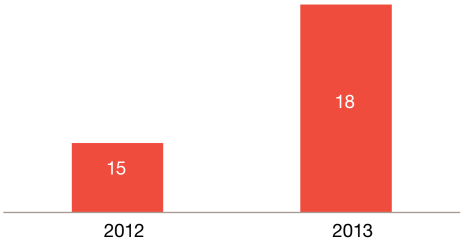
Source: PwC analysis

Radio



The year 2013 was good for the radio industry, which grew by 18 % from 15 billion INR in 2012 to 18 billion INR in 2013. Growth in the industry was driven mainly by the increased popularity of the medium in smaller towns and cities, the state assembly elections held in 2014 and radio being recognised as an effective medium for advertising to target India's large and incredibly diverse audience.

Growth of the industry in billion INR, 2012-2013



Source: PwC analysis

Key trends

- **Innovation in content**

  Over 90% of India's population has access to radio and with multiple radio stations playing similar content, the need for innovation in content is imminent.

  Many radio stations experimented with content to break-away from all-time film music airtime. *Ramayana*, a radio drama aired on Fever FM, gained popularity and was made available as an app on the Apple store for listeners worldwide. Storytelling show *Yaadon ka idiot box* on BIG FM has also been successful. The non-music content is believed to drive better engagement with listeners and high interactivity through programmes on sports, festival celebrations and new developments in the city.

- **Phase 3 auctions on the anvil**

  With new government in action, the auctions of Phase 3 FM licensing are expected to begin soon. It is expected to extend FM radio services to about 227 new cities, in addition to the existing 86 cities (with a total of 839 new FM radio channels across 294 cities). One of the key aims of the licensing process is to extend the reach of FM radio to some of the more remote rural areas of India. The successful completion of Phase 3 is expected to result in a much-improved FM radio coverage, which is expected to drive up listenership and, in turn, increase the radio industry's share of advertising revenues.

TRAI has also given its recommendations for license period and migration fee for radio channels migrating from Phase 2 to Phase 3. Like digitisation for the television sector, Phase 3 is likely to be a turning point for the radio industry.

- **Advertising growth continues to be driven by retail and real estate segments**

  The share of radio in the overall advertisement pie has been around 5% of the total media mix. The FMCG, retail and real estate sectors have continued to spend on radio advertisements. These sectors recognise the fact that radio ads can be customised to the target city and help build a brand identity in smaller towns and cities by linking them with on-ground brand activation programs.
  The state assembly elections and the general elections also provided a major boost to advertising on radio in 2013.

Releasemyad.fm, an online portal launched in 2013, helps brands book advertisements on 24 radio channels across 86 cities in the country. It offers a mix of media-planning, buying, creative services and reporting for different business categories, providing a viable option to local businessmen (who would otherwise have very limited access to radio advertising) to effectively use radio as a medium for reaching targeted local audiences.

- **Community radio serving as a tool of rural empowerment**

  Community radio serves a specific community in a well-defined geographic area. These radio stations broadcast content that is relevant to the local audience and address the information needs of the community. Educational and other not-for-profit organisations are granted permission to operate these stations, without the need to pay any fees or share revenue with the government.

  The community radio, which usually runs within a range of 10-20 km in an area, has emerged as an effective tool to disseminate information and empower the local community.

  During the floods at Uttarakhand, the three community radio stations in the area—Kumaon Vani (Mukteshwar), Henvalvani (Chamba Valley) and Mandakini Ki Awaz (Rudraprayag)—were vital in broadcasting live programmes that informed and sensitised the affected communities.

  In Chanderi (Madhya Pradesh), the community radio station has been initiated by the weavers' cooperative. It is being run by a local community youth team and focuses on women and child nutrition issues. While in Bhudikote (Karnataka), the community radio station Namma Dhwani, a partnership between MYRADA (an NGO), Voices (a media group) and UNESCO, is owned, managed and operated with the active participation of women's self-help groups focussing on livelihood security amongst the rural households.

  The number of operational community radio stations has been steadily increasing. As of July 2014, there were 170 community radio stations across India, up from 152 stations in August 2013.

- **Digital as a delivery channel: Online radio acting as a supplement to traditional radio**

  To leverage the increasing penetration of wired and mobile internet, terrestrial radio operators are launching web channels and mobile apps for their stations. The increasing adoption of smartphones and tablets is the key driver for growth in digital consumption of radio content. Most of the leading radio stations have an online presence, and online radio properties are acting as a supplement and providing an alternate means to access new audiences. They also help to deliver integrated media campaigns to brands across radio and digital platforms.

  PlanetRadiocity—the online platform of Radio City—has 11 web radio stations of different genres and plans to include a regional web station. Radio Mirchi and Big FM also have online stations and mobile apps. Apart from standalone stations, there are websites such as India.fm and Onlineradios.in, which provide access to a range of online radio stations.

  In the US, online radio and music streaming services such as Spotify and Pandora have shown strong growth and are putting pressure on traditional radio broadcasters, by cannibalising media consumption hours and advertising spend.

  In India, the popularity of digital music apps like *Gaana, Hungama* and *Saavn* is rising. However, at this stage, they do not seem to be a threat to traditional radio as both options can co-exist to meet the growing demand from Indian consumers.

- **Radio playing a role in creating social awareness**

  Apart from meeting the nation's music consumption demands and catering to target audiences for advertisers, radio is playing a crucial role in creating social awareness through various themed programmes and advertisements. Some examples include sensitising people about women's safety in Delhi (post the Dec 2013 rape case) and awareness about "importance of the most important right – right to vote" around general elections. These campaigns were run across all radio channels in most of the cities in different languages. Prasar Bharti, the national broadcaster, ran a campaign on Dowry Prohibition Act around the Anti-Dowry Day in November 2013 to create awareness about the Act.

In 2013, the Ministry of Information and Broadcasting (MIB) launched internet and online-based services for its national channel All India Radio (AIR) and other state-run radio channels. The AIR YouTube channel and mobile applications for AIR News for Android-based mobile devices were also rolled out. These initiatives are expected to make AIR accessible to the Indian diaspora abroad and foster direct interaction with listeners through social media.

AIR also has an account on the audio distribution platform SoundCloud, which allows listeners to download and hear the latest AIR news and news-based programmes. The platform has started with six playlists and plans to add more. AIR is also using social media sites such as Facebook and Twitter to promote its SoundCloud account.

Key global trends

Though highly diverse across different regions, the global radio market will be shaped by a number of key trends over the next five years.

- **A bullish market will underpin global growth**

  The US accounted for 45% of the global radio revenue in 2013 and will still account for 44% by 2018. Growth in the US, driven by the return of advertiser confidence following the global recession and the growing popularity of digital platforms, will be a major thrust of the global uplift.

- **Audience measurement innovation will improve advertiser support**

  The shift of more listening time on to digital platforms coupled with a steady transition to digital audience measurement methodologies will help make radio a more compelling proposition for advertisers. This will ensure that radio continues to be competitive in the face of even more accountable and measurable pure digital platforms such as the Web and mobile.

- **Maturation of Asian markets will spur long-term revenue growth**

  The growing consumer spending power in key developing Asian economies will catalyse greater radio advertising spending by big brands and local advertisers alike.

- **Growth in smartphone and data plan adoption will transform radio landscape**

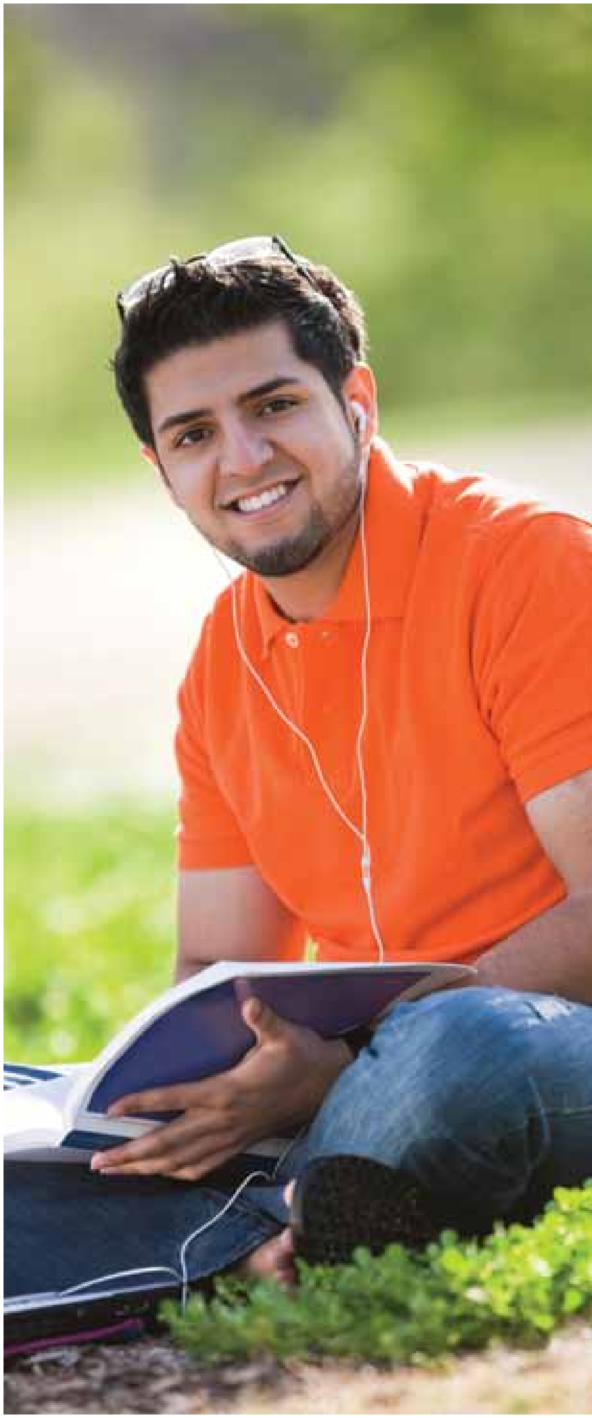
  The prolonged boom in smartphone and tablet adoption will continue to transform the way in which consumers interact with radio, creating more listening opportunities and enabling innovation in product evolution.

- **Increased car usage will increase audience listening time**

  In-car listening has long been a key component of the radio market, especially in the US and Canada. As consumer expenditure rises in emerging economies, car ownership will rise accordingly. More cars will result in more in-car radio listening and more congestion which in turn will add to in-car listening time.

- **Digital radio technology fragmentation will hinder growth**

  The digital radio landscape is fragmented and disjointed. With only a handful of markets having established digital radio sectors, broadcasters in most other countries will have to rely more heavily on PCs and smartphones, which will mean more direct competition from other forms of digital content.



- **Subscription radio will face intensified competition from apps**
  Streaming music services like SoundCloud and Spotify will account for an ever larger amount of consumers' listening time in more mature markets. Traditional broadcasters will find themselves competing head on with these new disruptive entrants.

- **Digital services will compete for advertising revenue:**
  Over the next couple of years, free tiers of streaming music services will compete aggressively for the advertisers' money. In the long term, the maturation of interactive radio services like Pandora will see radio getting a bigger share of digital advertising revenue.

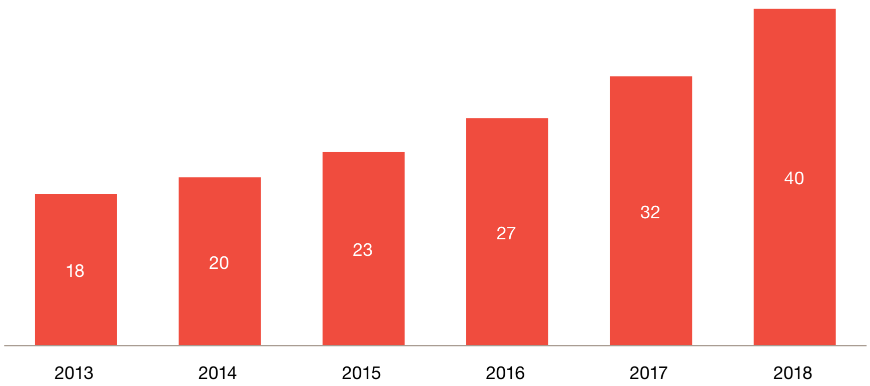
- **In-car technology innovation will create new opportunities for radio:**
  Interactive dashboards will give drivers a greater amount of digital entertainment. The safety risk of digital entertainment, which requires significant user engagement and attention, presents a core opportunity for radio broadcasters. However, the increased programming and curation efforts of on-demand music streaming services mean that competition will intensify markedly in the car.

Future outlook

- **Phase 3 auctions to boost growth in radio sector**
  The radio segment in India is expected to grow from INR 18 billion in 2013 to INR 40 billion in 2018, at a CAGR of 17%. Implementation of Phase 3 will be the primary growth driver for radio advertising. With multiple frequencies being allowed to a broadcaster in the same city, we expect the ad inventory to increase, which will enable radio channels to offer quality content.

The growing spending power of consumers and continued spends by local and large advertisers will catalyse greater spending on radio advertising. Digital radio is also expected to continue to gain momentum owing to increased smartphone and tablet adoption.

Projected growth of the industry in billion INR, 2013-2018

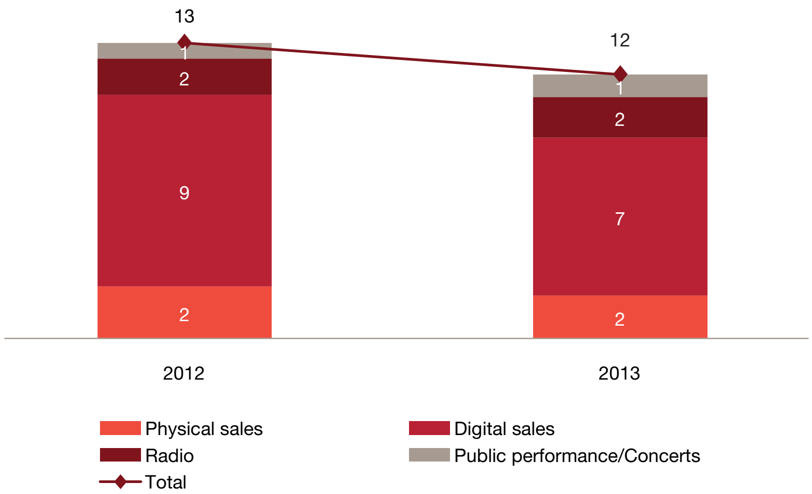


Source: PwC analysis

Music

The music industry shrunk from 13 billion INR in 2012 to 12 billion INR in 2013, primarily due to reduction in digital sales. Various affordable internet plans now allow live streaming, downloads and easy access. However, monetisation has been low. The brick-and-mortar music retailers have been on a constant decline in physical music sales in India since 2009.

Growth of the industry in billion INR, 2012-2013



Source: PwC Analysis

Key trends

- **Innovative ways to popularise digital music**

  The laptop, tablet and other hand-held device manufacturers have started tying up with music companies and app providers like Universal Music and Hungama to launch products with pre-embedded apps or music libraries that are sold as limited editions to lure consumers. This is seen as an extra edge for a music loyalist who would have ready access to music from day one of product purchase. Additionally, this feature helps in curbing piracy.

- **Evolving business models for better monetisation**

  Since piracy is rampant in music industry in India, and music companies have now developed new monetising strategies through bundled services in partnership with leading telecom companies across the world. Hungama provides Indian film content to 47 countries through partnerships with companies like Roshan Telecom in Afghanistan, Singtel in Singapore, Rogers in Canada and Verizon in the US. The main revenue driver here is the caller ringback tones (CRBT). The only limiting factor in this segment is the limited service availability across the globe as not all telecom territories across the world offer this service.

  New markets in Africa and South Asia are being explored by music companies since they have an increasing base of smartphone users and are supported by growing local telecom companies. However, each of them has its own regional issues, which make significant contribution to mobile VAS international revenues difficult.

- **Live music festivals boost growth of non-film music**

  In India, music predominantly consists of film and specifically Bollywood music, which is popular in Hindi-speaking states. With live music festivals like Sunburn and NH7 Weekender gaining popularity in India, there has been rising interest from the younger generation in electronic dance music (EDM) and other forms like jazz, rock, pop and metal. The number of bands playing non-film music has risen from 10-15 in 2007-08 to more than 60 today. Even venues like Hard Rock Café and Blue Frog across metros have supported the growth of non-film music and encouraged new talent in music. Apart from these, Indian folk and sufi music is also gaining popularity with many private music albums and live performances.

- **Illegal downloads continue to erode the revenues**

  Flipkart's online music store 'Flyte' had to shut down in little more than a year of its launch due to music piracy and lack of easy micro payments. Another streaming website Dhingana had to shutdown after a long battle for survival due to similar reasons. Music Store, a chain of 100 stores in India, was also shut this year due to effects of piracy. A healthy music ecosystem without piracy is required for these initiatives to sustain and scale up. In fact, the growth in broadband connectivity has led to an increase in illegal downloads. The absence of a water-tight copyright law for digital music and lack of strict execution of anti-piracy regulations have made the problem even worse over the past couple of years, as consumers consumers have easy access through the web on mobile devices.

Key global trends

- Digital recorded music revenue will surpass physical recorded revenue in 2014. Global total digital recorded music revenue will exceed physical recorded music revenue for the first time in 2014, at 10.18 billion USD against 10.17 billion USD, respectively. Growth in digital has given consumers greater choice and allowed many different formats to flourish.
- Mobile music will see major gains in emerging markets. The introduction of low-cost smartphones in many emerging markets will present new opportunities to access affordable music.
- The music industry is starting to use 'big data' to better engage with consumers. Record companies are increasingly turning to digital data analysis as a means of developing targeted marketing campaigns. They are also beginning to see ways in which fan data can be used to drive tailored promotions to better engage consumers.

Getting this analysis right will have a positive impact on recorded music revenue.

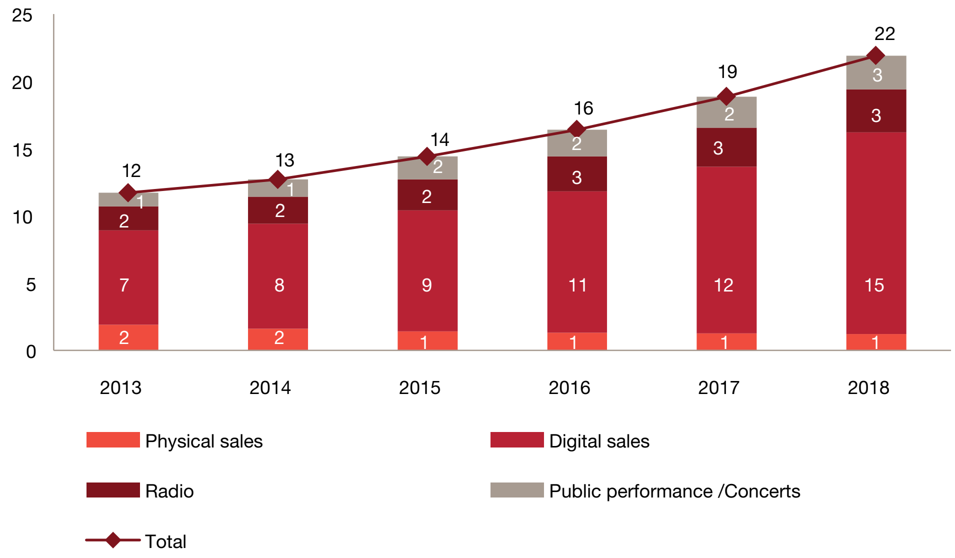
- Live music is extending its geographical reach. While the global revenue from live music will rise by a 2.7% CAGR, countries such as Brazil and Indonesia will see rises of 6.3% and 8.0%, respectively, as emerging markets increasingly establish themselves as key locations for festivals and tours.

Future outlook

Going forward, we expect major music labels and brands to engage with Indian consumers in the digital space and live events, given the demographic shifts being witnessed in Asian countries. With the growing consumer interest in non-film music, the live concerts and festivals segment can witness compounded growth as high as 20% over the next five years. Digital sales are also expected to revive.

If through government support, piracy is controlled and music licensing costs are reduced, this segment has potential to grow with new emerging international markets and business models. The overall music sector is expected to earn 22 billion INR in total revenues by 2018 from 12 billion INR in 2013 at a CAGR of 13%.

Projected growth of the industry in billion INR, 2013-2018

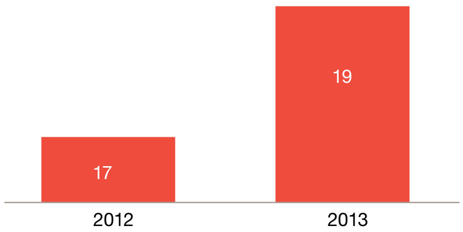


Source: PwC analysis

Out-of-home advertising

The Indian out-of-home (OOH) advertising industry increased from 17 billion INR in 2012, to 19 billion INR in 2013, representing a growth of 12%. This growth was driven by the fact that consumers are spending more time out of their home and the chances of seeing billboards and other mediums of OOH advertising are much more. OOH advertising contributes about 5% of the overall E&M industry advertising pie.

Growth of the industry in billion INR, 2012-2013



Source: PwC analysis

Key trends

- **Transit media driving growth for OOH advertising market**

  OOH advertising consists of spends on media such as billboards, street furniture (bus shelters, kiosks, etc.), transit displays (e.g. buses, trains, taxis, airports and metros), and captive advertisement networks (in venues such as malls, coffee shops, office lobbies, etc).

  OOH formats such as billboards and street furniture have been used traditionally for advertising and continue to dominate in terms of number of sites and audience reach. However, transit media has emerged as the fastest growing segment of OOH advertising, and is believed to be outpacing the growth of traditional formats. As consumers are spending an increasing amount of time on travel, brands are trying to capture the attention of their localised target audience during this period.

  The development of metros and modernisation of airports have also provided an impetus to this segment. Ad spots at locations such as the Mumbai and Delhi metros are being sought after by brands. Airport advertising in particular is being preferred by advertisers as it gets regulated by airport authorities, ensuring visibility and also because it caters to the preferred target segment. For instance, Flipkart launched a campaign for its new mobile app specifically across major Indian airports in Mumbai, Delhi, Bangalore, Chennai, Hyderabad, Pune, Kolkata, Chandigarh, Ahmedabad and Nagpur. The campaign used different types of media at the airports such as baggage conveyor belts and displays at the security check-in. In the US market as well, while billboards are the leading format, transit locations such as buses, rail, mobile billboards, taxis account for more than 15% of revenue. Other alternate channels such as sporting arenas, petrol stations, beaches, ski areas are being increasingly explored and are driving growth for the industry.

- **Traditional sectors reduce spend on OOH; new categories drive growth**

  While spend from sectors that traditionally used to spend on OOH, such as telecom and automobiles saw a decrease, sectors such as two-wheelers, real estate and jewellery increased their spend, driving growth. Auto companies till recently used to rely heavily on OOH to promote new product launches. However digital media now occupies a place of prominence in their launch campaigns, and is cutting into the share of OOH.

For example, the launch campaign of Honda Amaze was conducted across print, digital and OOH and included a detailed campaign on Twitter. Telecom companies reduced OOH spend significantly in the year and shifted focus to non-urban areas. Companies such as Vodafone and Tata Docomo reduced their OOH spend. However, jewellery brands such as Kalyan jewellers and Malabar utilised OOH for their multi-city store launches. The two-wheeler segment emerged as a big spender owing to multiple new launches, with players such as Hero Motocorp, Bajaj and Honda using OOH extensively to launch their new vehicles.

- **Lack of a universal measurement system continues to challenge the industry**

A key factor hampering the growth of this industry has been the inability to accurately measure the return on investment (ROI) on spends. While different agencies have developed individual tools to measure visibility and ROI, and OOH players also sometimes use global currencies such as Route and Geomex, a universal currency to measure reach and ROI, which is widely accepted by all players, is a critical need.

The extreme fragmentation in the industry with more than 2000 players, coupled with low entry barriers, makes acceptance of a universal metric furthermore difficult. Lately, the tools and platforms provided by Proof of Performance (POP), an independent agency providing OOH monitoring and audit services, are being used by a few advertisers, including the Bharatiya Janata Party (BJP), which used it to audit the performance of its OOH election campaign.

Developed nations are far more advanced in the measurement of the OOH medium's effectiveness and are engaged in regular enhancements. In the US, the Traffic Audit Bureau's ratings system is now able to not only detect whether a person looks at an advertisement but also provide demographic data, an improvement over the 'Daily Effective Circulation' used earlier, which only estimated the number of people who passed an OOH advertisement daily. Similar enhancements have been made to Postar's audience measurement software, Route.

- **Digital OOH failing to live up to its potential**

While there was a lot of interest in digital OOH when it came to India, it has failed to make its mark. Issues around maintenance of assets, availability of power and technology and regulatory hindrances have dampened the widespread usage of digital media. Tremendous potential to personalise, customise and run targeted campaigns still exists if properly tapped. Digital OOH can also be combined with other forms of media to deliver an interactive and robust marketing campaign.

With advances in technology and the resolution of regulatory issues, interactive digital OOH campaigns are expected to steadily increase. In the West, digital OOH is already mainstream and has lead to many innovations in the usage of digital OOH.

In the UK, the Manchester City Council has set up an interactive network of 20 digital touchscreens, via an initiative called CityLive. Each screen has multipoint touch functionality, near filed communication (NFC), wi-fi, high-definition (HD) cameras and a facial detection system. The screens screen ads from Google, Vodafone and O2 and in addition to advertising display local news and weather, and interactive wayfinding.

The New York Metropolitan Transportation Authority is using digital signage as a revenue stream to supplement ticket sales. The digital boards are able to dispense product samples to enable consumers to try products.

Digital OOH as a means to entertain and engage consumers

At New York's Times Square, racers controlled Hyundai's Veloster hatchback on a giant billboard by an app which converted their iPhone into a remote control.

In the UK, British Airways ran a digital OOH campaign in which passersby could tap and swipe responses about their ideal holiday on a screen, which would then show them images from the airline's destinations as per the holiday profile created by them.

Digital billboards drive commerce

In the US, Tesco has launched a virtual store at train stations in Philadelphia. Commuters can scan or tap the product bar codes on billboards and goods are delivered to their homes at a convenient time of delivery.

- **Media campaigns need to integrate OOH with mobile and digital platforms**

  Advertisers need to utilise technology and carry out innovative cross-platform promotions to enhance consumer engagement and facilitate audience measurement. Brands are using new technologies such as RFID tags and QR codes and we expect this trend to increase in the future. For example, the Mahindra Reva campaign integrated digital OOH with social media. A list of questions was displayed at regular intervals at Mumbai's Mahim Causeway.

  With every question being asked, the mnemonic of a hand went up in the air, signifying the 'Ask' movement, on the digital billboard as well as on social media, press and TV. Such integrated campaigns are increasingly also being used in the west. For example, In the US, a food manufacturer's digital billboards were linked to its Twitter feed and passersby would get food samples depending on the sentiment of the feed. A sports brand gives its Facebook fans a chance to see their image projected next to football star Lionel Messi in Madison Square Garden.

- **General elections drive growth in OOH in 2014**

  The OOH industry got a major boost from the general elections in 2014. Since posters were banned in most cities, OOH became a natural choice for political parties owing to its cost-effectiveness and widespread reach. All leading national parties, Congress, BJP and NCP launched aggressive OOH campaigns.

The BJP effectively used the OOH medium in its election campaign, by employing a localised national strategy. It mapped constituencies they won and lost in the last elections and planned the OOH sites specifically for each constituency based on its importance and their past performance. Other factors such as demographics, socio-economic profiles, etc were also considered while designing the customised campaign. The campaign ran with the hugely popular slogan *Abki baar Modi sarkaar* and employed various OOH formats such as billboards, foot bridges, transit media, bus shelters, etc. The BJP appointed a host of Indian and some American agencies to work on the campaign and employed independent agency POP, to monitor competitor hoardings and audit the performance of its campaign.

Key global trends

- The OOH advertising market today is benefitting from a number of global trends including urbanisation; rise in automobile ownership levels, air travel and public transport usage; and consumers switching from basic mobile handsets to smartphones.
- According to the World Bank, 2010 was the first time that more than 50% of the world's population lived in urban areas and this figure is forecast to grow to 57% of the world's population by 2017. This increases the potential audience for OOH advertising and will drive growth, especially in emerging markets, enabling OOH advertising to build its share of global advertising revenue.
- The ownership rate of passenger cars across the world, according to the World Bank, was 117 cars per 1,000 people in 2003 and this had risen to 134 cars per 1,000 people in 2009. Rising numbers of passenger cars increases the attractiveness of roadside billboards.
- According to World Bank data, the number of air transport carrier departures worldwide (domestic take-offs and take-offs abroad of a nation's air carriers) increased from 22 million in 2000 to 30 million in 2012. This growing audience for airport advertising is of particular interest to advertisers not only because of the scale of the audience, but also for the consumer buying power of this typically more affluent customer.

- The OOH advertising market is evolving from one dominated by traditional posters, beside roads or inside shopping malls, to one where the posters are replaced by digital panels. Advertisements carried by digital panels have more in common with television adverts than with the static posters of the past. In addition, media owners have enabled these panels to support QR codes or Near Field Communications (NFC). Coupled with the rise in adoption of smartphones and tablet devices, advertisers are able to create interactive campaigns in close proximity to the point of purchase.

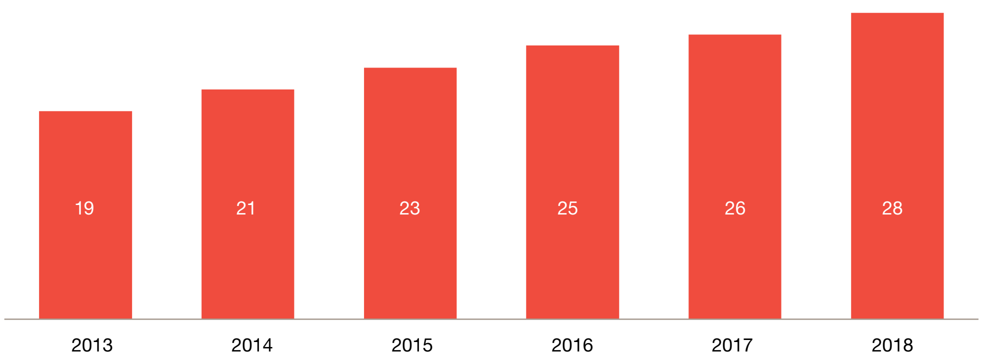
Future outlook

The Indian OOH industry is expected to show robust growth in the next few years.

It is expected to grow at a CAGR of about 8% to reach about 28 billion INR by 2018. The key drivers for this growth will be the following:

- Rise in infrastructure development projects such as airports, metros and highways providing more inventory
- Increasing interest from advertisers in leveraging OOH properties in Tier-2 and Tier-3 cities
- Increase in adoption of digital OOH
- The ad cap, on television, if implemented may divert funds to other advertising medium such as OOH

Projected growth of the industry in billion INR, 2013-2018



Source: PwC analysis

Deals

The dampened macroeconomic environment led to reduced deal activity in 2013. However, the ongoing digitisation of television, raising of the FDI limit to 74% and growing interest from international players boosted the deal activity, with the television and digital media sectors witnessing maximum action.

Increasing investor confidence has led MSOs and broadcasters to raise funds from foreign private equity firms. While MSOs are using the funds for expansion and funding their investment in the technology infrastructure for digitisation, broadcasters are focussing on consolidation in regional markets that began in 2013.

Key deals in the industry in 2013

Television

Month and year of announcement	Type of transaction	Acquirer	Target	Description
May 2013	Private equity	Goldman Sachs Capital Partners	DEN Networks	DEN Networks secured an equity investment of 110 million USD (approximately 600 crore INR) from Goldman Sachs. The investment will be used for funding DEN's growth plans.
October 2013	M&A	Zee Media Corporation	Maurya TV	Zee Media acquired Maurya TV, a regional infotainment channel launched in 2010 catering to the Bihar-Jharkhand belt.

October 2013	M&A	GS Home Shopping, Network18 Media	HomeShop18	HomeShop18, closed a 14 million USD follow-on funding round with GS Home Shopping (GS). Funds were managed by OCP Asia Ltd and Network18.
March 2013	Private equity	Providence Equity Partners	Star CJ Network India	Providence Equity Partners L.L.C, acquired 50% stake in Star CJ Network India Private Limited, the India-based joint venture of CJ Home Shopping and Star TV, for an undisclosed consideration.
August 2013	Private equity	Morpheus Capital Advisors	TVC Skyshop	Morpheus invested 420 million INR in the direct-to-consumer retailing platform TVC Skyshop for an 8% stake. Proceeds from the deal, which values the company at about 5 billion INR, will be used by TVC Skyshop to fund expansion.

Digital

Month and year of announcement	Type of transaction	Acquirer	Target	Description
March 2013	M&A	Publicis Groupe	Convonix Systems	Publicis acquired Convonix, a full-service digital marketing and consuling agency, based in Mumbai.
May 2013	M&A	Dentsu Media	Webchutney Studio	Dentsu acquired an 80% stake in Webchutney, a digital marketing company.
October 2013	Private Equity	Peepul Capital	Komli Media	Komli Media raised 30 million USD from new investor Peepul Capital. The funds will be invested in its key technology platforms to strengthen its presence across the Asia-Pacific region
April 2013	M&A	Publicis Groupe	Neev	Publicis acquired Neev, a technology services provider specialising in eCommerce, SaaS (Software as a Service) and cloud applications across web, social and mobile channels. The acquisition triggered the launch of the Razorfish brand in India.

Leading global advertising agencies such as Publicis and Dentsu made acquisitions in India to strengthen their digital marketing operations.

Publicis also acquired Mumbai-based integrated communications solution provider Beehive Communications in October 2013. This marked the Publicis Groupe's seventh acquisition in the country since 2012. It had also acquired two different agencies in India in December 2012: iStrat, an integrated digital agency, as well as MarketGate, a Mumbai-based strategic business and marketing consulting firm. In August 2012, it had acquired a performance marketing firm Resultrix, after acquiring Indigo Consulting, a Mumbai-based digital marketing and web development agency in April 2012.

The print industry witnessed a couple of divestments in the magazine sector. The ABP Group sold its *Businessworld* magazine to a group of private investors and *Business Standard* announced the sale of its magazine *BS Motoring* to Delhi Press.

Going forward, deal activity is expected to remain robust in the coming years. A stable government and favourable demographics should drive further deal activity. As the digitisation of television sector progresses, increased transparency and addressability should inspire investor confidence. To reap the benefits of digitisation, national broadcasters are also expected to cement their positions in regional markets with the launch or acquisition of new channels. Digital advertising is still at a nascent stage in India, but growing rapidly. As the share of digital advertising in the total ad pie increases, interest from international players will continue to rise.

Technology

Industry players are leveraging technology across the value chain to address the needs of today's connected consumer, who demands content anytime and anywhere. Emerging technologies are fast becoming indispensable tools for media companies. While cloud computing has opened new avenues for technology infrastructure and content sharing, the mass adoption of social media has enabled companies to gain relevant insights on their consumers' behaviour. Moreover, the divide between technology and media companies is blurring and competition is steadily increasing.

Key industry trends

- Television broadcasters are leveraging technology to cater to consumer demands. Viewers are increasingly using a second screen, such as a smartphone or a tablet, along with watching content on the television screen. Broadcasters have recognised this trend and are making their content available on multiple screens by means of online streaming and mobile apps. Select premium channels, such as Star World Premiere HD, are also offering content to Indian audiences within 24 hours of its US telecast, aiming to address the issue of piracy.
- Television audience measurement is also benefitting from improvements in technology. It is expected that the new system, being set up by the Broadcast Audience Research Council (BARC), will deploy a fully digital audience measurement system, which will use audio watermarking coding technology for content identification. This will provide broadcasters with a detailed analysis of their viewership in terms of the number of households and the time being spent on each piece of content.
- In today's connected world, media companies are striving to provide content anywhere, anytime and on any device. In this scenario, cloud computing holds immense potential for the E&M industry. Cloud provides scalable and secured infrastructure, which is compliant with various industry regulations and available in an on-demand model. This leads to significant cost savings as against maintaining traditional on-site data centres. The pay-per-use model of cloud eliminates the need for capital investment and converts it into an operational investment.

  Print companies can use cloud computing for low-cost archival of their content and enable sharing of editorial content across multiple devices. Broadcasters and video content owners can leverage the inherent rapid-build-out-and-tear-down feature of cloud-based virtual machines to implement complex and intensive digital media processing jobs like video transcoding or encoding in significantly lesser time, without having to invest in costly hardware. They can also leverage the global content delivery network infrastructure provided by major cloud providers today for faster streaming of content and ensuring highly available distributed access across its customer base.

  Additionally, public cloud storage provides media owners with the option to rent unlimited storage capacity at low cost with improved accessibility across multiple devices. Leading print and television broadcasters have already started leveraging the benefits of cloud computing and the use of cloud is expected to increase tremendously in the future. According to PwC's 6th Digital IQ Survey conducted earlier this year, private cloud and public cloud-based applications are amongst the top 10 strategic initiatives for future investment of E&M companies globally.

- Technology companies are expanding their boundaries and becoming mainstream media companies. Most television broadcasters in India have their channels on YouTube. Film studios are also monetising their film archives on YouTube, besides using it as a key marketing tool. In fact, the share of marketing budget on social media marketing is continually increasing for films (currently in the range of five to 25% of the marketing budget).

  In the US too, Google is expected to make significant investment in OTT and launched Chromecast, a new low-cost media-streaming device, in July 2013. Amazon is already a formidable OTT player and is making investment in providing original content that it can offer exclusively. Players such as Apple and Sony are also expected to expand their presence in the TV space.

In 2013, Twitter announced *Twitter Amplify* a new program for brands to sync up television ads and promoted tweets through the use of a cutting-edge 'video fingerprinting' technology. An advertiser or media buyer is provided a special dashboard that Twitter has created for the service, which lets a brand monitor when an ad has aired on TV. Digital marketers can see in real time when their spots air and the resulting tweet that activity occurs about either the brand or TV show. The campaign manager can then send out corresponding promoted tweets that more intelligently target Twitter users who tweeted about the commercial or show. *Twitter Amplify* was also launched in India by partnering with Star Sports.

- Mobile recharge and payment platforms are providing advertisers with an alternative mode of targeted digital advertising and promotions. For example, Freecharge provides its users option to recharge mobile phones or make other utility payments including payments to DTH operators. On selecting the recharge type, users are offered free or paid coupons of their choice near the recharge value. The advertising platform is able to capture the purchase behaviour of consumers via their choice of coupons. Other companies such as Paytm and JustRechargeIt provide similar services and have expanded their offerings to provide additional facilities such as bus bookings.
- With the availability of digital platforms, companies are realising the potential of their archives. In the West, newspaper companies are selling archived content. Most large newspapers provide digital archives and offer different payment models for monetisation. *The Guardian* relaunched its digital archive in late 2012. Additionally, to augment revenues of the declining print sector, some newspapers provide paywalls that allow consumers to read some content for free and require a paid subscription for the rest. In India too, newspapers have begun to digitise their archives. However, they are yet to monetise the archived content. For example, *The Times of India* provides free access to archives, from 2001, on its website free of cost. While newspapers like The Wall Street Journal have implemented their paywalls in India, Indian newspapers offer their online content free of charge.

While technology is acting as a key enabler and opening new avenues for industry players, it will also pose challenges. Consumer expectations will continue to evolve and competition from non-traditional E&M companies will only increase. In such a scenario, it will be imperative for companies to continually upgrade their technology expertise. MSOs will need to continually upgrade their subscriber management systems to ensure transparency and addressability in the system and reap the benefits of the digitisation process. With the onset of 4G and increasing consumption of content on alternate platforms such as OTT, broadcasters will need to expand their content offerings and leverage these platforms effectively. Industry players will also need to evaluate their IT ecosystem and leverage the benefits of cloud computing.

Tax and regulatory issues

Television

- **Payment for acquisition of content/ telecasting rights**

  Foreign broadcasters have been at loggerheads with the Indian tax authorities on the taxability of telecasting rights in the television content acquired for the global market, which includes India as well. Generally, television content is acquired either on licence basis or as an outright purchase. Recently, the Bombay High Court (HC) had dealt with a similar issue in the context of the India-Singapore tax treaty. It held that since the transaction was between two non-residents for overseas broadcasting operations, it was devoid of any economic link with India and therefore was not taxable in India. While this decision pertains to a specific issue, it is expected to provide some clarity in this case. However, it is important to keep in perspective facts of each case and relevant tax treaty terms before arriving at any conclusion.

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

  A classic issue in the case of broadcasting live events is whether payments to foreign companies for acquiring rights to telecast live feeds of an event is taxable in India, especially as royalty. Recently, in the context of domestic tax law, the Delhi Tribunal held that providing live feed cannot be considered as a transfer of copyright and thus is not taxable as royalty. One will have to consider the reasoning behind this decision vis-à-vis other precedents to take an informed view.

- **Bandwidth charges for transmission of signals through transponder in a satellite**

  The Finance Act 2012 retrospectively amended the royalty provisions under the domestic tax law overriding the Delhi HC decision, which held that transponder payments do not tantamount to royalty since the control and possession of the satellite remains with the operator and is never granted to the customers.

  However, it was expected that such retrospective amendment on transponder payments ought not to impact tax treaty provisions, with judicial precedents consistently supporting such interpretation. However, recently, the Madras HC, followed by the Mumbai Tribunal, ruled that such retrospective amendments to royalty provisions expressly covering satellite transmission payments should also apply to royalty provisions under the India-US tax treaty, leading to uncertainty on treaty protection for such payments.

- **Taxability of revenue streams of foreign telecasting companies (FTCs)**

  Taxability of advertisement revenues for FTCs has attracted protracted litigation with the Indian tax authorities alleging that FTCs' Indian agents carrying out marketing and collection activities constitute permanent establishment (PE) for FTCs in India, owing to their typical India business model. While the Bombay and Delhi HCs, after a series of litigation, have held that payment of arm's length remuneration by the FTCs to such Indian agents extinguishes the tax liability of FTCs from such a PE in India, on expected lines, the tax authorities have challenged the ruling in the Supreme Court. Considering this, FTCs would need to develop strong defence and documentation on taxability and attribution of revenues in India.

Taxability of subscription revenue of the FTCs as royalty or business income from cable operators, multi-system operators (MSO) or direct-to-home (DTH) providers has also seen protracted litigation from Indian tax authorities. The issue of whether the distribution rights qualifies as royalty ('grant of copyright' taxable irrespective of whether FTCs have a PE in India) or business income (taxable only if FTCs have a PE in India) is currently pending adjudication at various appellate levels.

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

  In a set-up where telecasting companies acquire the rights on an outright basis or for limited airings that may span over different financial years, a potential issue arises as to whether such cost can be claimed as a deduction in the year of acquisition, or over the licence period. Since significant value of television programmes is derived at the time of its first airing, it could be argued that the entire cost should be deductible in the year of its first airing. If film rights are acquired for limited airings, one could argue that such costs should be claimable over the number of airings.

  However, the tax authorities have been arguing that such costs should be treated as incurred on the acquisition of intangible capital assets, eligible for depreciation at a specified rate. Reports suggest that the Comptroller and Auditor-General of India (CAG) have also recommended such a view. In light of this, an informed, consistent view backed by supporting documents could hold key to defend challenges.

- **Other key withholding-tax issues**

  The television sector has been facing litigation from the tax authorities on an array of withholding-tax issues. Therefore, it is important to consider an informed, consistent and practical view to minimise tax and litigation costs. Some key issues are as follows:

  – Payments by television channels to acquire television programmes from producers
  – Discounts given to advertising agencies and sale of recharge coupons

- **Key indirect tax issues**

  On the service tax front, the issue of whether the cash incentive received by the advertising agency from broadcasters can be deemed as a service and subject to service tax requires deliberation.

  With respect to sale of advertisement content along with advertisement space in cases where ad agencies provide advertising space along with content, there could be possibility of revenue authorities demanding that service tax be paid on the entire consideration, since the Negative List only excludes newspaper advertisement. Further for sale of content, there may be a dispute on whether such content is subject to service tax or VAT.

Film

- **Film production and expenses for the acquisition of distribution rights**

  The Indian Income-tax Rules specify the quantum of deduction for expenditure incurred on production of a film or acquisition of distribution rights, depending on the time when the film gets released or when the distribution rights to the films are exploited. There is a debate as to whether these rules on deduction of expenditure would mean that other provisions allowing deductibility of business expenditure without any corresponding condition would not apply to producers or distributors. The judicial precedents are divided and therefore an informed view on such interpretation can have a direct and significant impact on the taxability of the revenues of film producers and distributors.

- **Joint production of films between Indian producers OR collaboration between Indian and foreign producers**

  With increasing collaborations between producers in India and abroad, taxability of revenues from such films has gained significant importance. In some cases, the tax authorities treated such a collaboration as an association of persons (AOP), a deemed separate taxable entity under the Indian domestic tax law, thereby taxing the total revenue from such collaboration in the hands of such deemed entity instead of taxing the producers on their share of revenue. This has led to multiple complexities for the producers, including issues on the deductibility of *inter se* payments between producers, availability of withholding tax credits and eligibility to claim the tax treaty benefits once treated as an AOP in India. Therefore, it becomes pertinent to effectively capture the substance of the arrangement terms in the collaboration or joint production agreement, with a view to defend any such AOP exposures.

  Such collaborations have also faced service tax litigation. The revenue-sharing arrangement between film distributors and exhibitors was sought to be brought under the service tax ambit by the Central Board of Excise and Customs (CBEC). However, various media companies filed writ petitions before the Madras HC challenging the CBEC circular as unconstitutional. Treating the joint collaboration or partnership arrangement to be a new entity, the Madras HC upheld the constitutional validity of the circular and has also held that such revenue sharing arrangements are neither covered under the Negative List nor the mega exemption notification.

- **Tax deduction of expense**

  The film sector had its own share of protracted litigation on the tax deductibility of the operating expense streams, such as the following cases:

  – Cost incurred on dubbing of Hollywood movies to various regional languages
  – Production cost of abandoned film projects

- **Payments to foreign line production service provider**

  Shooting of films in overseas locations results in significant expenses toward line production services at such locations. The tax authorities have raised issues regarding withholding tax on such payments made by producers to overseas line producers (for arrangement of transport, getting permissions for shooting, hotel accommodations, etc) which has resulted in litigation on tax deductibility of such expenses. There have been favorable judicial precedents, including the Mumbai Tribunal and the recent ruling by the Authority for Advance Ruling (AAR) holding that withholding tax provisions does not apply to such payment. While the decisions are fact-specific, they should hopefully provide persuasive value on this issue.

- **Constitutional validity of service tax on copyright**

  Recently, the Madras HC examined the legality of the central government's power to levy service tax on the transaction involving 'temporary transfer or permitting the use or enjoyment of copyright' and upheld the same. The HC, *inter alia*, relying on the Supreme Court judgment in the case of BSNL, held that in the case of sales tax, there would be a transfer of right to use the goods, whereas, under the service tax law what has been brought to tax is the temporary transfer or enjoyment of the goods. Thus, the levy of tax under both the enactments is totally different.

- **Revenue-sharing arrangement between film producers and actors**

  In the case of co-production of the films by the actors, withholding tax and service tax liability on the variable portion representing share in profits has been a matter of dispute. On the service tax front, while it can be argued that since it is in the nature of a revenue-sharing arrangement, there may not be any service tax liability, one will have to also evaluate the AOP exposure arising out of such arguments, to take a balanced view.

- **Barter of services**

  In the barter arrangement, while there is absence of a monetary consideration, service element is present and accordingly, service tax is leviable. However, the basis of valuation of services rendered is debatable. Further, withholding tax implications also requires considerations on such services.

DTH /Digital Analog System (DAS)

- **AOP exposure and withholding-tax obligations on *inter se* payments**

  The TRAI regulations and directions in relation to the implementation of DAS across India could change the operating business models of MSOs and result in significant direct and indirect tax implications, which require consideration to avoid protracted litigation.

  The revenue arrangement between an MSO and its linked local cable operators (LCOs), under the revised operating model, could potentially raise AOP exposure, if the purpose, intent, rights and obligations are not adequately documented to bring out the real intentions and substance of such arrangements. An AOP is a deemed entity under the India domestic tax law and is required to carry out individual compliances like filing of tax returns, withholding-tax obligations and compliances. Accordingly, it is important for MSOs to evaluate the agreement and arrangements with LCOs for determining whether an AOP exposure is triggered out of the inter se arrangement. Also, it is important to consider withholding-tax obligations on such inter se payments to address any possible tax deductibility exposure.

- **Equipment at customer's premises**

  While service tax is levied on subscription services provided by the cable operator, the set-top boxes (STBs) are supplied free of cost and accordingly no VAT is paid by the operators. The issue under consideration is whether a portion of the subscription charges should go towards sale of STBs, resulting in VAT liability.

Wired and mobile internet access and advertising

- **Taxability of website transactions**

  The Indian tax authorities have sought to levy tax on advertisement charges paid to foreign companies who own the website, contending that the business is carried out in India resulting in a taxable presence of the website company. The judicial precedents have been divided, though there are recent rulings holding that websites cannot be construed as PE or a taxable presence of the foreign enterprise and that income of such foreign companies from services rendered for uploading and display of ads on its portal is business income and not royalty, and thus is not taxable in the absence of a PE in India. However, these rulings are now pending before the HCs, and it would be interesting to see how the appeals unfold.

- **Payment for the lease of integrated private lease circuits**

  There was protracted litigation before the Finance Act 2012, relating to whether the payments for bandwidth capacity should be treated as royalty and whether such payments are subject to withholding tax. The Finance Act 2012 amended the royalty provisions within the domestic tax law retrospectively to bring such lease payment within the purview of the royalty provisions. The tax authorities have been arguing in certain cases that such payments would be taxable even under the tax treaties, applying the retrospective amendments in the domestic tax law to royalty provisions under the tax treaty. It is important to take an informed and practical view on such issues, considering recent judicial precedents applying retrospective amendments in royalty even to the tax treaty, albeit in a different context.

Gaming

Gaming and animation development activity has two major segments, viz. intellectual property (IP) rights and content development.

- **IP licensing**

  Payments made by an Indian developer for acquisition of existing IP from foreign companies would require withholding-tax consideration since the tax authorities could possibly argue that such payments qualify as royalty in the hands of the non-resident IP owner requiring withholding tax. Similarly, where an Indian IP (such as *Krish, Chhota Bheem* and *IPL)* is licensed to a developer within or outside India, one will have to take an informed view on withholding-tax obligations since the tax authorities could allege that such payments qualify as royalty, requiring tax withholding. Tax treaty terms (in non-resident payments) would also require considerations. In cases where a non-resident licenses its IPs to another non-resident for developing games and animation programmes outside India and subsequently, such games and animation programmes are sold in India, considering that the IPs are exploited in Indian markets as well, there is a possibility of the tax authorities alleging that such payments qualify as royalty under the second-source rule of the domestic tax law. Accordingly, it would be important to evaluate and take an informed view as regards taxability of such transactions as well.

- **Content development service providers**

  Content development services may possibly qualify as fees for technical services under the domestic tax law. However, one would need to analyse respective tax treaties, especially treaties with 'make available' provisions, to arrive at an informed view.

- **VAS payments**

  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. 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 due to virtual presence, as 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 events in India**

  Revenue generated from sports or sports entertainment events (such as IPL, ISL, ITL and the likes) could face various tax issues which can impact the overall Indian income tax obligations, especially the following cases:

  - Taxability of revenue generated from advertising, sponsorship and subscription revenues
  - Taxability of the payments to sportsperson and sport associations in India for their performances in India
  - Taxability of any appearance and participation fees and prize money received by non-resident foreign person in India

There could be withholding-tax obligations in India, in relation to the above events. Therefore, the sports company as well as sportspersons in India may be required to obtain related tax registrations and ensure certain mandatory compliance requirements in India. However, one needs to evaluate the arrangement and agreements with the Indian promoter in light of relevant tax treaties to arrive at the nature and rate of taxability and related withholding-tax obligation in India.

- **Service tax discharged by the agent on behalf of sportspersons**

  Under the tripartite agreement between the sportspersons modelling for advertisements of products of corporate houses, their agents and the corporate houses deduct expenses along with the commission and remit the balance amount to the sports personalities (typically, the agents on receipt of consideration for such advertisements discharge service tax on the entire consideration). The revenue authorities contended that the discharge of service-tax liability by agents is not sufficient and the demanded tax be paid again by the sportspersons. However, the Tribunal has settled the issue by holding that the discharge of service tax liability by the agents is proper in law relying on the definition of 'assesse', which includes agents.

Radio and music

- **Deduction of licence fees or migration fees**

  The FM radio broadcasters are required to pay licence fees, one-time entry fee (OETF) and recurring annual fees to the government as per the terms of licence. The issue is on the characterisation of such expense as capital expenditure or revenue expenditure. This has been a matter of litigation with divided views. Further, with the Phase 3 of the FM policy on its way, the broadcasters would have to pay migration fees, where similar issues will need to be considered.

- **Taxability of royalty income**

  Another issue that players in this sector encounter is whether royalty from licence of music rights would be taxable in the year of receipt or over the period of licence. While available judicial precedents have pronounced the taxability of such royalty over the licence period, in certain cases, the tax authorities at lower level have adopted a contrary view.

- **Deductibility of expenditure for acquisition of music rights**

  The issue of the cost of acquisition of license or copyright in music is whether such payment is entitled to depreciation or is in the nature of revenue expenditure, deductible in the first year or amortised over the period of licence. The tax authorities have adopted different approaches leading to considerable uncertainty and litigation in the matter.

Transfer pricing

More than a decade has passed since the introduction of transfer pricing (TP) regulations in India. Since then, TP has become the top tax issue facing multinational corporations in the country.

Key developments

- **APA**

  An APA is an agreement between a taxpayer and the tax authority covering future transactions to determine the arm's-length price in a cooperative manner and avoid any TP disputes. APA provisions were introduced in India with effect from 1 July 2012 by the Finance Act 2012. The CBDT, by notification in the official gazette, has introduced detailed rules providing the procedures and necessary forms for application and administration of the APAs.

  APAs can be applied for existing as well proposed transactions. They can be unilateral, bilateral or multi-lateral, and can be sought for a maximum period of five years. In March 2014, the CBDT signed the first five unilateral APAs within one year of the applications being made.

- **Specified domestic transactions**

  The scope of TP provisions has been extended by the Finance Act 2012 to cover specified domestic transactions (SDT). The provisions would apply to financial year 2012–13 and subsequent years, if the aggregate value of the transactions exceeds

50 million INR in the relevant year. The pricing of such transactions will now need to be determined applying arm's length principles. In a separate development, the Companies Act 2013 has also increased the focus on arm's-length transfer pricing under Section 188 of the Act, from an overall corporate governance perspective. The scope of the said section is significantly wider than that for SDT under the domestic tax law in terms of relationships sought to be covered.

- **Marketing intangibles**

  The issue of marketing intangibles is one of the most highly debated topics in Indian TP and would also apply to entertainment and media companies in India, insofar as the advertising, marketing and promotion (AMP) expenses are concerned and the brand is legally owned by the foreign parent.

  The issue of marketing intangible was dealt by a special bench of the Delhi Tribunal. During the TP audit proceedings, the transfer pricing officer (TPO) alleged that the taxpayer has incurred excessive AMP expenses in comparison to comparable companies. The difference was considered by the TPO to be AMP incurred by the taxpayer on brand promotion for the associated enterprise (the legal owner of the brand), which should have been compensated by the AE to the taxpayer. The TPO thus made an adjustment for the difference. While adjudicating the appeal, the Tribunal concluded that, based on the facts of the case, the TP adjustment in relation to the AMP expenses incurred by the taxpayer for creating or improving the marketing intangible for and on behalf of the AE is permissible. The Tribunal also held that earning a mark-up from the AE in respect of AMP expenses incurred on behalf of the AE is also allowable.

Budget 2014: Key updates

- **AAR forum extended to resident applicants**

  Presently, the tax legislation provides that a taxpayer can approach the AAR only to determine the tax liability of a non-resident. The Finance Act 2014 permits resident taxpayers to approach the AAR subject to fulfillment of prescribed threshold limits.

- **Key changes in withholding tax provisions**

  As regards payment made to non-residents, on similar lines as payment to residents, deduction of such payment will now be allowed in the relevant financial year itself, provided that the TDS deducted is deposited into the Indian government treasury by the due date of filing the tax return. As for payments to residents disallowance of expenditure will be restricted to 30%, as against the entire expenditure at present, in case of non-deduction or non-deposit of TDS.

  'Assesse-in-default' proceedings in case of default in withholding-tax compliance for resident payments can be initiated within seven years from the end of the financial year in which the payment is made or credited.

- **Computation mechanism of dividend distribution tax (DDT)**

  With effect from 1 October 2014, DDT is required to be calculated on the gross amount of dividends declared by the company. Notably, the amount of dividend payout shall drop by 2.48 INR on every 100 INR of dividend distributed. Accordingly, dividend as a mode for repatriation shall become costlier.

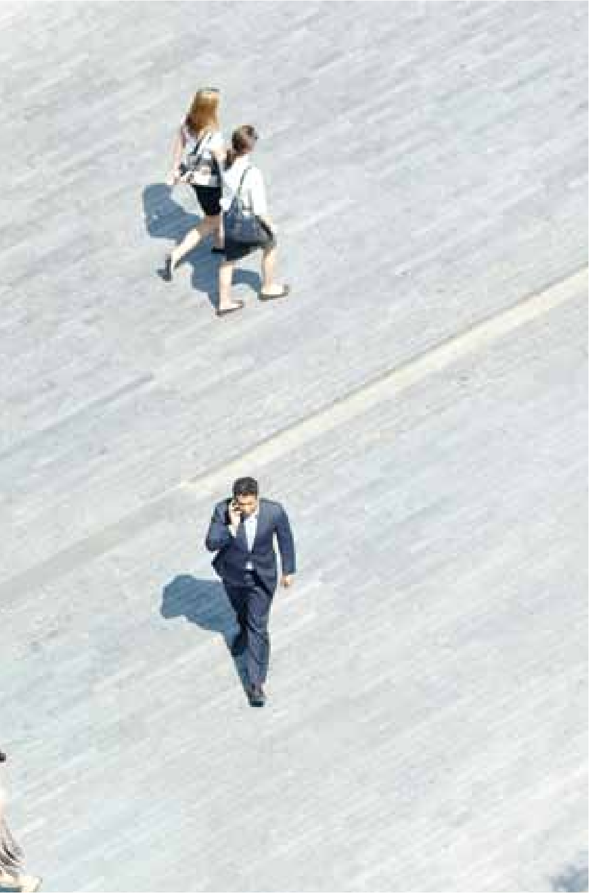
- **Indirect transfers**

  Clarifications were expected in relation to the ambiguous indirect transfer provisions introduced retrospectively.

  However, the provisions maintain status quo with the FM announcing that a high-level committee would be constituted to evaluate applicability of retrospective amendment on indirect transfer provisions on all fresh cases before initiation of any action by the tax officer.

- **General Anti Avoidance Rule (GAAR)**

  Contrary to expectations, no further deferral of the implementation of GAAR applicable from 1 April 2015 was announced. The FM also proposed to review the DTC in its current form and to take a view on the matter.



- **Levy of service tax on online media advertisement**

  The Finance Act 2014 introduced service tax on advertisements in internet websites, out-of-home media, film screening in theatres, commercial publications and aerial advertising. However, constitutional validity of such charge of service tax may be challenged given that only state governments have the power to levy taxes on advertisements other than advertisements in newspapers and advertisements broadcast by radio or television.

- **Other key provisions**

  In case of appeals filed before the Commissioner (Appeals) or the Tribunal, pre-deposit of 7.5% of duty for first stage appeal and 10% of duty for second stage appeals (with no provision for claiming interest on such pre-deposit) has been made mandatory, resulting in cash outflow in case of litigation. Further, effective 1 September 2014, CENVAT credit on inputs and input services is to be availed within a period of six months from the date of issue of invoice.

- **Roll-back of APA**

  The Finance Act 2014 has introduced roll back mechanism i.e. an APA can be applied to four years prior to the APA period. E.g. APAs applicable from FY 2013-14 onwards, may now extend to FY 2009-10 onwards.

- **Deemed international transactions**

  The Finance Act 2014 provides that with effect from assessment year 2015-16, a transaction entered into by a taxpayer with a resident unrelated third party would be deemed to be an international transaction, if the transaction is pursuant to a prior agreement between the third party and the AE of the taxpayer; or the terms of the transaction are determined in substance by the AE.

- **Range concept**

  The Finance Act 2014 has introduced the range concept alongside the arithmetic mean and the use of multiple year data while carrying out comparability analysis, but detailed rules in this regard are still awaited.

General regulatory developments

- **Proposal to liberalise FDI caps**

  The proposal notifying increase in FDI caps in carriage services to 100% (from the existing 74%) and uplinking news channel and FM Radio to 49% (from existing 26%) is still pending approval of the government.

- **Union Budget: July 2014**

  The Finance Minister made announcements during the Union Budget speech recommending the development of community radio stations (CRS); upgradation of sports infrastructure, training facilities and setting-up a sports university; launch of TV channels to promote cultural and linguistic identity of the North East; and another channel dedicated to farmers.

Television

- **Issues relating to media ownership**

  With a view of ensuring diversity and plurality of views, TRAI issued its recommendations, which include the following:

  - Control defined to flow from ownership, board seats, decision making and contractual arrangements
  - Cross media ownership rules to be promulgated keeping in mind factors such as news and current affairs genre as a product market, television and print to be considered as relevant segments in the product market, manner of computing market and market share
  - Political bodies, government departments or ministries to be barred from entry into broadcasting and TV channel distribution sectors

- **Distribution of TV channels through various platform operators**

  TRAI has demarcated the roles and responsibilities that can be assigned by the broadcasters to their authorised distribution agencies for the distribution of TV channels to various platform operators, wherein such authorised distribution agents cannot change the composition of the bouquet formed by the broadcaster and bundle bouquet or channels of the broadcaster with those of other broadcasters. However, broadcasting companies belonging to the same group can bundle their channels.

- **Monopoly or market dominance in cable TV services**

  TRAI has issued a recommendation paper on means to control the monopoly or market dominance in cable TV services. Some of the recommendations include the following:

  – The state to be considered as the relevant market
  – Market dominance to be determined on the basis of market share in terms of the number of active subscribers
  – Any M&A among MSOs or between MSO and LCO in a relevant market to require prior approval of regulator

- **DTH tariff regulations**

  TRAI has issued a tariff order mandating the DTH operator to provide a standard tariff package for customer premises equipment. The DTH operator shall give customers an option to acquire customer premises equipment either through an outright purchase, a hire purchase or on rental basis. Also, with effect from 1 January 2014, multi-system and DTH operators will have to ensure that a-la-carte rate of a pay channel should not be more than twice the price at which it is offered wholesale. TRAI has also said that a-la-carte rate of pay channels shall also not exceed three times the ascribed value of the pay channel in the bouquet.

- **The Cinematograph Bill 2013**

  The Ministry of Information and Broadcasting (MIB) has introduced The Cinematograph Bill 2013, to provide for the certification of cinematograph films and for matters incidental thereto. Essentially, the bill restricts any person from exhibiting or causing the exhibition of any film or any part thereof which has not been certified by the Board or which is deemed to be an uncertified film under the provisions of this Act.

- **Regulating advertisements on cable and satellite TV channels**

  In March 2013, TRAI had issued regulations which provided that no broadcaster shall carry in its programme advertisements exceeding 12 minutes in a clock hour. Petitions were filed by stakeholders against this TRAI regulation. Based on Supreme Court ruling suggesting that TDSAT has no jurisdiction to hear cases challenging the regulation framed by TRAI, TDSAT had dismissed these petitions in December 2013. However, in March 2014, the Delhi HC has provided interim relief to the stakeholders by issuing an interim stay on TRAI's ad-cap regulations.

- **Plea by the Supreme Court to regulate content on TV channels**

  The Supreme Court has issued notice to the government and Press Council of India (PCI) for setting up an independent mechanism to regulate content of television channels. The court has sought response from MIB and law ministry alleging that misleading and superstitious contents were being broadcast by the channels and there is no regulatory body to oversee it.

- **Revision in tariff ceilings for cable TV**

  TRAI has revised the charges payable by a subscriber to the LCO or MSO in Non-CAS areas to an overall 27.5% inflation linked hike. TRAI has clarified that this hike should be implemented in two phases. First instalment of 15% shall be effective from 1 April 2014 and the second instalment for the remaining inflation shall be made effective from 1 January 2015.

- **Directions to MSOs with respect to billing**

  To protect the interests of consumers, TRAI has issued directions to MSOs to offer cable TV services to subscribers on both prepaid and post-paid payment options. Also, it is mandated to provide itemised bill indicating price of channels or bouquet of channels along with the name of channels in the bouquet, charges for STBs, charges for value-added service, details of taxes, etc.

- **Issues related to new DTH licences and migration of existing licences**

  TRAI has released the following recommendations:

  – Period of the licence to be increased from 10 to 20 years, renewable by 10 years at a time
  – The existing licence fee to be reduced from 10% of the gross revenue (GR) to 8% of adjusted gross revenue (AGR)
  – Uniformity in the policy on cross-holding or 'control' between broadcasters and distribution platform operators (DPOs)

– Broadcasters and DPOs to be separate legal entities
– Rationalised and regulated vertical integration to be permitted between broadcasters and DPOs, subject to certain conditions

- **Regulatory framework for platform services**

  Cable TV (MSOs in areas covered by DAS and MSOs and LCOs elsewhere), DTH, IPTV and HITS operators operate certain kind of programming services, which are not registered with MIB. In light of this, TRAI has issued a consultation paper inviting comments on aspects such as definition of such platform services, which services can or cannot be transmitted, should there be any minimum net-worth requirement for offering such services, whether these services should also be subjected to the same criteria as applicable for private satellite TV channels.

- **Tariff issues related to broadcasting and cable TV services for commercial subscribers**

  TRAI has issued a tariff order relating to broadcasting and cable TV services by commercial subscribers wherein commercial establishments, who do not specifically charge their clients or guests for such services, should be treated like ordinary subscribers and charged on per television basis. However, where commercial establishments specifically charge their clients or guests, the tariff can be as mutually agreed between the broadcaster and the commercial subscriber.

- **Digitisation of cable TV services**

  Based on news reports, the government has decided to delay the digitisation deadline by a full year. Earlier, Phase 3 covering all urban areas (municipal corporations/municipalities) were scheduled to be digitised by 30 September, 2014 and Phase – IV covering the rest of India by 31 December 2015.

Radio

- **Migration of FM radio broadcasters from Phase 2 to Phase 3**

  TRAI has recommended, among others, that minimum spacing between channels should be 400KHz to increase the number of channels in each city, with a 15-year the period of permission from the date of migration. Further, it suggested that migration fees be calculated on certain specified parameters.

- **Issues related to community radio stations (CRS)**

  TRAI has issued a consultation paper inviting comments from the stakeholders on extension or renewal of 'Grant of Permission Agreement' (GOPA) for CRS. Some of the key issues for consideration include the following:

  – The period of permission and whether there should be any additional terms and conditions of extension or renewal of the permission
  – Whether CRS permission holders be permitted to carry the news bulletins of All India Radio
  – In view of the availability of alternative revenue or funding options, whether there is any reason to increase the duration of advertisement beyond the five minutes per hour limitation

Print

- **FDI in news media**

  As per news reports, the government has initiated an internal deliberation to consider increasing FDI in print media (news segment) from the existing 26% limit.

- **The Press and Registration of Books and Publications Bill, 2013**

  The Press and Registration of Books and Publications Bill, 2013, on being notified, would repeal the existing Press and Registration of Books Act, 1867. Some of the amendments proposed include the following:

  – Definitions of newspapers and publications have been revised to include reproduction in electronic form.
  – The facsimile edition is defined to mean, the exact replica (in full or part) of original edition of foreign publication so far as content is concerned and may not include title.
  – Only an entity incorporated and registered in India or a citizen of India, may bring out a publication.
  – Publications may lose registration if they carry any paid news.
  – A specific appellate authority would be constituted for entertaining appeals against the Press Registrar General.

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This report has been prepared on the basis of discussions and information obtained from select industry players, trade associations, government agencies, trade publications and various PwC and industry sources.

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