Indian entertainment and media outlook 2010

PRICEWATERHOUSECOOPERS

Message

To our clients and friends both in and beyond the entertainment and media industry :

Welcome to the 2010 edition of PricewaterhouseCoopers' Indian Entertainment and Media (E&M) Outlook, covering the forecast period of 2010–2014. Our forecasts and analysis for this edition focus on eight major E&M industry segments and one emerging segment. Each segment details out the key trends observed and challenges faced apart from providing the prospects for the segment. In the industry overview section, we have highlighted the key theme observed during 2009 and what we perceive as future trends in the coming years. We have a chapter on the tax and regulatory impact on the various E&M segments and for the very first time we have included a chapter on how technology can be leveraged in the E&M industry.

In 2009, the economy severely impacted the world, translating into steep declines in advertisement as well as consumer spending. India though impacted, did manage to show growth with increased consumer spending as well as innovative action on the part of the industry.

Against this backdrop, across the world, except certain markets, speed of digital spending increased due to changing consumer behavior as well as technology available to deliver the same. In India, while the spend on digital media is likely to grow, it is unlikely that it will dominate in the forecast period. This is largely due to the relative unavailability as well as unaffordability of the broadband and mobile infrastructure. Therefore, non digital revenues for the E&M industry are important and they need to be preserved as well as grown. This will make for more sustainable revenues for the E&M Industry in the foreseeable future.

Monetising consumer experience would be a key challenge to the industry. While 3G, broadband and mobile infrastructure would help, the industry is taking other initiatives like regional content and distribution platforms (digital & non-digital, mobile) to enhance experience & monetize content.

At PricewaterhouseCoopers, we continue to monitor trends and developments that may impact your business now and in the future, and we look forward to further sharing our thoughts with you. We appreciate your feedback and ask that you continue to tell us what we can do to make the Indian E&M Outlook more useful to you. If you wish additional clarification on any matters included in the Indian E&M Outlook, or you believe we can be of service to your business in any way, please contact one of the PricewaterhouseCoopers E&M professionals listed in the report.

Finally, we thank you for your support and wish you an exciting and rewarding year ahead.

Sincerely,

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Introduction

We are pleased to present the 2010 edition of PricewaterhouseCoopers' Indian entertainment and media outlook.

The information in this publication reflects the collective wisdom of our large team of professionals who work with entertainment and media (E&M) companies in India and overseas. It is a unique resource for the industry, offering a five-year outlook for global consumer spending and advertising revenues, as well as insights into the technology, government, political and business trends driving those forecasts.

The purpose of this Industry Overview is to provide a synopsis of the data presented in the 2010–2014 Outlook and to present a thought piece on ideas generated by the data in the full report.

New additions to the 2010–2014 Outlook

For the first time this year, we have included a chapter on Technology and how it can be leveraged in E&M industry context in India.

Categories Covered:

- Television
- Print Media
- Filmed Entertainment
- Radio Advertising
- Music
- Internet Advertising
- Out-of-Home Advertising
- Animation, Gaming & VFX Industry

Apart from the above, this outlook also covers trends in Sports Entertainment as well as Direct and Indirect Tax issues impacting the Indian E&M industry.

Industry Overview

2009: The year after the storm

With some notable exceptions, particularly in China and India, severe recession in most countries led to steep decline in advertising—the category most sensitive to the economy—and to reductions in consumer/end-user spending, globally. Global advertising fell by 11.8% and consumer/end-user spending decreased by 0.5%. As a whole, the global E&M market declined by 3.0% in 2009, a somewhat smaller decrease compared with the 3.9% drop we had projected.

However, India was one of the few countries not severely impacted by recession.

The E&M industry in 2009 stood at Rs. 580.8 billion registering a growth of 2.2% as compared to Rs. 568.5 billion in 2008. This was lower than our projected growth rate of 8.3% for last year. The reason for lower growth rate was largely because of lower than expected uptake in the advertisement dependent sectors like print, OOH and internet advertisement. Filmed entertainment also showed a negative growth due to the cash crunch faced by the industry. Many of the factors which caused the slowdown are not likely to persist and performance is likely to be better going forward. Further, the total consumer spending grew, which helped the E&M industry to show a small growth despite the storm.

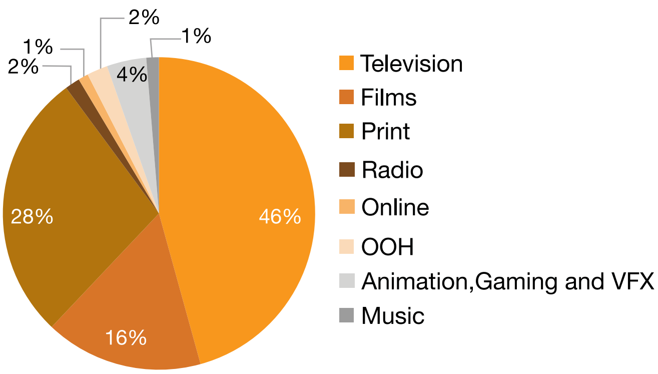
Table 1.1 Growth of Indian E&M Industry in 2005-09

Rs. billon	2005	2006	2007	2008	2009	CAGR
Television	158.5	191.2	223.9	244.7	265.5	13.8%
% change		20.6%	17.1%	9.3%	8.5%	
Film	68.1	84.5	96.0	107.0	95.0	8.7%
% change		24.1%	13.6%	11.5%	-11.2%	
Print	109.5	128.0	149.0	162.0	161.5	10.2%
% change		16.9%	16.4%	8.7%	-0.3%	
Radio Advertising	3.2	5.0	6.9	8.3	9.0	29.5%
% change		56.3%	38.0%	20.3%	8.4%	
Internet Advertis-ing	1.0	1.6	2.7	5.0	6.0	56.5%
% change		60.0%	68.8%	85.2%	20.0%	
OOH	9.0	10.0	12.5	15.0	12.5	8.6%
% change		11.1%	25.0%	20.0%	-16.7%	
Animation, Gam-ing & VFX	-	12.6	15.7	19.6	23.8	-
% change	-	-	24.6%	24.6%	21.8%	
Music	7.2	7.3	7.6	6.9	7.5	1.2%
% change		1.4%	3.8%	-8.2%	8.5%	
Total	356.5	440.2	514.3	568.5	580.8	13.0%
% change		23.5%	16.8%	10.5%	2.2%	

Source: PwC Analysis and Industry Estimates

The E&M industry continues to be dominated by TV, print and filmed entertainment. Significant revenues continue to be from non-digital segment though there has been good growth in the digital spending.

Chart 1.1 Segment-Wise Breakup of E&M Industry (2009)



Source: PwC Analysis and Industry Estimates

In comparison to other Asian countries like China and Japan, the E&M market in India is quite small. Advertisement as a percentage of the GDP in India is 0.53% as compared to 1.08% for developed country like US and 0.90% for Japan. This indicates that there is still a lot of scope for growth of the E&M industry in India.

Table 1.2 Entertainment & Media Markets of Key Countries (USD millions)

	2005	2006	2007	2008	2009
India	8,746	10,503	12,401	13,616	14,052
China	41,297	47,245	57,496	69,166	75,815
Japan	150,975	160,716	166,999	169,298	164,337
US	433,842	454,572	469,096	460,997	428,140

Source: PwC Global E&M outlook 2010

Indian Advertising Industry

Due to the economic slowdown, the advertising industry was flat showing almost no growth in 2009. This came close on the heels of 2008, a year when the performance of this industry slowed down as compared to the previous years. In 2009, the advertising industry remained at an estimated size of Rs. 216.5 billion as compared to Rs. 216 billion in 2008. In the last four years (2005- 2009), the industry recorded a cumulative growth of 13.5% on an overall basis.

Different segments in the industry were impacted differently. While OOH, print and filmed entertainment showed negative trends of (16.7%), (3.4%), and (11.2%), respectively, the most impressive growth was from the smallest segment of the industry by size – internet advertising. Though, this segment grew by 20.0% in 2009, it was well below the growth of 85% in 2008 and our own projected growth of 50%. Print was primarily affected by the negative growth witnessed by the magazine publishing industry.

Print advertising remained the largest segment in the advertising industry at 46% followed by television at 41%.

Table 1.3 Growth of Indian Advertising Industry in 2005-09

Rs. billon	2005	2006	2007	2008	2009	CAGR
Television Advertising	54.5	66.2	78.0	84.2	89.0	13.0%
% change		21.5%	17.8%	7.9%	5.7%	
Print Advertising	62.7	78.0	94.0	103.5	100.0	12.4%
% change		24.4%	20.5%	10.1%	-3.4%	
Radio Advertising	3.2	5.0	6.9	8.3	9.0	29.5%
% change		56.3%	38.0%	20.3%	8.4%	
Internet Advertising	1.0	1.6	2.7	5.0	6.0	56.5%
% change		60.0%	68.8%	85.2%	20.0%	
OOH	9.0	10.0	12.5	15.0	12.5	8.6%
% change		11.1%	25.0%	20.0%	-16.7%	
Total	130.4	160.8	194.1	216.0	216.5	13.5%
% change		23.3%	20.7%	11.3%	0.2%	

Source: PwC Analysis and Industry Estimates

Theme 2009: Countering the economic slowdown through innovations in advertisement solutions

In a market affected by slowdown, advertisers had their marketing spends curtailed. During these times, advertisers were looking at more than just traditional ways of communication. Media players began to offer solutions and not just advertising avenues. While brands will continue to use traditional advertising platforms such as magazines, radio, and TV, they are now also actively seeking new ways to engage with consumers. For advertisers this will mean more effective use of their funds, as it will provide broadcasters with the opportunity to get some premium over the usual advertising rates.

Roadblock Strategy: Roadblock refers to buying all the advertisement spaces in a media vehicle for a day, thus blocking all other advertisers. This was a popular form of advertising in 2009 to gain visibility and getting value for money.

- Times of India and Volkswagen (Print): Volkswagen tied up with Times of India to make a Volkswagen edition on 11th November 2009. Advertisements of Volkswagen brands such as Beetle, Jetta and others dominated the complete newspaper from cover to cover for the day. The front page had a Volkswagen cutout in the form of a car. As per industry estimates, Volkswagen spent around Rs. 100 million for the one-day roadblock.
- MTS in Delhi (OOH): MTS undertook a roadblock campaign to mark its entry in the Delhi market. As a part of the campaign, entire toll plaza from Noida in UP to Mayur Vihar in Delhi were covered by MTS branding in the form of boom barriers, canopies, standees, lane dividers and so on.
- HUL on Zee and Star (TV): HUL conducted a roadblock on 25 Zee channels on 24th September 2009 and across all the Star channels on 17th September and 29th October 2009. The estimated spending is in the range of Rs. 80-90 million for each of these roadblocks. Lifebouy and Lux were the two main brands promoted during these campaigns.
- Bingo and Cadbury on MTV (TV): Bingo and Cadbury had a roadblock on MTV on 1st April and 1st July 2009, respectively. MTV also created the content in these promos.

Theme-based creative and solutions:

- Radio Mirchi and Hero Honda for Earth Hour (Radio): To support WWF's "Earth Hour", Radio Mirchi and Hero Honda joined hands to provide music to all their listeners without any electrical equipment. Radio Mirchi put off their CD players and entertained its listeners by using "live bands" in their studio. The music was provided by non-electrical instruments like dhols, bongos, and guitars.
- ENIL and Idea Cellular for saving paper (OOH): ENIL, in association with Idea Cellular, designed an outdoor campaign to promote its go green initiative. The initiative was branded 'Use mobile, save paper'. ENIL and Idea encouraged users to use their mobile phones as tickets for Bandra-Worli sea link toll and also a movie show in PVR. The first few thousand people sending an sms 'Idea sealink' to 58888 to show interest in the initiative received an sms

enabling them to travel on the Bandra-Worli sea link on 25th February 2009 between 8 am to 12 noon. Another initiative was a free movie screening where 200 people who smsed 'Idea movie' to 58888 won free tickets to a screening of 'Karthik Calling Karthik' at PVR Cinemas on 25th February 2009. The same was repeated on DND flyover in Delhi.

- Times of India and L'Oreal for go green campaign (Print): "Take Care, Take Charge" initiative was launched by L'Oreal and TOI to build awareness about greener planet on World Earth Day, 22nd April 2009. For every idea received, TOI bought 10kg of used paper. On 5th June 2009, World Environment Day, TOI published its newspaper from completely recycled paper.

Bundling of advertisements:

Many regional and national newspapers resorted to discounting their advertisement rates to fulfill their advertisement inventory. Some of these newspapers started bundling all the newspapers into one and offering discount on advertising in all the editions. This was seen as a more crude method to counter the slowdown.

Product placement in Films and TV

Advertiser's spend is undergoing a long-term shift toward total marketing or total brand communication, with companies changing their focus from advertising on a medium to marketing through and with content. Product placement in films and television are providing advertisers with newer ways to reach out to the customers. For example, the James Bond movie Quantum of Solace reportedly earned a record $75 million from product placement, and industry estimates put product placement in movies globally at $1.8 billion in 2010, twice more than its level in 2005.

It is estimated that product placement market in films in India is around Rs. 1,000 crores and gaining importance. Many channels like Star Plus and Colors have designated personnel to integrate this form of advertisement in the script.

Some examples of advertisements in Soaps are:

- Minute Maid Nimboo Fresh: Character Jagdish in Balika Vadhu stands first in class and celebrates with Minute Maid Nimboo Fresh.
- P&G Siksha: In the serial Bidaai, Prakashchand Sharma talks to his daughter-in-law on money and education for children which is part of P&G CSR programme, called P&G Siksha.

Key issues and trends for each sector: 2009

Television

Trends:	Issues:
• Many Hindi GECs are going global in order to target global diasporas and attaining higher ARPU • Fiction remains the key diet for Indian viewers. Key Hindi GEC players are targeting the regional language channels • News losing out to Hindi GECs in the race for ratings • Music channels shifting more towards non-music content • Sports entertainment picking up, but sports channels remain stagnant	• Slow pace of digitisation • Lack of compelling content • Increasing talent cost and hence increasing production costs • Competition in DTH play is increasing the subscriber acquisition cost • Lack of sophisticated measurement tools for measuring viewership

Conclusions:

- Television industry is estimated to be Rs. 265.5 billion in 2009 showing a growth of 8.5% over 2008.
- The year gone by was a mixed year for Television industry with the first half affected by downturn and the second half seeing the industry swing back and actually grow.
- Television distribution segment became more important in the last year owing to increasing subscription revenues and gaining ground over falling advertising revenues.
- Advertisement rates reduced due to downturn, but the volumes increased. There was a 31% increase in television advertisement volume during 2009 as compared to 2008.
- DTH added close to five million subscribers in 2009 witnessing a growth from nine million in 2008 to close to 14 million in 2009.
- Regional channels are beginning to gain prominence while the race for Hindi GEC market has heated up.
- IPL was again a big success on the television garnering big TRPs and huge advertisements.

Print

Trends	Issues
• Rebranding by newspapers to connect with youth • More colored pages for better reader experience • Growth in number of international players in magazine publishing • Focus on regional newspapers by national dailies	• Rising newsprint costs • Lower advertisement yield • Lower penetration in urban SEC as compared to television

Conclusions:

- Print industry is estimated to be Rs. 161.5 billion in 2009 showing no growth over 2008 numbers.
- Hindi dailies continue to dominate the rolls with highest readership and circulation across the country. Their readership increased by 3% in 2009 over 2008.
- Economic downturn impacted the advertising revenues of print media players, as a result of which, few players were constrained to drop their advertisement rates.
- Growth in magazine was limited owing to lack of measurement tools to measure their reach and impact. Niche magazines are likely to see quantum growth with entry of more international players.
- Regional markets would play a pivotal role in growth of print media in the next five years.
- Content will play an important role in driving readership especially for younger audiences.
- Online foray for print media is largely restricted to e-papers and e-magazines. Revenues from online properties are not expected to be material for print media players over the next five years.

Filmed Entertainment

Trends:	Issues:
• Multiplex strike affected the revenues • Regionalisation of Hindi and Hollywood movies • Digitisation of single screen and multiplex theatres • Boom in 3D films and 3D screens	• Entertainment Tax Exemption • Piracy is still a major concern • Increasing talent cost • Lack of quality content to make viewers pay

Conclusions:

- Filmed Entertainment industry is estimated to be Rs. 95 billion in 2009 showing a decline of -11.2% over 2008.
- Even though Filmed Entertainment showed slight de-growth in 2009, the trend is likely to reverse in 2010.
- Rise in number of multiplexes spread across the country will help increase domestic box office collections
- Increasing initiatives by the Government to curb piracy, decreasing dependence on rental market and growing digitisation will further boost the industry.
- Regional film industry will fuel growth over the next five years.

Music

Trends:	Issues:
• Mobile service providers offering music to their users • Tie-ups undertaken for content distribution • Initiative to provide free legally downloadable music by some players	• Lack of clarity on music royalty issue • High music rights acquisition cost • Piracy remains the key concern

Conclusions:

- The Music industry is estimated to be Rs. 7.5 billion in 2009 showing a growth of 8.5% over 2008.
- Increasing mobile penetration, advent of 2G/3G and portable music players have given a boost to digital music; however physical sales continue to drop with piracy being the main culprit.
- There is a move by some players to utilise this opportunity of digital music and provide free music online which is also DRM free. One such case in point is Nokia's Ovi store.
- Mobile VAS which contributed 28% to the music revenues in 2009 is expected to contribute 70% by 2014. Currently, it is dominated by CRBT downloads. With 3G auctions being completed recently, it is estimated that other forms of music usage, such as live streaming, will show increased demand.
- Music royalty issue is a major bone of contention between radio and music players. Successful resolution of this issue and rollout of phase III in radio will help music companies increase their revenues from radio players.

Internet Advertising

Trends:	Issues:
• Growth in social networking • Existing media players are expanding their offerings online • Online Video-advertising gaining prominence • Indian players expanding globally • Outsourcing of online ad-sales to specialised agencies	• Lack of trust in internet advertising • No real measurement mechanism

Conclusions:

- Internet Advertising industry is estimated to be Rs. 6.0 billion in 2009 showing a growth of 20% over 2008.
- Indian internet advertising market is one of the fastest growing segments in the E&M industry.
- Internet advertising industry is faced with challenges around measurement tools which is inhibiting its growth potential.
- With increasing reach of mobile and broadband penetration, complemented with the arrival of new modern technologies like 3G, the internet advertising industry is projected to grow at a faster pace.

Out-of-Home

Trends:	Issues:
• A number of innovative concepts were introduced • Growth of digital billboards • Localisation to improve connect with the customers • Improvement in street furniture • Mobility in advertisement carriers • Bid rationalisation by big players	• Lack of adequate measurement system • Lack of OOH penetration in smaller towns

Conclusions:

- OOH industry is estimated to be Rs. 12.5 billion in 2009 showing a decline of -16.7% over 2008.
- Even though OOH segment showed a decline in 2009, the trend is likely to reverse in 2010 on the back of re-bound in advertising growth.
- Government is expected to formulate clear regulations and clean up unauthorised street furniture which will benefit OOH industry.
- OOH industry likely to see the arrival of improved measurement tools which are likely to assist the growth of industry.
- The digital OOH advertising it is expected to excel with more players getting into interactive forms of OOH media.

Animation, Gaming & VFX

Trends:	Issues:
• Social Gaming – increasing usage on social platforms • Online gaming is emerging as platform for marketing • Greater outsourcing from international animation studios • New revenue streams in form of merchandising and mobisodes	• Dearth of quality talent for Animation and VFX • Piracy affecting gaming industry • Expensive hardware delaying the penetration of console gaming • Lack of quality studios for high-end animation

Conclusions:

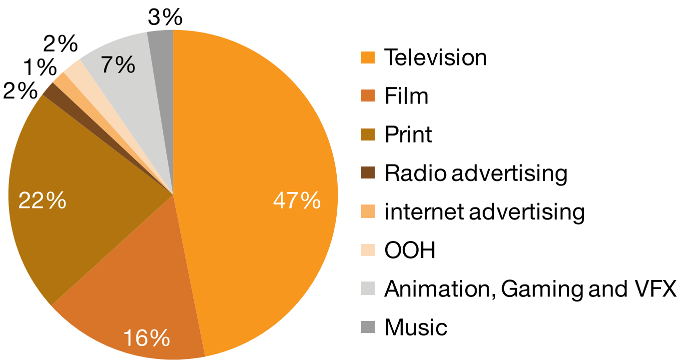
- Animation, Gaming & VFX Industry is estimated to be Rs. 23.8 billion in 2009 showing a growth of 21.8% over 2008.
- Indian companies are undergoing strategic alliances and partnership with the global counterparts which have fuelled the demand for the production services in India.
- Gaming industry is witnessing a fast growth because of its technical and infrastructure capabilities to provide gaming related services that meet international standards.
- India continues to leverage its low cost advantage combined with the entrepreneurial drive of its companies to position itself in the global front.

Source: Coleago consulting spectrum database

Towards 2014: En route to sustainable revenues

The E&M industry as a whole will continue to be dominated by TV, print and films by 2014. This is not very different from the present structure.

Chart 1.2 Segment-Wise Breakup of E&M Industry (2014)



Source: PwC Analysis and Industry Estimates

Digital vs. Non-Digital Spend

Globally, digital spending is growing at a brisk pace. In 2009, digital spending accounted for 24% of the total global E&M spending and is expected to rise to 32-33% by 2014. It is expected that, globally, in the next five years, digital technology will progressively increase dominance across all the E&M segments and there are two key factors affecting this change:

- Advances in technology and infrastructure
- Consumer behaviour

However, India is a very different case in point. While most industry players have been talking about increasing digital spending, this still accounts for very little in the India scenario. Digital spending in India has not been growing at the same pace as that internationally. The primary reason for the same is the lack of adequate digital infrastructure and slow pace of growth in the same. While consumer behaviour is increasingly moving towards digital spending, the lack of digital infrastructure is hindering this growth. Given the current scenario, we expect that non-digital spending will continue to remain the key factor for growth of E&M players in India. It is vital to remember that legacy of off-line revenue streams are still significantly larger than digital revenues and will remain so throughout the five-year forecast period. This means that the industry needs to ensure it embraces digital not as a competitor to traditional analog services, but as a complement. E&M companies need to strike the right balance between old and new, by nurturing and sustaining their cash-generative traditional offerings while embracing the digital revenue streams.

The next five years will see the emergence of each of the Entertainment and Media segment along a few growth lines. We have segregated these into few key themes which we feel would be driving factors for the industry along “Consumer behaviour” and “Industry initiatives”. These themes are:

Consumer behaviour

- Mobility: The rising power of mobility and devices
- Consumer Experience: Increasing engagement and readiness to pay for content… driven by improved consumption experiences and convenience

Industry initiatives

- Digitalisation: Bridging the digital divide
- Regionalisation: The next step towards growth

Consumer behaviour

These are the themes which focus on the changing consumer trends. Consumers’ rising influence is underlined by several developments. With consumers’ responses still evolving, it’s up to companies in the industry to anticipate and identify where they are heading, and give consumers what they want—or what they will want once they experience it. Over the coming five years, we believe, the force exerted by changing consumer behavior will make itself felt through these themes.

The rising power of mobility and devices

The rising penetration by smartphones and other Internet-enabled devices—supported by advanced infrastructure and enriched by a growing array of mobile applications, or apps—means the tipping point is fast approaching at which mobile content will explode as a revenue generator. In some markets this has already happened. In Japan, for example, more than 60% of total internet access spending in 2009 was generated through mobile devices. But even in less-mature mobile markets, consumer expectations of what a mobile device can do have soared beyond basic cell phone functionality and will continue to escalate, driving the ongoing convergence of a wide array of functions and media consumption choices on handheld devices.
In the next five years, the industry will need to meet

and surpass consumers' demand for sophisticated, multifunctional devices that will keep them connected, entertained and informed in markets across the world.

Working together, device, application and content providers will meet that demand by embedding and progressively enhancing a growing array of features—including offering internet connectivity at -higher bandwidths, supporting an ever-wider array of content and gaining rising functionality through design advances and the increasing range of applications available for smartphones and other mobile devices. India will see the arrival of 3G in 2010 and it will only grow stronger by 2014 with a range of new offerings for the 3G enabled phones. Today's consumers are already eagerly anticipating the day when their mobile devices will be able to function as all encompassing, multifunctional mini PCs or TVs, and by 2014 or earlier consumers be able to fulfill their wish.

Loyalty shifts from service provider to device, and, ultimately, to the brand

The expanding functionality of mobile devices is also fuelling another significant shift. The focus of consumers' brand loyalty and trust is moving away from the service or content provider and attaching itself ever more closely to the device itself and the device's underlying content. The importance of the device brand represents a break from previous waves of consumer technology. Consumers today relate to iPods, not generic portable music players; to iPhones or BlackBerrys, not generic smartphones; and to Kindles and iPads, not generic electronic readers. In previous generations, the device itself was more important than the brand of the device. Moreover, those systems were open and interoperable; VCRs could play all VHS cassettes and CD players could play any CD recording.

3G Auction: Giving far greater mobility to the customers

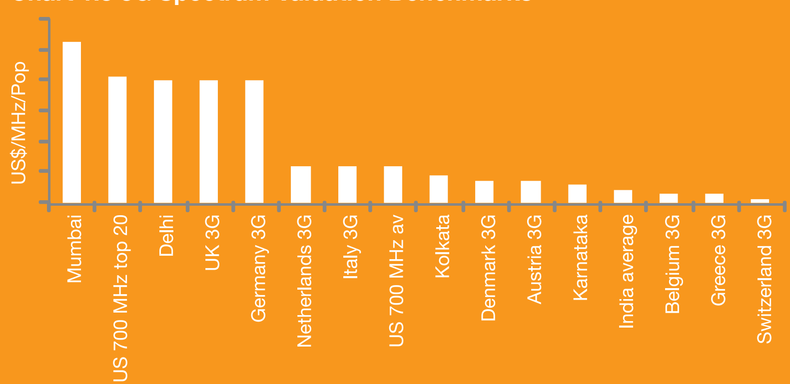
The major advantage of 3G is moving from voice data to high speed data for video (TV) transmission and internet searching. The 3G mobile system increases the data rate by 200 times as compared to the older system. The higher bandwidth will also increase the speed of normal data transfer and, hence, open up the possibility for numerous applications.

India's 3G auction completed in May, 2010 with the Government receiving Rs. 67,710 crores for the spectrum fees. With declining ARPU in the Indian mobile market, 3G may prove as a boon to the operators who are looking to provide more VAS services to the customers and, hence, increase the ARPU.

Table 1.4 3G Spectrum Bid Price

Airtel (Bharti)	13	Rs. 12,295.46
Aircel	13	Rs. 6,499.46
Idea	11	Rs. 5,768.59
Reliance	13	Rs. 8,585.04
Stel	3	Rs. 337.67
TATA	9	Rs. 5,864.29
Vodafone	9	Rs. 11,617.86

Chart 1.3 3G Spectrum Valuation Benchmarks



Source: Coleago consulting spectrum database

IPTV: Opportunities galore

IPTV has a great potential in the Indian market, since it offers entertainment, internet, telephony, e-government and video streaming boxed together and provided at the customer doorstep. Customer in-turn needs to have a high-speed broadband connection. However, most households in India face the issue of internet connection. Though broadband is replacing dial-up connections in most households, it has still not been able to achieve the right penetration. IPTV faces stiff competition from existing broadband and DTH players while it will face even stiffer competition from 3G players. IPTV can become a force to reckon with if the price differential between IPTV and its competitors is reduced and there is more trial of the product.

Increasing engagement and readiness to pay for content… driven by improved consumption experiences and convenience

3D experience pays off

India has seen a stark increase in the number of movies released in 3D format as well as number of theatres capable of showcasing 3D movies. This has been driven by customers willing to pay for the enhanced experience in watching 3D movies. It's a win-win situation for exhibitors as well as viewers with exhibitors charging big premium for 3D movies with ticket prices as high as Rs. 500-800 as compared to Rs. 100-300 for normal multiplex movies.

Media consumption returns to being a collective social experience

A parallel trend around engagement is the growing re-socialisation of the media consumption experience. Reading books or newspapers has historically been something people do alone. Television has headed the same way in recent years, with the advent of multichannel fragmentation and multiset households. But now the combination of digital access, mobility, and social networking is seeing consumption of all forms of media migrate from being solo activities toward being social experiences, as viewers discuss and share content via their social networks and mobile devices as well as in physical groups. Going forward, this activity will increasingly take place on a single device, such as a web-enabled TV.

Convenience pays off

A further important driver in convincing consumers to pay is convenience. In that regard, the flexibility, scale and accessibility of cloud computing are proving to be powerful assets for the various E&M offerings. In March 2010, online music service MOG launched new mobile applications offering US mobile subscribers the ability to stream songs on both iPhones and Android devices for $10 a month— twice the price of its desktop-only service.

TV and Internet: Complementary consumption

With internet-enhanced television gaining momentum and with television and the internet being used together in a growing number of contexts, internet and television are becoming complementary to each other rather than being competitive or a substitute of each other. Many people who are watching TV are, simultaneously, online and access content or participate in social networks related to the programmes they're viewing. Television is also one of the most popular online subjects, generating active discussions among fans of specific programmes. Essentially, the internet has created a virtual watercooler around which people gather to chat with each other about TV.

Similarly, many users of previously free ad-funded online content services have proved ready and willing to switch to paying for an ad-free variant under a so-called freemium model (a business model that works by offering basic services for free while charging a premium for advanced or special features). Pioneered by the likes of Flickr, freemium is now used by such online music services as Pandora. The success of Zynga's well-known social games such as Farmville and Mafia Wars lies in Zynga's ability to create consumer stickiness by offering the games for free while earning revenue from micro transactions for virtual goods. The rise of freemium confirms that high-quality, licensed services can be more attractive to consumers than unlicensed peer-to-peer alternatives.

Far from undermining existing and traditional content, advances in digital technology can actually re-establish and restore content's value for consumers. HDTV is supporting television revenues, 3-D is boosting film and authorised music sites are steadily restoring the value of recorded music that was lost to illegal peer-to-peer downloading. In each case, digital innovation in devices and applications is enhancing the experience of the consumption of content.

HDTV: Slow growth but expected to pick-up rapidly

HDTV is slowly taking off in India with HD enabled television set sales rising as well as a number of DTH service providers buying HD content to be shown on their network and packaging the same into one channel. Moreover, some of the existing channels have also started to provide HD content. With wide screen, crystal clear cinematic picture and surround sound, HD content is expected to attract niche viewership once it catches on in the country. Such content is created through special cameras and high-end technology. Reliance Big is already offering National Geographic in HD format to its subscribers. Cartoon Network tied up with Sun Direct to showcase its HD content.

Industry Initiatives

We feel that industry itself is taking initiatives on its own to move in directions which they feel consumers are tilting. They are taking initiatives to either improve the consumer experience or tap a nascent pool of previously unexplored consumers. In the coming five years, we expect industry to try and explore the market along these themes to serve the customers better.

Bridging the Digital Divide

Digitisation: A growing experience

Many single screen cinemas are going digital in line with multiplex screens to enhance users' experience. There are, currently, approximately 3,000 digital cinema screens in India which have been put up by companies such as UFO Moviez and Real Image. Moreover, UFO Moviez also has plans to convert around 1,000 screens to enable them for 3D viewing by 2012. Digitisation not only helps in better customer viewing experience, but also helps in putting a curb on piracy.

DTH: Penetrating faster than ever

DTH continues to work as the engine of growth for the television industry. Digital signal clarity is the key offering by the DTH players. Interestingly, DTH is showing huge growth in rural India having increased its penetration to 64% in 2010 as compared to 49% in 2009 and 34% in 2009 as per TAM data. The total number of DTH households is estimated to be around 20 million in the first half of 2010, up from around 14 million in 2009 and 9 million in 2008.

Digital Music downloads

Online music has received a shot in the arm with a number of few players deciding to offer DRM-free free content to the users to counter piracy market. Nokia is a pioneer in this area with its Ovi stores. It launched its online music stores or popularly called "Ovi stores" in a bid to help the cause of legal downloads in India, in 2009. Users can download music online from these stores by registering on the website. The store carries an extensive selection of Indian music across different genres. The Music Space lets users search, organise and listen to music collections; either from the PC, mobile devices, CDs or Nokia Music Store that also recommends tracks. The Nokia Music software supports Indian regional languages including Punjabi, Gujarati, Marathi, Sanskrit, Konkani, Kannada, Telugu, Tamil and Hindi.

Apart from online music downloads, Mobile VAS is another segment which has been very popular for music downloads (in the form of CRBTs). It is estimated that the Mobile VAS segment will overtake physical sales of music in 2010. Mobile VAS would receive further boost by the launch of 3G services which are expected to hit the market by end of 2010.

OOH: Real time updates is the key

OOH is also moving towards digitisation, with more and more OOH screens being updated to LED or digital sign boards. It is estimated that there are over 6000-6500 screens. These digital sign boards can be updated remotely depending on the changing customer needs. Moreover, they are considered to be far more engaging with the customers and give more flexibility to the advertisers to interact with the customers.

Film marketing: Taking the online route

Films have received success while marketing online on social forums and other interactive mediums online. The case in point here is the marketing strategy used by 3-idiots and Avatar. Avatar successfully built connections and conversation on Facebook (around 1.3 million fans) and other social networking vehicles. Users were engaged on Twitter by asking to send a message in the social networking forum to listen to the promos and music. Avatar's social media strategy also branched out to YouTube (close to 11 million video views) and Flickr (over 1 million photo views). Moreover, various topics of interest were also started such as "Why Avatar aliens are blue?" to make it more interactive for the users.

Similarly for 3-idiots, Aamir Khan set abuzz the social network forums with a challenge to his fans to track him as he went incognito to promote 3-idiots. The marketing team also built and Alternate Reality Game (ARG) in association with Zapak to connect with the youth. They also created a Facebook fan page and Aamir Khan's "the pukka idiot" where Aamir would be updating his status frequently to interact with the fans. Aamir Khan also conducted live chat with the fans over the same page to build momentum before the launch of the movie.

Radio:

Many FM stations are encouraging their RJs to reach out to listeners using social networks like Facebook, Twitter and Orkut building up a fan base for themselves and the FM station. This helps the listeners to engage with their favorite RJs even after the airtime on the radio. Moreover, the FM stations themselves have their fan page where the listeners can connect with the station. My FM is one such station which has taken these initiatives and has elicited an extremely favorable response.

Radio City's online venture Planetradiocity.com has launched their internet radio station called 'Fun Ka Antenna.'

Comics online – Docomics (marvel magna), Amar Chitra Katha

ACK Media is producing a stereoscopic three-dimensional animation film with Suppandi as the main character in Amar Chitra Katha. The film is expected to be released in November 2010. ACK Media, in partnership with MoFirst has launched Amar Chitra Katha on Android for both the Indian and the international market.

Regionalisation: The next step towards growth

National newspapers are going regional

Regional print market will be the driving force behind the growth of the print industry. Hindi print market showed a growth of 3% over the last year and PwC expects this trend to continue owing to large expansion plans charted out by regional players. Dainik Bhaskar is planning an entry into Bihar and Jharkhand Market, while Hindustan is growing aggressively in Uttar Pradesh. Additionally, with advertisers focus shifting to tier-II and tier-III towns, regional print will play a major role in reaching out to this audience. However, in the coming times, we estimate that the share of Hindi and other regional dailies will leap as more companies contemplate focusing on tier-II and tier-III towns. Other key advertisers like telecom service providers and handset manufacturers are also looking for entry into tier-II and tier-III towns and this would stimulate good growth for regional publications. Local-to-local advertisement revenues is one of the key revenue segments for regional newspapers and even during the economic slowdown, it showed a growth of 15-20%.

Films: More movies produced in local language to cater to regional audience

A number of Hollywood and Hindi films have realised the potential of regional cinema and there have been increased instances of international Bollywood films being dubbed in other languages. A number of English movies are now dubbed in local languages as they yield better returns than the English version of the same. For instance, It's a Wonderful Afterlife, Gurinder Chadha's latest English film is dubbed in Punjabi and Hindi. Other such instances are:

- Toy Story 3: Dubbed in Hindi
- Shrek Forever After: Dubbed in Hindi
- Avatar: English, Hindi, Tamil, and Telugu
- Ninja Assasin: Hindi, Tamil, and Telugu, English

Radio: Phase III targeting towards smaller towns

Ministry of Information and Broadcasting (MIB) is looking to roll-out the phase-III licenses for radio industry by end of 2010. Phase-III will witness an addition of 200+ towns for private FM. It is estimated that 780 new stations would be added to the existing 248 stations across India. Phase-III is said to be focused on tier-II and tier-III cities and will further enhance the spread of radio in India.

- U.P & Uttaranchal account for 123 proposed stations
- Andhra Pradesh is proposed to host 94 stations
- Maharashtra is proposed to have 87 new stations

2014: Global Outlook

PwC projects the entertainment and media industry in North America, EMEA (Europe, Middle East, Africa), Asia Pacific, and Latin America will increase from $1.3 trillion in 2009 to $1.7 trillion in 2014, growing at a compounded annual rate of 5%. North America will be the slowest-growing region, with a 3.9% compounded annual increase. After falling by 6.8% to $460 billion in 2009, spending will rise to $558 billion in 2014. EMEA, the largest region, at $463 billion in 2009, declined by 2.8% in 2009. We expect spending in EMEA to increase by 4.6% compounded annually to $581 billion in 2014. Spending in Asia Pacific increased by 1.3% in 2009 and will average 6.4% compounded annually through

Table 1.5 Global Entertainment and Media Market by Region (US$ Millions)

Region	2005	2006	2007	2008	2009p	2010	2011	2012	2013	2014	2010–14
North America	461,873	484,406	500,920	494,203	460,457	465,880	479,989	503,923	527,406	557,756	3.9
% Change	3.9	4.9	3.4	-1.3	-6.8	1.2	3.0	5.0	4.7	5.8	
EMEA	405,277	430,440	461,715	475,951	462,772	471,602	489,715	515,853	547,932	580,814	
% Change	5.5	6.2	7.3	3.1	-2.8	1.9	3.8	5.3	6.2	6.0	4.6
Asia Pacific	273,701	295,875	322,009	343,579	348,172	365,656	388,223	414,574	443,878	474,913	
% Change	11.3	8.1	8.8	6.7	1.3	5.0	6.2	6.8	7.1	7.0	6.4
Latin America	33,410	37,982	43,930	48,616	50,489	53,436	57,680	63,463	69,706	76,815	8.8
% Change	12.3	13.7	15.7	10.7	3.9	5.8	7.9	10.0	9.8	10.2	
Total	1,174,261	1,248,703	1,328,574	1,362,349	1,321,890	1,356,574	1,415,607	1,497,813	1,588,922	1,690,298	
% Change	6.3	6.3	6.4	2.5	-3.0	2.6	4.4	5.8	6.1	6.4	5.0

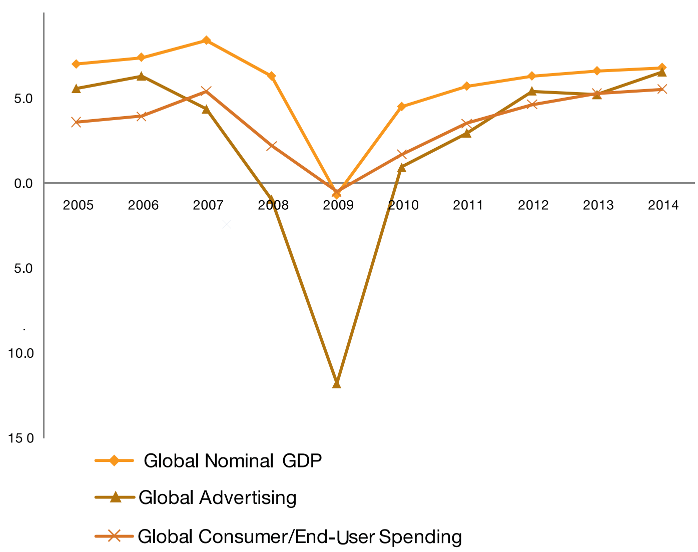
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

2014, rising to $475 billion in 2014 from $348 billion in 2009. Excluding Japan, Asia Pacific will increase at a projected 9.2% compound annual rate during the next five years. The market in Latin America rose by 3.9% in 2009 and will expand at an 8.8% compounded annual rate during the next five years from $50 billion to $77 billion in 2014.

Both advertising—which consists of ad spending in media, but does not include other brand spending—and consumer/end-user spending are affected by the economy. Advertising is more sensitive to the economy than end-user spending is, and it fell at much steeper rates as the economy weakened. Advertising grew faster than consumer/end-user spending during 2005–06, and we expect it will do so again during 2012–14, when we expect a return to healthy economic growth. Both these E&M components have been growing at a slower pace than the nominal gross domestic product (GDP) during the past five years.

This is mainly because of the growing share of digital in the overall spending mix, since digital media is less expensive than traditional media. Online advertisement rates are lower, as are end-user prices. Consequently, the shift in usage from traditional to digital generally leads to a decrease in spending. As a result, growth in the digital share of the market is dampening spending growth, which is why E&M will continue to grow more slowly than nominal GDP growth during the next five years even once the economy recovers. We expect that pattern to continue until the digital/traditional mix reaches equilibrium.

Chart 1.4 Global E&M advertising, consumer/end-user spending and nominal GDP growth (%)



2014: India Outlook

The Indian E&M industry is estimated to grow from Rs. 580.8 billion in 2009, at a CAGR of 12.4% for the next 5 years to reach Rs. 1040.8 billion in 2014. Television industry is projected to continue to be the major contributor to the overall industry revenue pie and is estimated to grow at a healthy rate of 13.0% cumulatively over the next 5 years, from an estimated Rs. 265.5 billion in 2009. The overall television industry is projected to reach Rs. 488.0 billion by 2014. In the television pie, television distribution is projected to garner a share of 60% in 2014 while Television advertising is expected to have 35% share and Television Content industry have a 5% share. Of the advertising industry pie, television advertising industry is projected to command a share of 46.0% in 2014, from a present share of 41.0%.

The Indian film industry is projected to grow at a CAGR of 12.4% over the next five years, reaching to Rs. 170.5 billion in 2014 from the present Rs. 95 billion in 2009. The Film Industry saw a decline in market size as compared to the previous year due to economic slowdown and strike in the multiplex industry. Digitisation in movie screens is expected to help the film industry garner greater revenue.

The Indian print media industry is projected to grow by 7.4% over the period 2010-14, reaching to Rs. 230.5 billion in 2014 from the present Rs. 161.5 billion in 2009. The relative shares of newspaper publishing and magazine publishing which showed a shift towards newspaper owing to poor performance in magazine industry is expected to shift back towards the original ratio and expected to remain the same at around 86-87% in favour of newspaper publishing. Magazine publishing is expected to grow at a higher rate of 11.5% as compared with newspaper publishing which is expected to grow at 6.8% for the next five years. This is due to the expected launch of a host of niche magazines who will command higher advertising premium.

The Indian radio industry is projected to grow at a CAGR of 12.2% over 2010-14, reaching Rs. 16 billion in 2014 from the present Rs. 9 billion in 2009. In terms of share of advertisement pie, it is projected that the radio advertising industry will be able to increase its share from 4.2% to 4.3% in the next five years. The slower growth rate is due to a number of unresolved issues in the industry. If the launch of phase III is successful, the radio industry will grow at a much higher pace than projected.

The animation, gaming and VFX industry will continue to maintain its growth pace and is projected to grow at a CAGR of 25.2% to Rs. 73.4 billion in 2014 from its current size of Rs. 23.8 billion. International production houses are relying more on Indian animation studios and this is set to help growth of the segment. The Indian gaming industry is projected to grow from an estimated size of Rs. 5.3 billion in 2009 to an estimated Rs. 19.4 billion by 2014; translating into a cumulative growth of 29.4% over the next five years. Mobile gaming will dominate the segment with 67% share, driven by the growth in the high-end segment of the mobile users, new content by mobile operators and the availability of 3G spectrum that enables easy of play. Reducing prices of handsets will also help mobile gaming with more users opting for high-end smart phones which can run high-end games. Online gaming will be the next highest contributor followed by console gaming. This will be fuelled by the growth of internet users and especially the growth of the target segment of users aged between 15-34 years. The growth in console gaming will also be aided by falling cost of console prices and availability of local games. Online gaming will also be supported by harsher piracy control by the online game rooms.

Given the trends of increased internet usage, internet advertising is projected to grow by 20.1% over the next five years and reach an estimated Rs. 15 billion in 2014 from the present Rs. 6 billion in 2009. The share of the online advertising too is projected to grow from 2.8% in 2009 to 4.5% in 2014 of the overall advertising pie. Online advertisement growth is projected to be at a slower rate relatively owing to the lack of any measurement tools which helps the industry grow.

Table 1.6 Projected Growth of Indian E&M Industry in 2009-14

Rs. billon	2009	2010F	2011F	2012F	2013F	2014F	CAGR
Television	265.5	307.0	345.0	389.5	440.0	488.0	12.9%
% change		15.6%	12.4%	12.9%	13.0%	10.9%	
Film	95.0	114.5	130.0	144.5	157.0	170.5	12.4%
% change		20.5%	13.5%	11.2%	8.7%	8.6%	
Print	161.5	175.0	186.0	199.0	216.0	230.5	7.4%
% change		8.4%	6.3%	7.0%	8.5%	6.7%	
Radio Advertising	9.0	10.0	11.0	12.3	14.0	16.0	12.2%
% change		11.1%	10.0%	11.8%	13.8%	14.3%	
Internet Advertising	6.0	7.0	8.0	9.5	12.0	15.0	20.1%
% change		16.7%	14.3%	18.8%	26.3%	25.0%	
OOH	12.5	13.5	15.0	16.5	18.5	21.0	11.0%
% change		8.0%	11.1%	10.0%	12.1%	13.5%	
Animation, Gaming & VFX	23.8	31.1	38.2	47.1	58.8	73.4	25.2%
% change		30.6%	22.8%	23.3%	24.7%	24.9%	
Music	7.5	10.6	14.8	18.6	22.3	26.5	29.0%
% change		41.3%	39.0%	26.0%	19.4%	18.8%	
Total	580.8	668.8	748.0	837.1	938.5	1040.8	12.4%
% change		15.1%	11.9%	11.9%	12.1%	10.9%	

Source: PwC Analysis and Industry Estimates

The estimated size of the OOH industry is Rs 12.5 billion in 2009, is projected to reach Rs. 21 billion in 2014. Its share in the total ad pie is expected to go down marginally to 5.6% in 2014 from a current level of 5.8% in 2009. The industry which showed the highest dip in 2009 is set to rebound owing to introduction of new measurement tools and higher proliferation of digital screens which helps in increasing user interactivity.

Mobile VAS is expected to be the key driver of growth for the music industry. With the completion of 3G auction, digital sales will far surpass the physical sales by 2014. It is expected that in 2010, digital sales will overtake physical sales. Music industry is estimated to be Rs. 26.5 billion in 2014 from the current size of Rs. 7.5 billion in 2009. It is expected to be the fastest growing segment. Apart from the growth in mobile industry, phase III licensing will further help the growth of the music industry.

At a glance

Market size

2009	2014	CAGR
Rs. 265.5 billion USD 5.5 billion	Rs. 488 billion USD 10.1 billion	12.9%

TV Distribution

2009	2014	CAGR
Rs. 165 billion USD 3.4 billion	Rs. 295 billion USD 6.1 billion	12.3%

TV Advertising

2009	2014	CAGR
Rs. 89 billion USD 1.85 billion	Rs. 170 billion USD 3.52 billion	13.8%

Pay TV HH

2009	2014
86 million	133 million

DTH HH

2009	2014
14 million	50 million

Pay TV ARPU

2009	2014
Rs. 160	Rs. 185

Market Definition

Television industry refers to revenues from:

- Television Distribution: Subscription revenues from services broadcast via cable (analogue or digital), DTH or other means.
- Television Advertising: Revenues from advertising sold by television programmes as well as service providers.
- Television Content: Revenues generated by the television content producing industry.

Outlook in brief

- Last year proved eventful for the television industry with the first half being affected by the economic downturn and the second half witnessing not only recuperation, but also some acceleration in its growth.
- Television distribution segment gained importance last year, owing to increasing subscription revenues and gaining ground over falling advertising revenues.
- Advertisement rates reduced due to downturn, but the volumes increased. There was a 31% increase in television advertisement volume during 2009 as compared to 2008.
- DTH added close to five million subscribers in 2009 witnessing a very high growth from nine million in 2008 to close to 14 million in 2009.
- Regional channels began gaining prominence while the race for Hindi GEC market heated up.
- Once again, IPL was a grand success on the television, garnering enormous TRPs and huge advertisements.

Television

Indian Television Industry

Driven by increase in subscription revenues (due to growth in DTH subscribers) and proliferation of televisions across households, the year 2009 was a good innings for the Indian television industry. Currently estimated at Rs. 265.5 billion in 2009 as compared to Rs. 245 billion in 2008, the industry reported a growth of 8.5%.

Revenues from television distribution segment contributed 62% towards the television industry's overall returns in 2009 up from 61% in 2008, outdoing other segments in this industry. The segment stood at an estimated Rs. 165 billion up from Rs. 150 billion in 2008.

The television advertising industry, that has shown a growth of 11.5% over the last four years, slowed down in the last year (2009) to a meager 6% as financial crisis that resulted in lesser spending by the corporate houses. In 2009, television advertising industry contributed 34% to the overall television industry's revenues as compared to 37% in 2004. It stood at an estimated Rs.89 billion in 2009, up from Rs. 84 billion in 2008.

The television content growth was also impeded due to the downturn and the shrinking demand for generalised content. Its share in the television industry continued to stand at 4.3% in 2009, as it reported nearly Rs. 11.5 billion of income as against Rs. 10.5 billion in 2008. This slight growth has been accredited to the increase in the number of television channels in India. This, in turn, has stressed on the need for differentiation and, hence, greater emphasis is being placed on the quality of television content being aired.

Table 2.1 Television Market Segmentation

Rs. billion	2005	2006	2007	2008	2009	CAGR
Television Distribution	97.0	117.0	136.5	150.0	165.0	14.2%
% change		20.6%	16.7%	9.9%	10.0%	
Television Advertising	54.5	66.2	78.0	84.2	89	13.0%
% change		21.5%	17.8%	7.9%	5.7%	
Television Content	7.0	8.0	9.4	10.5	11.5	13.2%
		14.3%	17.5%	11.7%	9.5%	
Total	158.5	191.2	223.9	244.7	265.5	13.8%

Source: PwC Analysis and Industry Estimates

Television Distribution

Television distribution consists of total households divided into pay television households (consisting of cable and DTH households) and terrestrial households (which receive the free-to-air channels).

Subscription revenue forms the biggest share of revenues for the television industry. It is equated by summing up the average revenue per user (ARPU) generated for each pay television household. Of the total revenue pie, the subscription revenue forms 62%, while the rest goes to advertisement and content revenues. The total size of income from the subscription segment leapt by 10% last year, as it touched Rs.165 billion in 2009 from Rs.150 billion in 2008.

Table 2.2 Television Distribution

Rs. billion	2005	2006	2007	2008	2009	CAGR
Television Distribution	97.0	117.0	136.5	150.0	165.0	14.2%
% change		20.6%	16.7%	9.9%	10.0%	
% of total	61%	61%	61%	61%	62%	

Source: PwC Analysis and Industry Estimates

Television Households

Television has become an indispensable part of Indian houses. From being a luxury a few decades back, it is today considered a necessity. Television households escalated to 124 million in 2009 from 118 million in 2008, indicating a penetration of 60% within the country. While the absolute number of television households seems copious, the penetration in India is significantly lower than many developed countries.

Table 2.3: Global Pay TV households (Select Countries)

Million	2005	2006	2007	2008	2009
USA	27.4	29.1	31.5	31.9	32.0
% change		6.2%	6.5%	2.9%	0.3%
Canada	2.49	2.63	2.66	2.71	2.80
% change		5.6%	1.1%	1.9%	3.3%
China	125.0	138.2	153.0	159.6	167.6
% change		10.6%	10.7%	4.3%	5.0%
India	109	112	115	118	124
% change		2.8%	2.7%	2.6%	1.7%

Source: PwC Global Outlook 2010

Table 2.4: TV penetration in India

Million	2005	2006	2007	2008	2009
Total Households	185.0	190.0	195	197.0	207.0
% change		7.0%	3.0%	3.0%	5.0%
Television Households	109.0	112.0	115.0	118.0	124.0
% change		7.0%	3.0%	3.0%	5.0%
% TV penetration	59.0%	59.0%	59.0%	60%	60%

Source: PwC analysis and industry estimates

Overall, pay television households are divided into three major segments:

- Cable households: Catered to by local cable operators (LCOs) and multi system operators (MSOs).
- DTH: Direct-to-Home households are catered to by various organised DTH players with signal provided directly to the homes using satellite.
- IPTV: Internet protocol television households (IPTVs) are provided live television over internet connection. This is still a very niche segment and is yet to take-off fully in India.

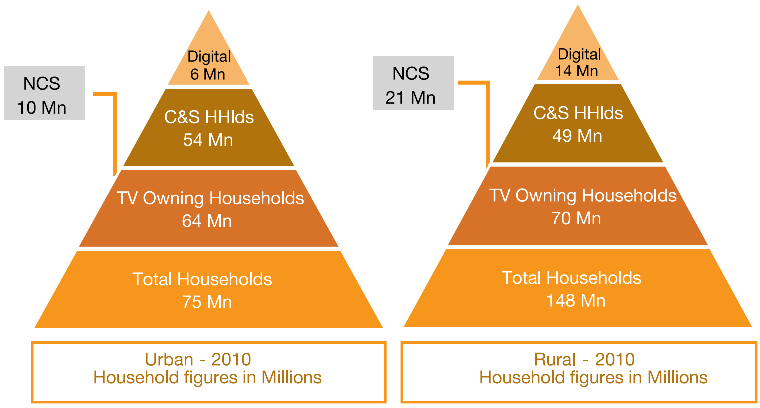
Pay television households enjoyed a good growth in 2009 thanks to DTH thrusting the numbers upward. On the whole, pay television increased its penetration from 68% in 2008 to 69% in 2009. The total number of C&S households jumped from 80 million in 2008 to 86 million in 2009 with DTH adding five million more households in 2009 while cable just added one million.

Table 2.5 TV Households in India

Million	2005	2006	2007	2008	2009
TV Households % change	109.0	112.0 7.0%	115.0 3.0%	118.0 3.0%	124.0 5.0%
Pay TV Households % change	62.0	70.0 13.0%	73.5 5.0%	80.0 9.0%	86.0 8.0%
Cable TV Households % change	61.0	68.0 11.0%	70.0 3.0%	71.0 1.0%	72.0 1.0%
DTH Households % change	1.0	2.0 100.0%	3.5 75.0%	9.0 157.0%	14 56.0%

Source: PwC Analysis and Industry Estimates

Chart 2.1 Urban vs. Rural household penetration in India



Source: TAM

Table 2.6 Share of Pay-DTH among all DTH households

	2008	2009	2010
Urban	73%	79%	86%
Rural	34%	49%	64%

Source: TAM

Table 2.7 DTH Subscribers in India

Period	DTH Subscribers (million)
Oct-Dec 09	19.1
Jul- Sep 09	17.3
Apr-Jun 09	15.2
Jan- Mar 09	13.1

Source: TRAI

DTH driving indirect digitalisation

Backed by its ability to offer digital signal clarity, DTH continues to play a pivotal role in the growth of the television industry. Interestingly, DTH is rapidly progressing in rural India (see table below) as it boosted its penetration to 64% in 2010 as compared to 49% in 2009 and 34% in 2008.

The total number of DTH households is estimated to be around 20 million in the first half of 2010, up from around 14 million in 2009 and nine million in 2008. In 2009, there were six DTH players in the market (Tata Sky, Dish TV, Airtel, Videocon, Sun and Reliance), besides the state owned DD Direct. Of these, Dish TV is the leading player with approximately 6.5 million subscribers and an estimated ~35% market share.

Cable Television Households showing slow growth

- As digital platforms like digital cable and DTH gain foothold owing to superior digital quality, the subscriber base of analog cable is going down. However, though analog cable subscribers are showing a downward trend, it will co-exist with digital platforms in the near future.
- Influenced by intense competition between multiple players, coupled with price correction due to recession, the ARPU of analog cable players has reduced and this is expected to glissade further in the future.
- The growth of digital cable is also stagnating in CAS areas owing to the influx of DTH.

Headend-in-the-sky (HITS)

Introduced in November 2009, Headend-in-the-sky (HITS) broadcasting service refers to the multichannel downlinking and distribution of television programmes in C-Band or Ku band. Here, all the pay channels are downlinked at a central facility (hub/teleport) and again uplinked to a satellite after encryption of channels. At the cable headend, these encrypted pay channels are downlinked using a single satellite antenna, transmodulated and sent to the subscribers by using a land based transmission system comprising of infrastructure of cable/optical fibres network.

After obtaining a HITS licence from the Ministry of Information & Broadcasting (MIB), the HITS operator can himself get into contracts with various broadcasters for buying the content, aggregating the same at an earth station and then uplinking with his own encryption to a satellite hired by him. The uplinked channels can then be downlinked by the cable operators using a dish antenna for onward distribution through the last mile conventional cable network to the TV homes. In this model, the HITS operator works like a conventional MSO, except that virtually the head-end is in the sky, instead of being located on the ground.

Currently, Dish TV and Noida Software Technology Park Limited (NSTPL) are the only two operators possessing a HITS license.

Key features of HITS guidelines:

- To be eligible for a HITS license, the company must be Indian and have a minimum net worth of Rs. 10 crores.
- 74% FDI is allowed in this sector and 49% under the automatic route.
- Cross-media ownership restriction applies i.e. broadcasting companies and DTH licensee companies cannot own more than 20% in the HITS company and vice-versa.
- However, there is no restriction of ownership between a HITS company and MSO/LCO.
- No restriction on the number of HITS permissions to be granted by MIB.
- Permission granted is valid for 10 years from the date of granting the operating license.
- Non-refundable entry fee of Rs. 10 crores+ Licensee fee and royalty is charged for the use of spectrum.

According to the new regulation introduced in November 2009 regarding HITS, FDI in this area has been increased from 49% to 74%. HITS is expected to be a cheaper option for the cable operators to roll out networks, especially in the rural and remote areas. Industry estimates that against the cost of Rs. 10-15 lakh in setting up analog cable network, a cable operator would need around Rs. two lakh to get on to the HITS platform. Thus, with cable operators having an option to implement CAS or HITS, digitalisation in the country is likely to get an impetus.

IPTV: Yet to take-off in India

IPTV holds a promising future in the Indian market since it offers entertainment, internet, telephony, e-government and video streaming boxed together. All this is provided at the customer's doorstep. Customer, in-turn, needs to have a high-speed broadband connection. Unfortunately, most households in India face internet connection problems. Though broadband is replacing dial-up connections in most households, it has still not been able to tighten its reigns.

However, the current players are trying to propagate IPTV by launching new schemes. MTNL, BSNL and Bharti are the three major players in this segment. Bharti, recently, announced "Magic@Home Turbo" package, costing Rs 1,499 a month at the speed of 512kbps with the connection doubling to 1 Mbps during nights. Since its initial launch, that charged Rs. 3,999 for installation, Bharti has reduced the same to Rs. 2499 for Wi-Fi and Rs. 1,999 without Wi-Fi.

However, IPTV is expected to capture the Indian houses once the price difference between DTH connections and Internet services individually and IPTV as a service reduces to minimal and users are offered trial services. Also, once broadband penetration in rural India improves, IPTV would stand a better chance of success. Yet, it is believed that, IPTV will experience a slow take-off as compared to the other services in the broadcasting space.

Subscription Charges

Increased competition within DTH and with cable is putting pressure on ARPUs

As DTH players multiply and DTH gets a wider acceptance from customers, increasingly, patrons are realising the benefits of digitalisation. Consequently, cable operators providing analogue cable services are under immense pressure and are not able to hike their subscription fees substantially and, in most cases, are keeping it flat. DishTV, the only listed player in this segment, has reported an ARPU of Rs. 135 which was below the industry average of Rs.145-150.

Table 2.8 Pay Television ARPU

Rs.	2007	2008	2009	2010 F	2011 F	2012 F	2013 F	2014 F
Pay TV ARPU	155.0	156.0	160.0	165.0	170.0	175.0	180.0	185.0
% change		*1.0%*	*3.0%*	*4.0%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*

Source: PwC Analysis and Industry Estimates

We estimate that the ARPU would remain in the similar range, not showing any exponential growth in the next two to three years as the players will focus on garnering the subscribers more than revenues.

Cable TV ARPU

At the national level, a decline in the average amount is evident. On an average, the households are paying Rs 185 per month as against Rs 200 per month reported in 2007. The highest being reported in Shillong (Rs 319) and lowest in Chennai (Rs 106). (See Table 2.9).

Table 2.9 Average Monthly Subscription Bill

City	March 2010	January 2007
Chennai	106	146 (CAS)
Delhi	183	156
Kolkata	161	171
Mumbai	248	240
Bangalore	209	211
Hyderabad	153	169
Ahmedabad	259	217
Bhopal	174	193
Chandigarh	165	212
Cuttack	207	256
Guwahati	187	200
Jaipur	208	244
Jamshedpur	149	158
Raipur	203	232
Kochi	137	149
Lucknow	156	160
Shimla	172	171
Patna	129	158
Dehradun	204	218
Varanasi	157	159
Jammu	185	197
Shillong	319	322
All	185	200

Source: TRAI

Willingness to pay more subscription fee

Based on TRAI study in 2008, the percentage of households willing to pay more for better services through digitalisation slipped. As against 90% in 2007, only 25% expressed willingness to pay more.

A prime reason for this is that, based on their past experience, subscribers do not believe that paying more to LCOs will upgrade the services. Secondly, they feel that, in case, they have to pay more, it is better to adopt a DTH connection. However, few felt that the initial installation charges for DTH are still a deterrent, though they have been cut down.

For subscribers, better quality of transmission and fast redressal of complaints by LCOs are the two major conditions for paying increased subscription fee.

Table 2.10 Willingness to Pay

City	n	Better quality of transmis-sion	Large variety of genre	Availability of more number of channels in a given	Better and quick response to complaints	Facility of Choice of bouquets of channels	Facility for a wider range of availability of content in terms of a larger variety of genre
All	**1115**	**93.6**	**67.8**	**68.7**	**86.7**	**76.4**	**62.4**

Source: TRAI

Carriage Fees

In the early days of carriage fees, broadcasters typically worked out an informal understanding. However, today, carriage fees are generally paid against negotiated and legally binding agreements as a fee for services provided to the television broadcasters. The fee is well quantified and explicitly documented. 'Prime Band' positions command a heavy premium for the widest reach on even the oldest television sets, compared to UHF and digital CATV carriage. Digital CATV offers practically unlimited carriage and a channel could lose visibility in the clutter. This is a very crucial revenue segment for the DTH and cable television players, apart from the subscription revenues. Besides, with new channels being launched regularly and older channels willing to spend more to increase their visibility, this would be an important revenue segment in the near future.

PwC estimates the carriage fees to be in the range of Rs. 8-10 billion in 2009 down from around Rs. 10-12 billion in 2008. The primary reason for this decline is that 2008 saw a slew of new channels being launched like Colors, Real, 9X and so on which paid a large carriage fees. However, in 2009, due to recession, most channels reduced their budget for carriage fees. Also, since many new channels launched were regional channels, they were not required to pay the carriage fees. With digitalisation and rise of DTH, the number of new channels carried by the service providers is expected to rise. However, even DTH providers have started charging carriage fees in the range of Rs. 7.5 – 50 million for new as well as existing channels which are not well established. DishTV earns around Rs. 500 million from carriage fees and looks to roll it up to Rs. one billion in the coming time. It is estimated that NDTV Imagine paid Rs. 440 million for prime band placement. PwC estimates that the carriage fees market will show marginal growth over the next five years, unless adverse government regulations are introduced.

Television Advertising

The television advertising segment saw an amalgamation of the sweet and bitter in 2009. Last year, television advertising commanded a 34% share in the total television market equating to Rs. 89 billion in 2009 as compared to Rs. 84 billion in 2008 registering a growth of 5.7%.

Table 2.11 Television Advertising

Rs. billion	2005	2006	2007	2008	2009	CAGR
Television Advertising	54.5	66.2	78.0	84.2	89.0	13.0%
% change		21.5%	17.8%	7.9%	5.7%	
% of total	34%	35%	35%	34%	34%	

Source: PwC Analysis and Industry Estimates

As the first half of 2009 proved financially pernicious for global industries, major corporate organisations cut-down on their advertising budgets. This resulted in a drop in advertising rates to fill up the existing inventory. But, the second half of 2009 saw fortunes returning and, once again, advertisement rates picked up. Though, even advertisement volumes showed good growth, advertisement rates did not touch the pre-recession boom of 2007.

While most sectors were reeling under recession, some categories increased their advertisement spending, which helped television advertising sustain itself in these tough times. While cellular phone service providers and cellular phone manufacturers dropped their advertisement spending, with the latter slipping out of top 10 radar, toilet soaps, shampoos and tooth pastes spruced up their spending.

Table 2.12 Top Sectors Advertising on Television

2008		2009	
Cellular Phone Service	5%	Toilet Soaps	4%
Social Advertisement	4%	Cellular Phone Service	4%
Toilet Soaps	3%	Social Advertisement	3%
Shampoo	3%	Soft Drink Aerated	2%
Soft Drink Aerated	2%	Shampoo	2%
Corporate/brand Image	2%	DTH Service Providers	2%
Cellular Phones	2%	Two Wheelers	2%
DTH Service Providers	2%	Tooth Pastes	2%
Insurance-life	2%	Cars/jeeps	2%
Cars/jeeps	2%	Insurance-life	2%

Source: TAM

Food & Beverages was the top sector advertising on television followed by Personal care and Hygiene even as financial services reduced their budget due to the recession. Advertisement spending, apart from the top two sectors, was well-distributed across the other sectors.

Table 2.13 Top Categories Advertising on Television

Top Categories	% Share
Food & Beverages	14%
Personal Care/Personal Hygiene	11%
Services	6%
Telecom/Internet Service Providers	5%
Hair Care	5%
Auto	4%
Banking/ Finance/ Investment	4%
Personal Accessories	4%
Personal Healthcare	3%
Household Products	3%

Source: TAM AdEx

FMCG companies like HUL, Reckitt Benckiser, Coca Cola, Cadbury, ITC, P&G, Pepsi and others, were among the top television advertisers during 2009, while Bharti Airtel moved out of the list of top 10 advertisers. However, as a promising 2010 dawned, these companies were back with bigger budgets and advertised heavily during IPL-3.

Table 2.14 Top 10 Advertiser on Television on the Basis of Spends

Top Advertiser	Rank 2009	Rank 2008
Hindustan Lever Ltd	1	1
Reckitt Benkiser (India) Ltd	2	2
Procter & Gamble	3	5
Itc Ltd	4	7
Coca Cola India Ltd	5	-
Glaxo Smithkline	6	10
Johnson & Johnson Ltd	7	8
Pepsi Co	8	4
L'oreal	9	-
Colgate Palmolive India Ltd	10	6
Bharti Cellular Ltd	-	3
Paras Pharmaceuticals Ltd	-	9

Source: TAM AdEx

While HUL was the single largest advertiser on television, two of the top 10 new brands in 2009 were from HUL. BSNL 3G and Tata DOCOMO were other prominent new brands advertised in 2009 on television. With resurrection of economy stirring a more positive outlook in the corporate world, 2010 is geared to usher more new launches and further spending on the new brands.

Table 2.15 Top New Brands on Television during 2009

Rank	New Brands
1	Ponds White Beauty
2	BSNL 3G
3	TaTa DoCoMo
4	Clinic All Clear Tech Soft
5	Dove Hair Fall Therapy System
6	Pantene Pro-v Repair Care
7	Dettol Fresh
8	Mahindra Xylo
9	Liril 2000
10	Fiat Linea

Source: AdEx India

Television Content

Mushrooming of new channels and high demand for differentiated content has insinuated the television industry into a propitious phase of rapid growth. However, most channels produce the content themselves and hence it is taken as a cost while revenues are primarily booked from advertising and not from selling content. There are few players who sell the content to the channels and form the content industry.

Table 2.16 Television Content

Rs. billion	2005	2006	2007	2008	2009	CAGR
Television Distribution	7.0	8.0	9.4	10.5	11.5	13.2%
% change		14.3%	17.5%	11.7%	9.5%	
% of total	4.4%	4.2%	4.2%	4.3%	4.3%	

Source: PwC Analysis and Industry Estimates

TV Channels

Indicating a healthy trend, not only the number of channels went up in 2009, but also, there was an increase in advertisement volume inventory which resulted in a growth of 31% in advertisement volumes in the same year.

There was a stark increase in the amount of channels with the introduction of Colors, 9X, Real and Imagine in GEC genre, where as channels like UTV action movies, Discovery Turbo, Discovery Science, were introduced in the non-GEC genres in 2009 and 2010. The number of channels grew from 389 in 2008 to 461 in 2009 registering an increase of 18.5%. Regional channels marked the largest increase in 2009 (from 114 in 2008 to 135 in 2009) and we expect that this flow will continue.

However, with MIB temporarily suspending the procedure of issuing licenses to new channels due to lack of new spectrum in 2009, only a marginal increase in new channels is expected 2010 and 2011. This increase would be primarily driven by those already given the licenses, but have yet to launch the channel. However, this policy may affect the advertisement volume inventory growth in 2011 owing to lack of new channels.

Chart 2.17 Active Channels on Television

	Active Channels	
Others	176	219
English	41	44
Regional	114	135
Hindi	58	63

Source: Industry article, TAM

The launch of new channels last year propelled the demand for fresh contents. As a chain result, the importance of content ratings intensified. Ratings are the only quantifiable measurement tools on the popularity of the channels which, in-turn; result in higher advertisement revenues (in terms of volume as well as rates). Hence, the competition to achieve higher rating points or atleast to be among the top three programmes in the genres gained momentum. At present, though there are a few advertising agencies that undertake individual tracking of programmes, most rely on these television rating points (TRPs) and gross rating points (GRPs) to make their advertisement placement decisions.

Chart 2.18 Channels Launch

Channel	Date of Launch
NDTV Imagine	January 21, 2008
Colors	July 21, 2008
Real	March 2, 2009
UTV Action	January 1, 2010
Discovery Turbo	January 29, 2010
Discovery Science	January 29, 2010

Television Genres

The television broadcasting market comprises of over nine different genres. Among them, Hindi GECs had around 38% market share in 2009, up from around 34% in 2008 in the Hindi speaking market (HSM). Overall, Regional GECs and Hindi GECs are neck-to-neck when it comes to viewership share.

Chart 2.19 Viewership Share Across Genres: 2009 and 2008

Channel	2009	2008
Hindi GEC	26.2	22.5
Regional GEC	24.2	25.0
Hindi Movies	11.7	11.5
Cable	7.9	9.3
Kids	5.5	5.1
Regional Movies	4.0	4.7
Regional News	3.7	3.2
Hindi News	3.4	4.6
Sports	2.8	3.2
Regional Music	2.4	2.1
Terrestrial	2.1	2.5
Music	1.7	1.9
Others	4.3	4.2

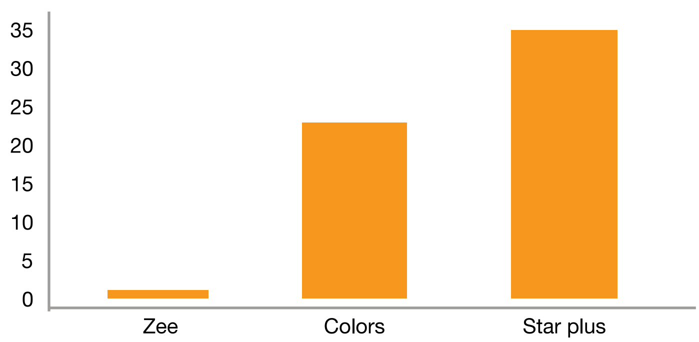
Source:TAM

The year 2009 was full of contingencies for many of these genres. Hindi GECs stood out as the biggest gainers in the market. PwC notes the key observations in each of the major genres.

Hindi GEC: The impermanence of numero uno

- The amazing news of 2009 was the climbing of Colors to the top and the end of sole leadership of Star Plus. When Colors was launched, the skeptics had dismissed it as just another GEC channel in the already cluttered space, blinking the fact that it had chances to succeed. However, Colors found its feet in less than a year's time of its launch and the channel emerged as the leader in Hindi GEC market. The reasons behind its popularity were innovative programming, differentiated content and well-though-out distribution processes.
- These strategies played well with the sentiments of the viewers who were looking for fresh contents in lieu of the tedious "saas bahu" sagas. In the fiction category, Colors introduced the viewers to content-wise refreshing serials like Balika Vadhu and Uttaran and, in the non-fiction, it introduced a number of unique reality shows like Khatron Ke Khiladi and Big Boss. Moreover, Colors picked up a host of core social issues and converted them into real shows, taking the viewers interest to a higher level.
- However, the other top GECs (Star Plus and Zee TV) did not rest their oars and introduced more catchy content, thus speeding up the race for the top spot. Star Plus introduced shows like Yeh Rishta Kya Kehlata Hai and Bidaai while Zee TV launched Pavitra Rishta, Agle Janam Mohe Bitiya Hi Kijo and Jhansi Ki Rani.
- If numbers are anything to go by, this race will continue. In the 26th week of 2009, Zee TV became the leading GEC in India with 244 GRPs. Colors was a close second at 242 GRPs and Star Plus ranked third with 219 GRPs. Colors toppled Zee TV from the top slot in the very next week with 300 GRPs. However, both Colors and Star Plus were close No. 1 and No. 2 in the 34th week, garnering 297 and 294 GRPs, respectively.

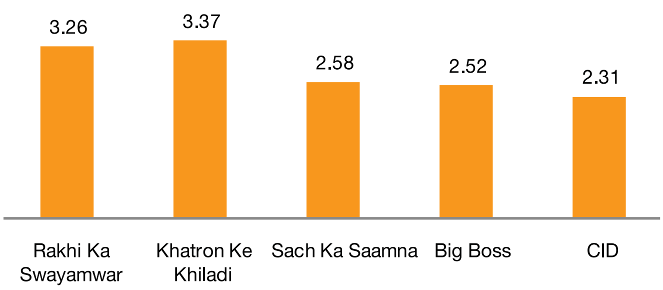
Chart 2.2 Number of weeks channels remained Number 1



Source: TAM

- NDTV Imagine and Sony entertainment television have also revamped their content to fight for a place in the top 3 GECs. NDTV Imagine came up with Rakhi Ka Swayamvar which helped it gain a high point in ratings while Sony started re-telecast of their popular programmes like CID and Aahat.

Chart 2.3 Average Prime Time Ratings



Source: TAM

This competitive spirit has resulted in a number of key trends within the Hindi GECs market.

1. Surge in Reality Content

- While, in 2008, television primarily targeted female viewers with high-voltage saas bahu soaps, 2009 saw a huge surge in reality content in the overall GEC programming.
- The format not only had drama, but heightened controversies too, creating an impact beyond just the ratings. Programmes like Sach Ka Saamna (Star Plus) stirred a huge uproar in the Indian parliament and led to demand of content regulation by the broadcasters.
- Zee TV's dance-and-music-based reality shows like Dance India Dance and Saregamapa (featuring kid anchors) too received very positive ratings.

2. Fiction remains the staple diet of Indian viewers

- Daily soaps in GECs remained 60.4% in 2009. However, the trend indicated a distinct shift away from the saas-bahu serials to more meaningful and issue-based programming which was clearly identified by the viewers.
- Television content has moved away from the unrealistic and over-the-top depiction of stories and characters. The focus is now on realism, socially relevant themes, and positivity and family values.

3. Race for acquiring new movie content takes a leap

- A host of new movies were acquired by the GECs to provide occasional spike to their rating and attract viewers' attention with multifarious contents. The objective was to reduce the window between theatrical release and time to market on television. Latest movies like Delhi 6 and Ajab Prem Ki Gajab Kahani were showcased on Colors and Dil Bole Hadippa on Sony TV drastically reducing this window space.
- Moreover, marred by the financial crisis, plus high cost of making the film, 2009 saw less of exclusivity as more channels shared the air time for the movie after the initial premier. Films like Jab We Met were aired across multiple channels, multiple times.

4. Lower advertisement rates in the IPL week

- Given the cricket-crazy country that India is, broadcasters had to accept the fact that two months of IPL would lead to a decline in the advertisement rates and lower TRPs. However, advertisers played their cards well to counter the IPL threat by ensuring better programme timing and fresh content.

Table 2.20 AVG TVR % of Top Programmes

Channel	Programme	Before IPL	After IPL	% Change
Colors	Balika Vadhu	4.9	3.6	-26.5
Zee TV	Pavitra Rishta	5.6	4.6	-17.8
Star Plus	Yeh Rishta Kya Kehlata Hai	6.8	5.1	-25.0
Colors	Uttaran	5.3	5.1	-3.8
Star Plus	Bidaai	6.0	5.1	-15.0
Colors	Na Aana Is Des Mai Laado	4.6	4.0	-13.0
Star Plus	Pratigya	3.3	4.3	30.3
Zee TV	Agle Janam Mohe Bitiya Hi Kijo	3.6	4.3	19.4
Zee TV	Jhansi Ki Rani	4.0	3.8	-5.0
Zee TV	Dance India Dance-2	3.4	3.9	14.7
Total		47.4	43.2	-8.8

Source: TAM

5. Hindi GEC goes global

- This year, a number of channels went global to capture the Indian diaspora spread globally. Colors entered the UK and US market with the aim to become the choicest entertainment channel for the extensive Hindi speaking population in these countries. NDTV Imagine, after entering US, UK, Middle East and North Africa, has tied up with Bell TV to offer its content in Canada.

Table 2.21 Average Break Time

Average break time (in %)	2008	2009
Hindi GEC	23	22
Regional GEC	17	19

Source: TAM

As time rolls, the battle for the top-spot is gaining momentum with every channel vying for the maximum eye-balls. With no clear No. 1 player in the market, with Sony and Imagine threatening to enter the top-tier with improved content, the aggressive re-branding exercises and various other measures building up, 2010 promises to be an exciting and interesting year for this industry. Luckily, this culminates into good news for the customers as they can look forward to more diverse and high-quality contents.

Regional GEC: Gaining momentum

- Regional GECs are undergoing a silent revolution since the past few years. However, it is a known fact that regional market is developing into one of the key focus areas for different players. The number of regional channels has gone up to 135 in 2009 from 114 in 2008.
- Despite economic deceleration, the advertising revenue spend on regional channels grew to 29% in 2009 as the advertisers aimed at going local in order to win over specific target groups. The key regional languages (Malayalam, Tamil, Bengali, Kannada, Telugu and Marathi) captured a large viewership share. However, there is a huge fragmentation in the regional channel given the number of different regional preferences.

Table 2.22 Share of Advertising on Genres

Share of advertising on Genres on the basis of FCT (top 5)

Genre	2008	2009
Regional GEC	22%	24%
Hindi News	12%	10%
Hindi GEC	10%	10%
Regional News	10%	13%
Hindi Movies	7%	7%

Source: TAM

1. Lower cost of production:

- Investments in regional space has began making more sense owing to lower cost of production, lesser talent cost and the diminishing cost of content acquisition. Though the advertisement rates for regional channels are not high, the lower costs of producing content justify the returns on these channels. Moreover, there are paltry or no carriage and placement fees for the regional channels. Apart from that, there is a large base of viewers of regional languages settled abroad which makes it attractive proposition for these channels to take their content internationally and thereby acquire higher ARPU. Overall, the cost per rating points (CPRPs) is quite similar to the Hindi GECs.
- Regional channels are fairly lucrative from the perspective of local advertisement. Moreover, the cost of developing regional content is also quite lower as compared to that of a Hindi GEC, making the business more alluring. A ten second advertisement spot on regional channel is in the average range of Rs. 8,000 – 10,000 which is almost 1/3rd of that of a GEC spot. This opens up the market for targeted localised advertisement.

2. Going global

- Many regional channels have charted blueprints to explore global markets and target the regional population settled abroad in specific countries. Sun TV is planning operations in Middle-east market with two of its channels. There are about 16 Indian channels currently operational in Middle-east. Moreover, Sun Network's channels are available in 27 countries from US, Europe to New Zealand and Malaysia.
- Apart from larger reach, which is provided by targeting the Indian population across the world, globalisation also helps these channels generate

a relatively higher ARPU from these markets and boost their bottomline.

3. Regionalisation is the flavour of the future
    - Most broadcasters are extending their network of regional channels, offering new content to the customers and focusing on the regional customers' interests. Zee and Star already have a sizeable presence in the regional space. Sony is also building up its presence in the regional space. Sony Pictures Televisions International (SPTI), recently, acquired Channel 8, a Bengali language film channel to mark its entry into West Bengal.
    - 'Regional now' seems to be the trend for majority of the national players. After Zee, Star is also eyeing the regional market, specifically the Southern market. South Indian market has 32 million C&S households and commands Rs 18.5 billion in advertisement revenues and Rs. 5.5 billion in subscription revenues. Star entered the Southern market in 2009 by acquiring a controlling stake in Asianet that has four channels in Kerala, Karnataka and Andhra Pradesh.
    - Endemol India, producers of shows like Fear Factor and Big Brother, recently tied up with Mi Marathi to produce regional shows like Hasya Katta, Choti Khushi Motha Fun and Chinya. UTV also has scaled up its regional content business, with production of news shows for Udaya TV, ETV Marathi and Gemini TV.

It is evident that in coming times, regional market will grow at a brisk pace than the GEC market. Increasingly, channels will offer specialised quality content which is relevant to the regional viewers.

Breaking News: Losing its charm

- News channels have lost ground in 2009 to the Hindi GECs. However, among the clutter of Hindi and English news, two players have emerged as clear leaders, Aaj Tak and Times NOW, respectively
- Backed by high-quality contents and intense penetration, DD News has strongly held on to No. 4 position in the market. The channel provides its viewer with cleaner content and reaches out to areas where C&S penetration is weak.
- Number of news channels continues to grow despite the temporary suspension of grant of licenses by MIB. As on March 2010, here are over 500 channels that have been permitted to be downlinked to India. Of these, roughly 50% are news channels.
- Fixation with news channels does not seem to cease. In 2009 and 2010, 42 news channels were permitted in addition to 215 channels existing at the end of 2008.

Table 2.23 List of Channels

Year	Newsgenre	Non-news genre	Total
2000	1	0	1
2001	39	5	44
2002	16	8	24
2003	12	11	23
2004	10	17	27
2005	10	5	15
2006	28	11	39
2007	40	34	74
2008	59	100	159
2009	33	46	79
2010*	9	9	18
	257	246	503
*upto March 2010			

Source: Ministry of Information and Broadcasting

Key trends observed in this genre are:

1. News loses out to Hindi GECs due to weaker content
    - Lot of news channels borrow their content from GECs. GECs have better content, programming and hence advertising revenues. Moreover, since many GECs and news channels are part of the same group (Star News and Star Plus, Colors and IBN7/ CNN-IBN), it gives room for cross leveraging the contents. However, though GECs are improving their content, news still adheres to the same format leading to boredom among its viewers. Hence, the surfing period for news has shortened, rather than tightening it's hold over audiences' attention.
2. Lower "classical" news and more of "masala"
    - There are currently about 250 news channels in India, which is more than in any other country. Each of these channels would need content to sustain. With lower number of classical news items (elections, political news and so on) the focus has shifted to entertainment content provided by GECs (Laughter Challenge, Indian Idol and others). High

levels of ratings in 2008 were primarily achieved due to reality show content shown on the news channels. Given the monotony of the content over past two years, the audiences' interest is now shifting towards GECs.

3. Higher production cost and relatively lower returns
    - Considering the large number of news channels and the compulsion to fill in programmes for a 24-hr period, coupled with lower advertisement revenues and core news content, has resulted in the need to slash the production cost and hence the pull towards GEC content.

To sustain its presence in future, news channels will have to inculcate more content under the classical news format apart from providing more than just a copy of matter shown on GECs.

Sports: Creating its own niche timeline

- Sports channels have seen multifold increase in the last few years. Cricket has been the primary driver for the sports channels in India especially with exhilarating events like IPL, Twenty20 World Cup being played.
- 2010 has a host of events lined up for the sports channels from Common Wealth Games to Football World Cup, Twenty20 World Cup to IPL-3. All have and will keep contributing to the surmounting growth of this genre. The Indian sub-continent rights for the Football World Cup have substantially increased, from $2.5 million for 2002 event, to $8 million for 2006 to $42 million for 2010 event.
- Several channels are also planning to launch sports news channel to cater to the cricket-crazy audience in India.

Music channels: Becoming more non-musical

- Music channels underwent a complete makeover in 2009 with most top channels either rebranding themselves or changing their content offerings. Zee Music was rebranded to Zing!, Channel [V] got a new tagline – 'Bloody Cool', MTV dropped 'Music Television' from its name and VH1 also reprogrammed itself. More and more music channels are offering non-music content in their programs such as "Roadies", "Splitsvilla" of MTV and VH1 announcing that they would air a movie every Sunday with repeat telecast in the middle of the week.

Table 2.24 Music: Non-Music Split

Music: Non music split for various music channels in 2009

Zing! (Zee Music)	60:40 (Music: Non-music)
Channel [V]	65:35 (Music: Non-music)
MTV	30:70 (Music: Non-music)
VH1	50:50 (Music: Non-music)

Source: Industry discussions,www.exchange4media.com

- Music channel 9XM has been losing market share with its GRPs taking a hit in 2009 as compared to 2008. However, the channel is still a leader in this category.

Table 2.25 GRP of Music Channels

GRP of Music Channels	2008	2009
9X M	33.6	16.8
MTV	13.4	16.8
Channel V	6.7	6.7
Music India	3.4	6.7
B4U Music	3.4	6.7
Zing	3.4	3.4

Source: TAM

Key trends in the music channels are:

1. Music is becoming more and more a personal choice
    - Popular music players such as ipod has revolutionalised the way consumers listen to music. Consumers can listen as well as view music of their choice as and when required. Moreover, they can also get the music not currently in their library from online portals.

Alternative Devices	Mp3 players (Ipod, etc) FM Radio
Online portals	Songs only portals (itunes, illegal downloads) Video portals (Youtube)
GECs	Reality shows (Singing, dancing talent hunts)

2. Rising music acquisition cost

- Cost of acquiring music has gone up significantly. Moreover, there are limitations on the type and geography of airing, besides an incremental cost to the airing in certain markets or on another medium. Each channel has separate specifics to deal with the producers and these are generally annual deals. A channel can play as many songs as they want in a particular time slot, However, the content cost has drastically increased upto Rs. 2,000-4,000 per song, per airing from Rs. 500-1,000 few years back. Besides, some of these music channels have to pay high carriage fees for distribution, making a further dent in their pockets.
- Going would be tough for pure music channels in 2010 and we are likely to see a lot of shuffling in the content and programming to attract the audience. Some of the steps to be taken to attract and retain audience as well as explore newer revenue streams would be:
  - No non-sense back to back songs.
  - More non-music content with specific timeslot for pure music.
  - More digitalisation and usage of brand name online.
  - Songs download/streaming on mobiles in partnerships with mobile operators.
  - More of lifestyle and youth specific channels.

Kids channel: More quality

- Year 2009 ushered in buoyancy for kid's channels with most of the players increasing their viewership share. PwC feels that, in future, this genre will continue doing well. More so, because, the target audience has expanded to encompass not only kids, but also certain age groups in the adult segments.
- However, there is no room for complacency and the channels are bracing themselves by providing newer and superior content. Research done by Cartoon Network and POGO has shown that kids enjoy the 'longer format' and hence channels are filling up their inventory with many more movies than before.

May 2009

May and June are the months of summer vacations and key time for these channels to spike their viewership share. Considering this, Cartoon Network and POGO launched a number of movies under the banner of "May All Mighty" and "May Movie Magic". Cartoon Network line-up included Ghatothkach, Prahlad, Siva, Dashavatar and My Friend Ganesha II. POGO showcased Hanuman, Ravan Mahayodhya and Veer Yodhya Prithviraj Chauhan.

May 2010

Continuing in the same vein, POGO's popular movie block – Lights Camera POGO! Badaa Cinema!, from May 2 – June 27, on Sundays (at 12:00 noon), showcased fun movies such as Drona, Detective Nani, Bhootnath, Meerabai Not Out, Return of Hanuman and Chain Kulli Ki Main Kulli.

- In a bid to explore newer revenue streams, Cartoon Network has planned to offer comic strips on mobile phone at varied price points from Re one per day, Rs. 10 per week and Rs 30 per month depending on the marketing tie-up.
- Going forward HD format may see a rise in this industry. Cartoon Network has tied up with Sun TV to provide the channel in HD format to its viewers to enhance the viewing experience. PwC expects that this trend would continue and other players would join the band wagon for better viewing quality. Fortunately, these channels have a very loyal and niche audience following and they would continue to excel.

Doordarshan

The share of Doordarshan in the advertising spends remained almost constant in 2009 as compared to 2008. DD Direct Plus is the country's only free to air direct-to-home (DTH) service run by Prasar Bharati

It also telecasts a bouquet of All India Radio channels out of its total 59 channels. Doordarshan plans to expand the current bouquet of channels and is in talks with various channels for the same.

Deal Watch

Television Broadcasting

The decline in advertisement spending affected the major source of revenues for broadcasters. The television broadcasting space saw specific companies trying to consolidate and remain in their areas of core strengths.

In a significant transaction within this sector, Zee Group increased its stake in Ten Sports from 50% to 95%. Zee Entertainment Enterprises Ltd acquired additional 45% equity stake in Taj TV Ltd, Mauritius, the owners of Ten Sports channel, through its overseas subsidiary and an additional 50% equity stake directly in the Indian arm, Taj Television (India) Pvt Ltd., thus making it a wholly owned subsidiary of the company.

NDTV exited the GEC space by selling to Turner International 92% stake in NDTV Imagine for a consideration of $117 million. Zee Entertainment acquired 9x, AGEC owned by INX Media Pvt.Ltd. This deal is estimated to be around Rs. 65 crores

The regional advertising markets in tier-II and tier-III towns, led by increase in consumption, are expected to be the next growth drivers for the broadcasters. Therefore, broadcasters with a higher focus on regional markets could arouse greater investor interest in the future.

Television Distribution

In tune with the past trend, the television distribution industry has continued to generate interest from private equity investors and the capital markets. In a significant development in the DTH industry and in one of the top five PE investments made in the year, Apollo Management, a US - based private equity fund, acquired 11% equity stake in Dish TV for $100 million.

In anticipation of Den Networks (a leading cable operator in India) IPO, EMSAF Mauritius, part of $10 billion Emerging Markets Management LLC, in July this year had invested Rs. 75 crore.

This capital raised by cable and DTH operators will provide them with the crucially required funds to enhance their much needed marketing and distribution initiatives. This will give further impetus and clarity to the digital initiatives and transformation within this segment.

It is believed that this sector is likely to witness changes enabled through technology and digitisation, which are likely to shift the bargaining power towards MSOs and DTH players, thereby generating value creation opportunities for players within this segment.

Reliance Communications, ADAG Group, announced the merger with DigiCable, one of the largest MSO in India. The deal will be an all equity deal with Reliance Communications holding 60% in the new company. DigiCable has 49% stake from investment firm Ashmore Investments and 51% by Jagjit Singh Kohli and Associates. The deal is estimated to be around Rs. 4,500 crore. This comes on the heel of RCOM announcing the merger of its telecom business (Reliance Infratel) with GTL Infrastructure in a Rs. 50,000 crore deal.

As the year progresses, investment activity is likely to be enhanced by acquisition of local cable operators (LSOs) by multi system operators (MSOs). There would also be a consolidation amongst the MSOs and the funding thus secured by MSOs and DTH operators would go towards improving infrastructure and acquisition of new subscribers.

Television Guides

MediaE2E, the electronic programme guide (EPG) solution provider company, now called 'What's on India' received its first funding from financial services advisory firm Wealth First Advisors in October 2006, which joined the company as angle investors. Later, it got VC funding from Sequoia Capital and Nexus India, which invested an undisclosed amount in the company. Founded in 2005, the company covers over 300 television channels and powers set top boxes across DTH, IPTV and cable networks.

Table 2.26 Select Private Equity Deals in the Television Sector

Company	Amount (USD million)	Stage	Investors	Investor Type	Stake (%)	Date
Dish TV	100	PIPE	Apollo Management	Foreign	11	Nov-2009
What's On India	Not Available	Early	Sequoia Capital India, Nexus Ventures	India-dedicated	Not	86.0
Den Networks	16	Growth-PE	IIML	India-dedicated	3.53	July-2009
NDTV Imagine Ltd	117	Strategic Stake	Turner Asia Pacific Ventures	Foreign	Not Available	Dec-2010
9X owned by INX Media Pvt Ltd.	14		Zee Entertainment	Indian coprorate	NA	April 2010

Source: PwC Analysis

IPO in the Television Sector

DEN Networks Limited, a leading cable television distributor, tapped the capital market in October 2009 to raise $86.67 million. The objectives of the issue were the benefits of listing on the Stock Exchanges and to raise capital for:

- The development of cable television infrastructure and services.
- The development of cable broadband infrastructure and services.
- To invest in acquisition of content and broadcasting rights.
- To repay certain loans availed by the company.
- Fund expenditure for general corporate purposes.

IPO of Den Networks, received lukewarm response from investors and got subscribed just 1.04 times on the last day owing to support from non-institutional investors. The company entered the capital market on 28 October 2009, with an initial public offering (IPO) of up to two crore equity shares and the price band was at Rs 195-205/share.

Hathway Cable & Datacom Limited also came out with a public issue in Feb 2010 to raise $148 million from the capital market. As per the Red Herring prospectus, Hathway wants to use the funds for:

- Customer acquisitions
- Capital expenditure
- Investment in broadband infrastructure
- Repayment of loans and general corporate purposes

However, the company has not entered into any definitive agreements to use the proceeds of the issue.

The company offered 2.77 crore shares in the IPO at a price band of Rs 240-265 a piece, aiming to mop up between Rs 666-737 crore in total. While the issue was fully subscribed, analyst were predicting caution about the over expectations of growth within this segment and it was seen more as an exit for its PE investors.

Table 2.27 Select IPO in the Television sector

Company Name	Issue Price in (Rs)	Equity Offered	Capital Raised (In USD Million)	Date
Den Networks Ltd	195	20,000,000	86.67	Oct-2009
Hathway Cable & Datacom Limited	240	27,750,000	148	Feb-2010

Source: PwC Analysis

Table 2.28 Cross Border Deals in the Television Sector

Acquirer	Target	Acq Price US $ Million	Deal Type	% Stake	Date
ZEE Entertainment Enterprises Ltd	Taj TV Limited, owners of Ten Sports	N.A.	Increasing to 95%	45.00%	Jan 2010
ZEE Entertainment Enterprises Ltd	Taj Television (India) Pvt Ltd Indian arm of Taj Television Limited	N.A.	Strategic Stake	50.00%	Jan 2010

Source: PwC Analysis

Key Challenges for the Television industry

1. Digitalisation –

- The slow pace of digitisation is a main challenge for the industry. Digitisation would bring about transparency and addressability in TV distribution and is the need of the hour.

Television: Advertisement vs. Subscription Revenues

- Advertisement accounts for only 40% of the market size in TV.
- Advertising will grow at a high speed and will be directly related to the GDP- implying that there is little that the industry can do to influence the growth or control the downfall.
- Advertisement can grow rapidly if the television offers targeted viewing to its advertisers-which would result in exponential increase in advertisement rates.
- Targeted viewing is possible only when television distribution is addressable - everyone in the value chain knows what the consumer is watching and that the consumer has the choice to view that channel. Hence, digital addressable environment is a must for television advertising to grow at a fast pace.

- Subscription contributes 60% revenues of the television industry.
- The focus of the television industry is more on distributing the subscription revenues in a more even fashion between broadcasters, MSOs and LCOs and not on how to expand this pie.
- Pay television homes have reached 90 million in 2009 from 60 million five years back adding only 30 million pay television homes of which DTH has contributed 20 million homes and cable has added only 10 million homes. Hence, there is no major growth in pay television homes apart from DTH.
- ARPUs are currently around Rs. 150 per month up from Rs. 125 per month five years back, resulting in increase of just Rs. 25 per month in five years.

2. Compelling content- a necessity of the day

- Indian audience is looking at new content and to do away with exasperating 'saas bahu' soaps. Though they still remain popular, the rise of Colors clearly demarcates that there is a need for differentiated content which can capture consumer interest. Colors started with forming content around various social issues and other Hindi GECs followed. Moreover, Colors also came up with the innovative concept of IPL Rockstars during the IPL period to attract viewers. Access to new movies is also seen as a way to attract audience. The key to lure more viewers lies in building quality content.
- This holds true for the regional channels too, as most of the content is same across all the channels. PwC projects that with the increased focus on the regional market, regional content and themes would be on the ascent.

3. Talent Cost

- Talent cost, which was at its peak in 2008, slipped down in 2009 to more manageable levels due to turbulent financial times. However, with global economy getting back its breath, the costs are also picking up. According to PwC estimate, though these costs will reach the levels of 2009, managing these costs would be the major challenge.

4. Low ARPU's and high customer acquisition costs

- There are, currently, six players in the DTH market besides competition from the LCOs and MSOs. This has driven the ARPU down over the period of time. DishTV reported an ARPU of Rs. 135 as against the established industry average of Rs. 150 and cable industry average ARPU of Rs. 185 . Most DTH players are bleeding Rs. 5 billion, annually, in their operations largely through increased competition. Apart from lower ARPU, the players are facing challenges by having a very high subscriber acquisition cost (SAC) as highlighted earlier. This cost is around Rs. 2500 going upto Rs. 5000 per customer for few operators. This scenario is like to continue in coming times.

5. Lack of sophisticated measurement tools for measuring viewership

- The current system of TRPs is not up to the mark and suffers from several deficiencies. The Government has also stepped in and has constituted a committee to look into this. The mandate of the Committee is expected to address issues related to accuracy, accountability, transparency and objectivity in the generation of TRPs. It is also expected to examine as to how misleading TRPs may not only impact broadcasters and advertisers, but, more importantly, the viewers. Some of the key issues anticipated to be examined include the viability of the TRP system in portraying the demographic profile of the viewership in the context of viewing habits and the sample size and coverage area (including rural segments of the country and regions such as J&K and North-east). The Committee shall also look into viewership of all distribution platforms including Terrestrial, Cable, DTH & IPTV. It shall study issues related to adequate transparency in selection of sample homes for placing people's meters and current disclosure norms adopted by the rating agencies inhibiting desirable transparency in generation of TRP ratings including current audit system. Apart from these issues, the Committee shall examine whether an industry-led body like BARC, as recommended by TRAI, is the most appropriate mechanism to create TRPs without the existing deficiencies. One of the issues proposed to be studied in the feasibility is setting up, as an alternative, an institutional mechanism through legislation to either generate TRP ratings directly or work as an accreditation/standardisation body while leaving the work of generation of TRPs to private players. To some extent addressable systems can guide in deriving viewership data.

6. Regulation

- A Government notification of January, 2004, had put the responsibility of regulation of broadcasting and cable services upon TRAI and, since then, TRAI has issued several orders for regulation of tariff for cable television services in CAS areas, non-CAS areas and DTH. However, TRAI's orders on tariff regulation in non-CAS areas have been challenged in the court by various stakeholders over the years. In January 2009, the decision of the Telecom Disputes Settlement & Appellate Tribunal (TDSAT) combined various such cases against TRAI and the Supreme Court had asked TRAI to consider the matter relating to tariff for Cable TV services in non-CAS areas de novo as regards all aspects. Following the appeal by TRAI to the Supreme Court, the Supreme Court passed an order, by which, TDSAT has directed TRAI to study the matter afresh and issue a comprehensive order covering all aspects including the issue of subscription base in a non-addressable system. The judgment requires TRAI to take a fresh look at the regulatory framework governing the broadcasting sector, the detailed approach by which regulations are determined and the analytical framework by which detailed orders are made.

Global Outlook

The global television subscription and license fee market rose by 4.3% in 2009 to $186 billion. People stayed home to watch television in 2009 and continued to spend on TV subscriptions, which rose by 4.6%. Pay-per-view and video-on-demand (VOD), by contrast, suffered due to recession as they are the most discretionary aspects of the market. VOD is expected to benefit once the economy improves. Public television license fees were not affected by the economy and rate hikes led to a 3.9% advance in 2009.

We project that the total market, including public television license fees in EMEA and Asia Pacific, will touch $258 billion in 2014, a 6.8% compound annual increase from 2009. Fueled, principally, by large increases in subscription households in the PRC and India, Asia Pacific will be the fastest-growing region during the next five years with a 10% compound annual increase.

Television advertising plunged by 9.5% in 2009, owing to recession and lack of advertising associated with the Beijing Olympics. A stabilising economic environment in 2010 will lead to a rebound in television advertising. In addition to the economy, broadcast advertising will benefit from more channels coming from new or expanded multichannel platforms and rising viewership from growing HD penetration.

Television is the largest advertising medium and will gain share from print during the next five years. Television is being used in conjunction with the internet and will benefit from broadband expansion and growth in internet advertising.

Table 2.29 Global TV Subscription and License Fee Market (US$ Millions)

Component	2005	2006	2007	2008	2009P	2010	2011	2012	2013	2014	201014 CAGR
Subscriptions	110,060	119,217	130,684	140,585	147,097	155,210	166,881	180,973	195,318	210,796	7.5
% Change	9.1	8.3	9.6	7.6	4.6	5.5	7.6	8.4	7.9	7.9	
Pay-Per-View	3,566	3,995	4,339	4,680	4,560	4,474	4,490	4,565	4,661	4,764	0.9
% Change	15.3	12.0	8.6	7.9	-2.6	-1.9	0.4	1.7	2.1	2.2	
Video-on-Demand	1,734	2,380	3,258	3,258	4,085	4,557	5,450	6,499	7,417	8,343	15.4
% Change	43.1	37.3	36.9	24.6	0.6	11.6	19.6	19.2	14.1	12.5	
Public TV License Fees	26,525	27,112	27,801	28,071	29,167	29,629	29,959	30,293	5,686	30,857	1.1
% Change	4.1	2.2	2.5	1.0	3.9	1.6	1.1	1.1	1.9	0.0	
Mobile TV	NA	268	618	925	992	1,159	1,425	1,877	2,583	3,368	27.7
% Change	NA	NA	130.6	49.7	7.2	16.8	23.0	31.7	37.6	30.4	
Total	141,885	152,972	166,700	178,320	185,901	195,029	208,205	224,207	240,836	258,130	6.8
% Change	8.6	7.8	9.0	7.0	4.3	4.9	6.8	7.7	7.4	7.2	

Source: PwC Entertainment &Media Global Outlook 2010-2014

Table 2.30 Global Television Advertising Market (US$ Millions)

Component	2005	2006	2007	2008	2009P	2010	2011	2012	2013	2014	201014 CAGR
Broadcast Television Advertising											
Terrestrial Television Advertising	107,104	113,653	116,084	115,321	101,691	105,665	107,589	113,894	117,080	124,584	
% Change	-3.2	6.1	2.1	-0.7	-11.8	3.9	1.8	5.9	2.8	6.4	4.1
Multichannel Television Advertising	33,252	35,626	38,632	40,745	38,983	42,043	44,811	48,651	52,506	56,894	
% Change	10.6	7.1	8.4	5.5	-4.3	7.8	6.6	8.6	7.9	8.4	15.4
Total Broadcast Television Advertising†	145,820	154,999	160,494	161,677	145,609	152,692	157,516	167,828	175,029	187,164	
% Change	3.3	6.3	3.5	0.7	-9.9	4.9	3.2	6.5	4.3	6.9	5.1

Table 2.30 Global Television Advertising Market by Component (US$ Millions)

Component	2005	2006	2007	2008	2009P	2010	2011	2012	2013	2014	201014 CAGR
Online and Mobile Television Advertising											
Online Television Advertising	350	852	1,446	2,161	2,397	2,838	3,399	4,100	4,976	6,070	
% Change	133.3	143.4	69.7	49.4	10.9	18.4	19.8	20.6	21.4	22.2	20.4
Mobile Television Advertising	NA	17	102	351	554	741	986	1,366	1,892	2,455	
% Change	NA	NA	500.9	244.1	57.8	33.8	33.1	38.5	38.5	29.8	34.7
Total Online and Mobile Television Advertising	350	869	1,548	2,512	2,951	3,579	4,385	5,466	6,868	8,525	
% Change	133.3	148.3	78.1	62.3	17.5	21.3	22.5	24.7	25.6	24.1	23.6
Total Television Advertising	146,170	155,868	162,042	164,189	148,560	156,271	161,901	173,294	181,897	195,689	
% Change	3.5	6.6	4.0	1.3	-9.5	5.2	3.6	7.0	5.0	7.6	5.7

†Germany is not included in the terrestrial and multichannel figures but is included in the total.

Source: PwC Entertainment &Media Global Outlook 2010-2014

Table 2.31 Projected growth of Indian Television Industry in 2009-14

Rs. billion	2009	2010F	2011F	2012F	2013F	2014F	CAGR
Television Distribution	165.0	194.0	216.0	241.5	270.0	295.0	
% change		17.6%	11.3%	11.8%	11.8%	9.3%	12.3%
Television Advertising	89.0	100.0	114.0	131.0	150.0	170.0	
% of total		12.4%	14%	14.9	14.5	13.3	13.8%
Television Content	11.5	13.0	15.0	17.0	20.0	23.0	
% change		13.0%	15.4%	13.3%	17.6%	15.0%	14.9%
Total	265.5	307.0	345.0	389.5	440.0	488.0	12.9%

Source: PwC Analysis and Industry Estimates

Table 2.32 Projected Growth of Television Households in India

Rs. billion	2009	2010F	2011F	2012F	2013F	2014F
TV Households	124.0	127.0	131.0	133.0	137.0	143.0
% change	86.0%	2.0%	3.0%	2.0%	3.0%	4.0%
Pay TV Households	86.0	98.0	106.0	115.0	124.0	133.0
% change		14.0%	8.0%	8.0%	8.0%	7.0%
Cable TV Households	72.0	74.0	75.0	77.0	80.0	83.0
% change		3.0%	1.0%	3.0%	4.0%	4.0%
DTH Households	14.0	24.0	31.0	38.0	44.0	50.0
% change		71.0%	29.0%	23.0%	16.0%	14.0%

Source: PwC Analysis and Industry Estimates

Indian Outlook

The Indian television industry is projected to grow by 12.9% over the period 2010-14 and is estimated to reach about Rs. 488 billion in 2014 from the present estimate of Rs. 265 billion in 2009.

The growth in the television distribution industry is expected to be contributed by both subscriptions spending by pay television subscribers as well as the escalation in the pay television homes which are projected to increase from 86 million in 2009 to 133 million in 2014.

Digitisation would be the main force behind the industry's growth. It is estimated that DTH will continue to grow at a fast pace to reach 50 million households in 2014 from the current level of 14 million in 2009. Moreover, digital cable would also get a boost as cable operators look to compete with DTH players.

PwC expects that rural households will take to digitisation as many rural households will turn towards DTH and digital cable for better viewing experience. In the GEC space, we expect that in future, more channels would take their offerings global with full support from the swelling Indian population outside India.

At a glance

Market size

2009	2014	CAGR
Rs. 161.5 billion USD 3.36 billion	Rs.230.5 billion USD 4.8 billion	7.5%

Newspaper Publishing

2009	2014	CAGR
Rs. 143 billion USD 2.96 billion	Rs. 198.5 billion USD 4.13 billion	6.8%

Magazine Publishing

2009	2014	CAGR
Rs. 18.5 billion USD 0.38 billion	Rs. 32 billion USD 0.66 billion	11.5%

Advertising Revenues

2009	2014	CAGR
Rs. 100 billion USD 2.08 billion	Rs. 150 billion USD 3.12 billion	8.4%

Subscription Revenues

2009	2014	CAGR
Rs. 61.5 billion USD 1.28 billion	Rs. 80.5 billion USD 1.67 billion	5.6%

Market Definition

Print Media consists of spending by advertisers on printed newspapers and magazines as well as circulation revenues generated from readers' spending on subscriptions and news stand/retail purchases of both the above mentioned segments. Online subscription of magazine portals are currently very limited in India and hence is not covered in this chapter.

Outlook in brief

- Hindi dailies continue to dominate the rolls with highest readership and circulation across the country. Their readership increased by 3% in 2009 over 2008.
- Economic downturn impacted the advertising revenues of print media players as a result of which few players were constrained to drop their advertisement rates.
- Growth in magazine was limited owing to lack of measurement tools to measure their reach and impact. Niche magazines are likely to see quantum growth with entry of more international players.
- Regional markets would play a pivotal role in growth of print media in the next five years.
- Content will play an important role in driving readership especially for younger audiences.
- Online foray for print media is largely restricted to e-papers and e-magazines. Revenues from online properties are not expected to be material for print media players over the next five years.

Print Media

Indian Print Media Industry

News consumption trend in India is witnessing a metamorphosis with more interactive mediums like television, internet and mobile taking prominence. Unlike the global trend in print industry, where people read news over the internet, people in India prefer to read the news in hard copy format and digitisation has not had any major impact on newspaper circulation. Though Indian newspapers have a good online presence, no major shift has been noted in readership to these online portals.

The Indian print media industry has grown at a healthy rate of 10.2% over the last five years. In 2009, however, the delving economic conditions resulted in the Indian print media industry remaining steady at the same size as previous year.

Newspaper publishing, which constitutes around 88% of the segment, grew at 1.5% in 2009, whereas the magazine publishing, which contributes the balance 12% of the segment, de-grew by 11%. On an overall basis, the print media industry stood at Rs.161.5 billion in 2009, as compared to Rs. 162 billion in 2008.

The size of the magazine publishing industry was estimated at Rs. 18.6 billion in 2009 as compared to Rs. 21 billion in 2008, registering a de-growth of 11% primarily due to reduced advertising revenues.

Table 3.1 Growth of Indian Print Media industry in 2005-09

Rs. billon	2005	2006	2007	2008	2009	CAGR
Newspaper % change	94.6	112.1 18.5%	131.5 17.3%	140.7 7.0%	142.8 1.5%	10.8%
Magazine % change	13.5	16.5 23.0 %	19.0 14.9%	21.0 10.6%	18.6 -11.5%	8.5%
Total % change	108.1	128.0 16.9 %	150.5 16.4 %	162.0 8.7 %	161.5 -0.3 %	10.2%

Source: PwC Analysis and Industry Estimates

The print advertising segment, which constitutes 61% of the print segment, registered a negative growth of 3% in 2009 over 2008 and stood at an estimated Rs.100 billion in 2009. Circulation revenues for print grew by 5.5% in 2009 over 2008 and stood at an estimated Rs. 61.5 billion in 2009. The growth in circulation was contributed more by an increase in the number of units circulated with marginal growth recorded in the circulation price in 2009 compared to 2008.

Table 3.2 Growth of Indian Print Media industry by revenue in 2005-09

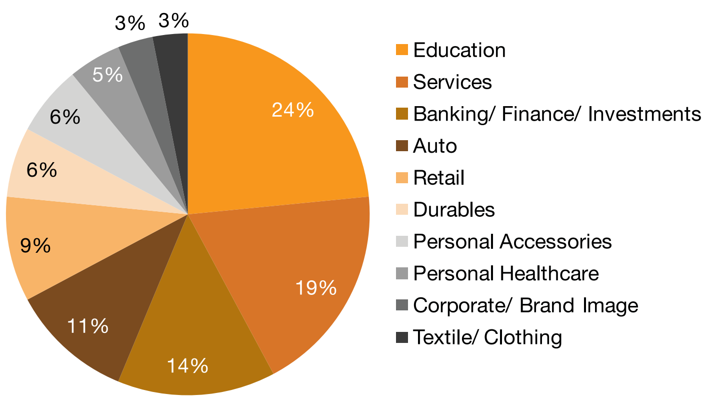
Rs. billon	2005	2006	2007	2008	2009	CAGR
Advertisement % change	62.7	78.0 24.4%	94.0 20.5%	103.5 10.1%	100.0 -3%	12.0%
Circulation % change	45.3	50.7 12.0%	56.5 12.0%	58.3 3.0%	61.5 5.0%	7.9%
Total % change	108.1	128.0 16.9 %	150.5 16.4 %	162.0 8.7 %	161.5 -0.3 %	10.2%

Source: PwC Analysis and Industry Estimates

Print Advertisement Revenues

Education and Services were the prime advertising sectors with top five accounting for 49% of the revenues. The advertising augmentation was also propelled by growth in local advertisements, especially for regional newspapers. Local-to-local advertisement revenues showed a growth of 15-20%.

Chart 3.1Top 10 Sectors advertising on Print Media in 2009



Source: Adex, TAM

Pantaloons Retail and Tata Motors were the top two advertisers in Newspaper segment, while HLL and Loreal were the top advertisers in magazines in 2009. SBI was the top advertiser in financial sector.

Some of the key factors affecting the advertising revenues are:

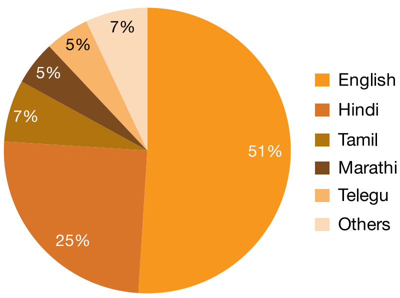
- Geographical reach
- Target population
- Ad-Edit ratio
- Strength in the respective geography

Hit by the financial crisis swiping over the global economy, the industry dwindled in the first half of 2009. This resulted in drop in advertisement card rates by many players. BCCL reduced its rates for its key publications like Times of India, Navbharat Times, Mumbai Mirror, Economic Times and others to the tune of 12-15%. Many players offered deep discount on their card rates, in addition to offering discount on advertising across all the editions of the newspaper. Newspapers struggled to maintain an average ad-edit ratio of around 20-25%. However, by the second half of 2009, the situation improved and there was slight recovery in the advertisement revenues.

DAVP increased its advertisement rates by 10-15% and also waived off the 15% commission to be paid by the publishers. For bigger players like TOI, HT, DB and DJ, DAVP ads account for about 10-15% in volume terms and 8-10% in value terms. This, coupled with general elections, assisted the industry during recession.

Backed by a strong reach in key urban segments across metros, English newspapers account for the majority of advertisement revenues in the print sector. While English newspapers account for around 51% of the total advertisement revenues for the segment, Hindi Dailies account for 25%.

Chart 3.2 Break-up of advertisement revenues of various newspapers by language - 2009



Source: PwC estimates, Industry research

However, in the coming times, we estimate that the share of Hindi and other regional dailies will leap as more companies contemplate focusing on tier-II and tier-III towns. Other key advertisers like telecom service providers and handset manufacturers are also looking for entry into tier-II and tier-III towns and this would stimulate good growth for regional publications.

Print Circulation Revenues

Cover price accounts for 15-20% of the revenues of newspaper players. For magazines, this percent goes upto 50% as magazines are priced more than newspapers. In 2009, there was a marginal 5% increase in newspaper circulation revenues as quite a number of new subscription schemes were launched to thwart the competition and hold onto the existing customers.

Key factors impacting print circulation revenues are:

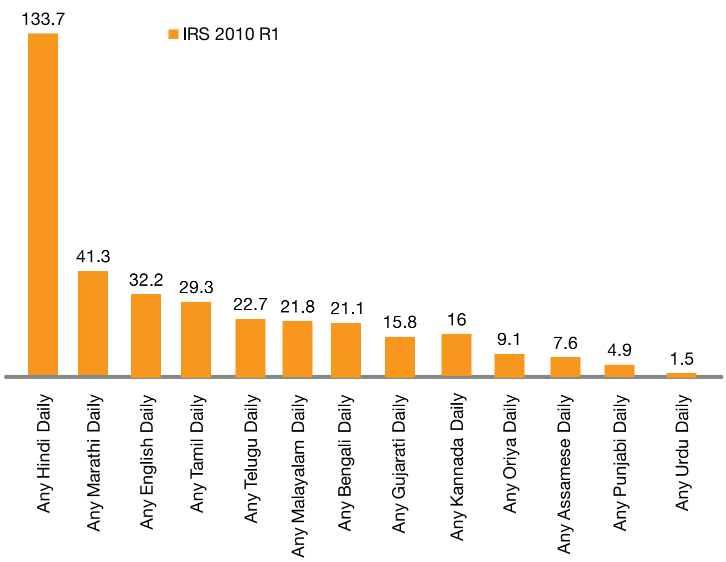
- Cover price
- Distribution reach
- Competition
- Ability to charge premium or brand strength

We estimate that the expansion in circulation will come from permeating in newer market once the players stabilise themselves and the circulation returns to original cover price.

Newspaper Publishing

Newspaper publishing industry boasts over approximately 356 million readers. Hindi dailies alone have 133.7 million readers followed by Marathi and English dailies at 41 and 32 million readers, respectively.

Chart 3.3 Readership of Newspapers

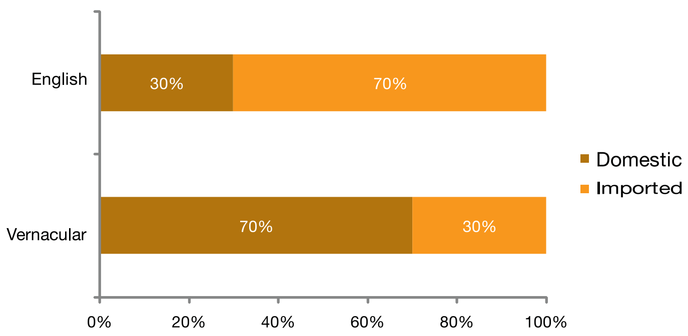


Source: IRS 2010 R1; AIR: Average Issue Readership

Retrograding economic conditions and increase in newsprint prices affected this industry at large in 2009. Most of the players were left with no choice but to step up their cover price to make up for the losses. The newsprint prices touched a high of over $1000 before cooling off in the second half of 2009. Currently, the prices are around $650.

Newsprint cost accounts for 35-50% of the total operating costs. The ratio of imported v/s domestic newsprint varies, depending on newspaper quality. For English newspaper, this ratio is 70:30 in favour of imported, while for vernacular newspapers, this ratio is 30:70 in favour of domestic newsprint.

Chart 3.4 Proportion of newsprint mix for English and Vernacular publications



Source: Industry Estimates

In 209, there has been slew of expansions by print media players across the country. A noteworthy fact is that strategic expansion blueprints are being planned around tier-II and III towns with players keen on providing local editions and local contents to the readers.

Table 3.3 Expansion of Newspapers in 2009-2010

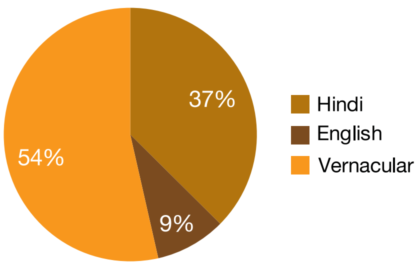
English Newspapers	Hindi Newspapers	Vernacular Newspaper
Mint: Kolkata, Chennai	Jagran: Rashtriya Sanskaran, Pune	Deshdoot: Ahmednagar
	Hindustan: Allahabad, Bareilly	Dinakaran: Delhi
	Patrika: Gwalior, Jabalpur	Lokmat: Goa
	Amar Ujala	Navbharat: Pune
	Prabhat Khabar: Bihar (Re-launch)	

Source: PwC Research

Hindi Dailies

The top three dailies in India are Hindi dailies. Hindi dailies increased its readership by 3% from 130 million at the end of 2008 to 134 million at the end of 2009 accounting for 37.5% of the total readership in India.

Chart 3.5 Language share in Dailies



Source: IRS 2010 R1

Table 3.4 Top 10 Publications by Readership (AIR)

Rank	Publication	Readership (million)
1	Dainik Jagran	16.3
2	Dainik Bhaskar	13.3
3	Hindustan	9.9
4	Malayala Manorama	9.6
5	Amar Ujala	8.5
6	Lokmat	7.4
7	Daily Thanthi	7.4
8	The Times of India	7.0
9	Mathrubhumi	6.7
10	Rajasthan Patrika	6.7

Source: IRS 2010 R1; AIR: Average Issue Readership

Dainik Jagran is the leading newspaper in the country in terms of readership with over 16 million readers. It also commands the largest market share in Uttar Pradesh. Dainik Bhaskar positioned at number two is the largest newspaper in Madhya Pradesh and is well spread across the "Hindi Heartland" while Hindustan is numero uno in Bihar and Jharkhand and is widening its reach in Indo-Gangetic belt.

Table 3.5 Penetration of newspapers in "Hindi" belt

State	AHD Readership (Lakhs)	Player 1	Player 2	Player 3	Player 4
UP	160.3	Dainik Jagran (56%)	Amar Ujala (40%)	Hindustan (15%)	Rashtriya Sahara (3%)
Rajasthan	102.3	Rajasthan Patrika (62%)	Dainik Bhaskar (56%)	Dainik Navjyoti (4%)	
Bihar	58.5	Hindustan (74%)	Dainik Jagran (40%)	Aj (5%)	Prabhat Khabar (3%)
Delhi	48.7	Navbharat Times (35%)	Hindustan (27%)	Punjab Kesari (21%)	Dainik Jagran (18%)
Madhya Pradesh	47.7	Dainik Bhaskar (64%)	Nai Dunia (20%)	Raj Express (11%)	Rajasthan Patrika (10%)
Haryana	32.1	Dainik Bhaskar (41%)	Dainik Jagran (28%)	Punjab Kesari (26%)	
Jharkhand	24.1	Hindustan (50%)	Prabhat Khabar (42%)	Dainik Jagran (32%)	

Source: IRS, PwC analysis; AHD: Any Hindi Daily.
** The % total is greater than 100% due to overlapping readership in a household*

Hindi Dailies have higher readership to circulation ratio

Hindi dailies have a relatively higher readership to circulation ratio with the ratio for Hindi dailies being in the range of four to seven and English dailies being in the range of two to four.

This is primarily due to:

- Higher cover price for Hindi dailies as compared to those in English.
- Hindi dailies are generally accessed at tea stalls or community meeting places.
- Hindi dailies cater to lower income group than English dailies and hence there are more people sharing the same newspaper.

Table 3.6 Readership to Circulation ratio of newspapers in India

Publication	Readership (AIR)	Circulation	Readership/ Circulation ratio
The Times of India (English)	7.0	3.1	2.3
Hindustan (Hindi)	9.9	1.5	6.6
Dainik Jagran (Hindi)	16.3	2.4	6.8
Dainik Bhaskar (Hindi)	13.3	2.7	4.9

Source: IRS, PwC Research

Some of the key trends observed in the Hindi Daily market are:

Rebranding to connect with the youth

Many regional newspapers have undertaken the rebranding exercise to relate with the youthful mindset, while holding onto the audience in the higher age group.

- *Hindustan:* Hindustan, as a part of HT media stable, underwent rebranding for its key markets of Bihar and Jharkhand. The activities included improvising on looks as well as content, making it more relevant to the local population.
- *Dainik Bhaskar (DB):* DB too underwent a design and content makeover in their newspaper to connect with the younger brigade. Not only were the contents of edit page made more pertinent to topical issues but even readability was transformed into a more attractive package.

Move towards more color pages

To bring in more appeal to the newspapers, many players in the Hindi Heartland are improving the quality by increasing color pages. Hindustan increased its number of colored pages to 50% of total pages or, at times, publishes all colour newspaper on some days.

Market expansion

Hindi dailies are intensifying within the Hindi Heartland along the areas where Hindi is a strong second or third language. Hindustan is expanding in Uttar Pradesh and Dainik Bhaskar is mulling over entry into Bihar and Jharkhand.

Beyond that, the players are expanding inorganically by acquiring interests in non-Hindi properties to penetrate into parallel markets. A case in point here is Dainik Jagran's acquisition of Mumbai-based English tabloid Mid-Day.

English Daily

Times of India (TOI) leads the list of English dailies in India with a readership of 7 million readers, followed by Hindustan Times at a distant second. Interestingly, TOI is the only English daily in the top 10 dailies in India.

However the last round of IRS shows that Hindustan Times has gained readership. This is primarily due to its initiatives to re-brand itself as well as re-launch in Mumbai which has traditionally been the stronghold of TOI.

Table 3.7 Top Five English Newspapers

Million readers	IRS 2010 R1	IRS 2009 R2
The Times of India	7.0	7.1
Hindustan Times	3.5	3.3
The Hindu	2.2	2.2
The Telegraph	1.2	1.2
Deccan chronicle	1.1	1.2

Source: IRS

Strategic Partnerships

Few players also formed strategic partnerships to provide the readers with differentiated content since content is believed to be the key to attract readers especially in the English daily segment.

- Mint entered into a partnership with CNBC-TV18 to bring the analysis strength of news content to its readers
- Hindustan Times announced content partnership with Washington Post

Rebranding by Hindustan Times

Complete repositioning of newspaper with following objectives:

- New look at par with international standards
- Content-led change keeping in mind reader navigation
- Exploring beyond 'What' to 'Why' and 'How'

Magazine Publishing

Readership of magazine publishing slimmed in the latest round of IRS (2010 R1) following on the trends shown in the previous IRS rounds. There are around 141 million magazine readers in India, commanding a readership share of 28%. However, most of the top magazines have shown a decline in readership over the past year.

Table 3.8 Top five magazines in India

Million readers	IRS 2010 R1	IRS 2009 R2	IRS 2009 R1	Growth
Saras Salil (Hindi)	6.4	6.6	7.4	-13.5%
Kumudam (Tamil)	6.1	6.5	6.7	-9.0%
Vanitha (Malayalam)	5.7	6.0	6.0	-5.0%
India Today (English)	5.5	5.6	5.8	-5.2%
Kungumam (Tamil)	5.3	5.4	6.1	-13.1%

Source: IRS

Despite the downfall in most magazines, there are a few who have done well.

Table 3.9 Magazines displaying growth in readership

Million readers	IRS 2010 R1	IRS 2009 R2	Growth
Diamond Cricket Today (Hindi)	1.7	1.5	7.0%
Pratiyogita Darpan	4.4	4.3	3.8%
Arogya Sanjivani	2.3	2.2	3.7%

Source: IRS

Year 2009 saw the magazine sector hosting new launches, while a few publications underwent a rebranding exercise to attract readers. Some of these were:

- *Yuva:* A youth-centric magazine.
- *Career 360:* Pathfinder Publishing's maiden title and a monthly publication focusing on the career for the people between the age of 17-35.
- *Harper Bazaar:* Hearst Corporation's fashion and beauty magazine in partnership with India Today.
- *Technology Review:* A technology magazine launched in India jointly by MIT's Technology Review magazine and CyberMedia India Ltd.
- *Suriya Kathir:* A Tamil fortnightly.

The Government has allowed 100% FDI in the facsimile editions of international publishers. This was prompted by Wall Street Journal (WSJ), who currently has a tie-up with HT Media's Mint, applying for the same.

Growth in number of international players

International magazines have also paved way into the Indian market with a host of new magazines launching in the past year, like, Forbes, Lonely Planet, Sports

Illustrated and 'Condé Nast Traveller. This trend would further gain impetuous with government sanctioning approval for 100% FDI in facsimile editions of papers.

Deal watch

Dainik Bhaskar raised Rs. 385 crore through an IPO in 2009

- Dainik Bhaskar did an IPO in 2009-10 helping it to raise Rs. 385 crore at a price of Rs. 212 per share from the market for 10% equity dilution. The IPO was oversubscribed more than 39 times.
- Of the 10% equity dilution, 7% was a fresh equity and 3% constituted an offer for sale by Warburg Pincus. In 2006, Warburg Pincus, a leading private equity investor, acquired 7.14% stake in the company at a deal value of Rs. 150 Cr.
- A large portion of the IPO proceeds is earmarked for setting up new publishing units.

Table 3.10 Dainik Bhaskar IPO Proceeds Allocation

Application of funds	Net Realization (Rs. Crores)	Percentage
Setting up new publishing units	60.00	20.5%
Upgrading of existing plant and machinery	30.50	10.4%
Sales and marketing	50.10	17.2%
Reducing working capital loan	41.46	14.2%
Pre-paying existing term loans	110.00	37.7%
Total	292.06	100.0%

Source: Company reports

Blackstone Group invested Rs. 225 crores in Jagran Media Network Private Limited

- The Blackstone Group, a leading private equity investor, invested Rs 225 crore in Jagran Media Network Private Limited, which will hold majority share of Jagran Prakashan Limited (JPL).
- The investment comes close on heels of stake sell by Independent News & Media (INM), which sold 7.5% chunk of its holding in local publishing group JPL for Rs. 255 crore in March 2010. In July 2009, the company had sold 7.3% stake as a part of its strategy to divest from non-core businesses. Currently, INM holds 6% stake in JPL.
- The Blackstone Group plans to use its investment in augmenting growth through organic and inorganic medium. One of the avenues for expansion highlighted by the company is to venture into regional media nationwide.

Jupiter Media & Entertainment Ventures acquires stake in Express Publications

- Jupiter Media & Entertainment Ventures acquired 26% stake in Express Publications (Madurai) Ltd for approximately Rs. 250 crore.
- The deal is expected to benefit both, Suvarna News 24x7 (Kannada news channel) and Kannada Prabha (leading Kannada daily) in having wider editorial network, better news reporting and synergies in sales and marketing.

Jagran Prakashan Ltd acquires Mid-Day Multimedia Ltd.

In May 2010, Jagran Prakashan Limited (JPL) the publisher of Hindi daily Dainik Jagran, acquired the print business of Mumbai-based Mid-Day Multimedia Ltd (MML), which owns the afternoon English daily Mid-Day. This was a cashless share-swap transaction wherein MML shareholders received two shares of Jagran Prakashan for every seven of MML, based on the current market price. The deal values the company at around Rs. 175 crore.

This significant acquisition is expected to provide the following benefits for JPL:

- Entry into readership segments of three languages—Gujarati, Urdu and English.
- Access to MML's printing press in Mumbai which has space for expansion.
- Jagran is a profitable company and there is no cash out flow for the transaction.
- Wider exposure to advertisers in markets such as Mumbai, Pune and Bangalore.

For MML it provides the following benefits:

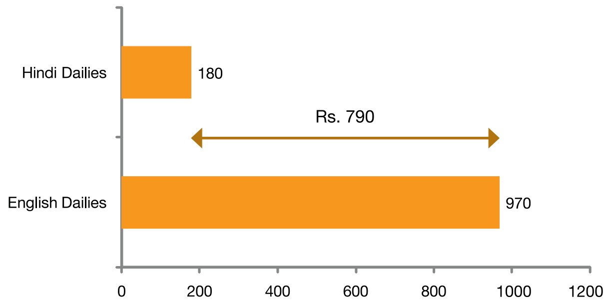
- New Printing companies are being backed by renowned publishing houses, leading to creation of more lucrative businesses that could prove extremely competitive for a relatively smaller player like MML. This deal is expected to provide the necessary resources to MML for expansion.
- Taking Mid-Day to the tier-II towns in which Jagran already has a good foothold in terms of wide reach and presence.

Table 3.11 Select deals in Print media

Investor	Target	Acquisition Price US $ Million	Deal Type	% Stake	Date
Jupiter Media &	Express Publication (Madurai) Ltd	53.19	Strategic Stake	26%	March 2010
Blackstone Group	Jagran Media Network	50.00	Invest-ment	NA	April 2010
Jagran Prakashan Ltd.	Mid-Day Multimedia Ltd	NA	Acquis-ition	NA	May 2010

Source: PwC analysis

Chart 3.6 Average Ad Revenue for English and Hindi Dailies



Source: PwC Analysis

We expect print media, especially regional print media companies, tapping the capital markets or strategic sales to private equity firms in order to expand in other regions, new media and across other verticals in the entertainment and media industry. Hindustan Ventures Private Limited (HVML) has recently filed its red herring prospectus to raise money from the market and we can expect to see more such activities to improve finances.

Key challenges for the Print Media industry

Newsprint costs

Newsprint cost account for 35-50% of the total operating cost depending on the quality of newsprint used. The newsprint prices had cooled off by end of 2009, but have started to move up primarily due to:

- Rise in crude prices.
- Earthquake in Chile which produces 8% of the world paper pulp.
- Chinese government's decision to minimalise export of paper pulp.

The prices are currently hovering around $600 per tonne from $460 per tonne in July 2009.

Lower advertisement yield

The gap between "Average Ad revenues per copy per month" for English and Hindi dailies is very large. This is primarily due to the type of target audience Hindi Dailies focus on. Regional and Hindi daily readership is multiple compared to that of English dailies, however they are not yet able to capitalise on this readership strength.

With focus shifting on tier-II and tier-III cities, the challenge would be to garner more ad revenue in smaller towns by the regional newspaper.

Penetration among the various SEC's

Penetration of print media, in contrast with other mediums like television, is significantly higher in rural SECs. Though, the same cannot be said about urban SECs. Though the penetration is same for higher SEC groups, the penetration is lower for SEC C, D and E. When compared to television, which includes non-satellite homes, the penetration of television goes up further.

Table 3.12 Penetration of Print Media in Urban and Rural India

SEC	Print – Total Readership	Satellite TV-Viewership	Radio-Listenership
Urban India			Once a week
A1	94%	91%	43%
A2	89%	85%	35%
B1, B2	79%	79%	25%
C	68%	72%	23%
D	51%	61%	21%
E1 & E2	29%	47%	16%
Rural India			
R1	69%	46%	34%
R2	57%	36%	24%
R3	36%	25%	20%
R4	12%	13%	14%
Total India	38%	36%	20%

Source: IRS, PwC Analysis

In rural areas, distribution is one of the main obstacles in increasing the penetration. Eventually, to compete with television and command higher ad rates, print would need to improve its expansion drive.

Global Outlook

Newspaper Publishing

The global newspaper market fell by 11.4% in 2009 and we expect a further, 3.6% decrease in 2010. We foresee and a flat market in 2011 before an increase to $160.6 billion in 2014, a 0.7% CAGR of growth from $154.9 billion in 2009. Spending in North America fell by 23.2% in 2009 and will decline at a 2.6% CAGR from $39.2 billion in 2009 to $34.3 billion in 2014. North America will be the only region where spending will be lower in 2014 than in 2009. Spending in EMEA (Europe, Middle East, Africa), the largest newspaper market, at $59.0 billion in 2009 will increase at a 1.0% CAGR to $61.9 billion in 2014. Asia Pacific will expand at a 2.3% CAGR to $56.9 billion in 2014 from $50.8 billion in 2009. Latin America will be the fastest-growing region, with a projected 5.1% compound annual increase from $5.9 billion in 2009 to $7.5 billion in 2014.

while rising circulation in Latin America and Asia Pacific will boost paid circulation spending. Paid online content and distribution to mobile devices will generate modest incremental revenue streams in North America, EMEA and Asia Pacific. Swelling website traffic will give a thrust to digital advertising.

Consumer Magazine

Overall spending in North America, EMEA (Europe, Middle East, Africa), Asia Pacific, and Latin America fell by 10.6% in 2009. We project an additional 2.7% decrease in 2010, a flat market in 2011 and modest growth during 2012–14. Spending will total $74 billion in 2014, up 0.7% compounded annually from $71.5 billion in 2009. Latin America will be the fastest-growing region, with a 5.1% compound annual increase to $3.9 billion from $3.1 billion in 2009. North America will be the only region where spending will be lower in 2014 than in 2009, falling by 0.4% compounded annually to $20.9 billion from $21.4 billion in 2009. EMEA, the largest region, at $32 billion in 2009, will expand at a 0.4% CAGR to $32.6 billion in 2014. The Asia Pacific market will increase by 1.8% compounded annually to $16.5 billion in 2014 from $15 billion in 2009.

Table 3.13 Global Newspaper Publishing Market (US$ millions)

Component	2005	2006	2007	2008	2009p	2010	2011	2012	2013	2014	2010–14 CAGR
Print Advertising	108,690	110,194	107,851	98,503	79,671	74,419	73,743	74,973	77,331	80,213	
% Change	2.5	1.4	-2.1	-8.7	-19.1	-6.6	-0.9	1.7	3.1	3.7	0.1
Digital Advertising	2,944	4,166	5,354	5,804	5,479	5,605	5,957	6,449	7,046	7,892	
% Change	91.0	41.5	28.5	8.4	-5.6	2.3	6.3	8.3	9.3	12.0	7.6
Total Advertising	111,634	114,360	113,205	104,307	85,150	80,024	79,700	81,422	84,377	88,105	
% Change	3.8	2.4	-1.0	-7.9	-18.4	-6.0	-0.4	2.2	3.6	4.4	0.7
Circulation	67,785	68,275	69,263	70,416	69,737	69,293	69,652	70,409	71,372	72,528	
% Change	1.3	0.7	1.4	1.7	-1.0	-0.6	0.5	1.1	1.4	1.6	0.8
Total	179,419	182,635	182,468	174,723	154,887	149,317	149,352	151,831	155,749	160,633	
% Change	2.8	1.8	-0.1	-4.2	-11.4	-3.6	0.0	1.7	2.6	3.1	0.7

Sources: PwC Global E&M Outlook 2010-2014

Even when the economy gets buoyant, the increasing interest of readers towards the internet will cut into advertising and circulation growth. Newspapers will continue to lose classified advertising share to the internet. Declines in paid circulation in North America and EMEA will adversely affect circulation spending,

As finances gradually aggrandise towards prosperity, it will lead to a modest recovery in the market during 2012–14. With higher number of readers turning to the internet, it is bound to hurt print advertising—particularly news and gossip titles—where real-time information available online reduces demand for print.

Table 3.14 Global Consumer Magazine Publishing Market (US$ Millions)

Component	2005	2006	2007	2008	2009p	2010	2011	2012	2013	2014	2010–14 CAGR
Print Advertising	32,306	33,205	34,374	32,834	26,268	25,067	24,870	25,121	25,639	26,381	
% Change	6.2	2.8	3.5	-4.5	-20.0	-4.6	-0.8	1.0	2.1	2.9	0.1
Digital Advertising	128	377	681	1,308	1,305	1,454	1,738	2,143	2,578	3,048	
% Change	—	194.5	80.6	92.1	-0.2	11.4	19.5	23.3	20.3	18.2	18.5
Total Advertising	32,434	33,582	35,055	34,142	27,573	26,521	26,608	27,264	28,217	29,429	
% Change	6.6	3.5	4.4	-2.6	-19.2	-3.8	0.3	2.5	3.5	4.3	1.3
Circulation	46,171	46,159	46,569	45,789	43,902	43,027	42,914	43,260	43,839	44,546	
% Change	2.9	0.0	0.9	-1.7	-4.1	-2.0	-0.3	0.8	1.3	1.6	0.3
Total	78,605	79,741	81,624	79,931	71,475	69,548	69,522	70,524	72,056	73,975	
% Change	4.4	1.4	2.4	-2.1	-10.6	-2.7	0.0	1.4	2.2	2.7	0.7

Sources: PwC Global E&M Outlook 2010-2014

Special interest titles will be less vulnerable to online competition. Print advertising will not approach prior levels during the forecast period because of the ongoing shift of readers and advertisers to the internet. Electronic readers and the establishment of digital newsstands will generate incremental circulation revenue during the latter part of the forecast period. But, magazines are set to lose advertising share to television and the internet.

Broadband household growth and an expanding mobile access market will stimulate digital advertising. Rising discretionary income during the latter part of the forecast period will lead to a rebound in circulation spending.

Indian Outlook

The Indian print industry is projected to grow by 7.4% over the period 2009-14 and is projected to reach an estimated Rs. 230.5 billion in 2014 from the present estimate of Rs. 161.5 billion in 2009. Newspaper will continue to have a major share in the print market.

Regional print market will be the driving force behind the growth of the print industry. Hindi print market showed a growth of 3% over the last year and PwC expects this trend to continue owing to large expansion plans charted out by regional players. Dainik Bhaskar is planning an entry into Bihar and Jharkhand Market, while Hindustan is growing aggressively in Uttar Pradesh. Additionally, with advertisers focus shifting to tier-II and tier-III towns, regional print will play a major role in reaching out to this audience.

Table 3.15 Projected Growth of Indian Print Media Industry in 2009-14

Rs. billon	2009	2010	2011	2012	2013	2014	CAGR
Newspaper	143.0	154.6	163.0	173.0	187.0	198.5	6.8%
% change		8.2%	5.5%	6.2%	8.2%	5.9%	
Magazine	18.5	20.4	23.0	26.0	29.0	32.0	11.5%
% change		9.5%	13.6%	12.1%		11.6%	
Total	161.5	175.0	186.0	199.0	216.0	230.5	7.4%
% change		8.4%	6.3%	7.0%	8.5%	6.7%	

Source: PwC Analysis and Industry Estimates

Strategic partnerships are expected in the print industry, not only with international players, but also within local and national players, to expand readership reach. The industry is also expected to see players exploring newer media avenues to expand their offerings for the advertisers. Current trend of expansion by regional and national players will continue as newspapers try to stretch to larger audiences.

Content will also be another important factor that will drive readership and we expect more players to revamp themselves to cater to the younger audience.

Advertisement will remain the key revenue generator for the print segment commanding 67% share of revenue as compared to 33% by circulation. However, the overall share of print advertisement will reduce in the total advertisement pie.

Table 3.16 Projected Growth of Indian Print Media Industry by revenue in 2009-14

Rs. billon	2009	2010F	2011F	2012F	2013F	2014F	CAGR
Advertisement	100.0	108.0	117.0	127.0	138.0	150.0	8.4%
% change		8.0%	8.3%	8.5%	8.7%	8.7%	
Circulation	61.4	67.0	69.5	72.0	78.0	81.0	5.6%
% change		9.0%	3.3%	4.2%	8.4%	3.1%	
Total	161.5	175.0	186.0	199.0	216.0	230.5	7.4%
% change		8.4%	6.3%	7.0%	8.5%	6.7%	

Source: PwC Analysis and Industry Estimates

In the near future, PwC expects the print industry to sustain itself in its current form (hard copy) with no major shift towards digitisation.

At a glance

Market size		
2009	2014	CAGR
Rs. 95 billion USD 1.96 billion	Rs.170 billion USD 3.5 billion	12.4%
Domestic box office		
2009	2014	CAGR
Rs. 70 billion USD 1.45 billion	Rs.124 billion USD 2.57 billion	12.1%
Overseas box office		
2009	2014	CAGR
Rs. 8 billion USD 0.17 billion	Rs.14.5 billion USD 0.30 billion	8.8%
Admissions		
2009	2014	CAGR
2.5 billion	3.1 billion	-

Market Definition

Indian Filmed Entertainment consists of consumer spending at the domestic and overseas box office in the form of ticket sales, home filmed entertainment (which includes buying and renting CDs and DVDs) and ancillary revenues consisting of spending on Broadcast Syndication rights, Mobile VAS and other new age media sales related to films.

Outlook in brief

- Even though Filmed Entertainment showed slight de-growth in 2009, the trend is likely to reverse in 2010.
- Rise in number of multiplex spread in the country will help increase domestic box office collections
- Increasing initiatives by the Government to curb piracy, decreasing dependence on rental market and growing digitisation will further boost the industry
- Regional film industry will fuel growth over the next five years

Filmed Entertainment

Indian Filmed Entertainment Industry

Indian filmed entertainment industry, that painted rewarding performances since past few years, pictured a relatively grim scenario in 2009. Pressured by challenges elicited within the industry and the turbulence in global economy, the industry registered a dismal growth for the year gone by. It however picked up reigns in the second half of 2009 mainly owning to the release of several of good films. This acceleration is expected to run incessantly in the next five years.

Indian filmed entertainment industry consists of movies produced in various genres and languages. In 2009, 235 movies were released in Hindi genre popularly referred as 'Bollywood'. Apart from that, 1053 movies were released in Tamil, Telugu, Kannada, Punjabi, Gujarati, Bengali and other Indian languages.

Market Size

Indian filmed entertainment industry is currently estimated to be at Rs. 95 billion in 2009 slipping from Rs. 107 billion in 2008 showing a de-growth of 11.3% from 2008 to 2009. This negative growth was primarily due to the following reasons:

- Multiplex strike in India resulting in no new movies being released in India or abroad during a period of 8-10 weeks in 2009.
- Economic recession and impact of swine flu which kept audiences away from theatres.

Table 4.1 Growth of Indian Filmed Entertainment Industry in 2005-09

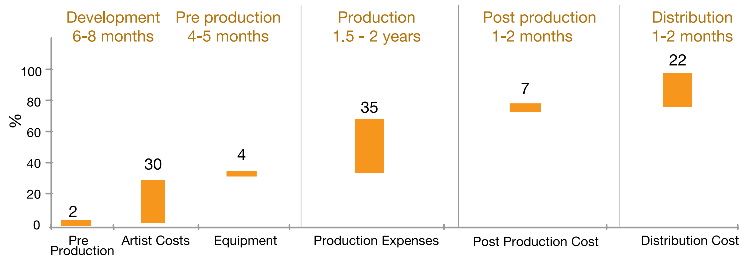
Rs. billion	2005	2006	2007	2008	2009	CAGR
Box Office - Domestic % change	52.8	64.0 21.2%	71.5 11.7%	81.3 13.6%	70.0 -13.8%	7.3%
Box Office - Overseas % change	5.7	7.0 22.8%	8.5 21.4%	10.0 17.6%	8.0 -20.0%	8.8%
Home Video % change	4.3	6.4 50.5%	7.4 15.3%	5.9 -20.9%	6.5 10.6%	11.2%
Ancillary Rights % change	5.7	7.0 22.8%	8.5 21.4%	10.0 17.6%	10.5 5.0%	16.5%
Total	68.5	84.4	95.9	107.1	95.0	8.5%

Source: PwC Analysis and Industry Estimates

Value Chain

Indian filmed entertainment industry is extremely well developed across the value chain from the development stage to exhibition. The time period to make a single movie can vary from 6-18 months.

An indicative value chain is as shown below:



Source: PwC Analysis

Chart 4.1 Value Chain of Indian filmed entertainment industry

Development

Key players
- Production house

Key activities
- Conception of idea
- Development of idea
- Market research
- Obtaining rights
- Signing tentative cast, crew
- Raising capital

Pre-production

Key players
- Production house

Key activities
- Screenplay
- breakdown
- Shooting schedule
- Location scouting
- Budgeting
- Casting and unions
- Equipment rentals
- Permits, etc.

Production

Key players
- Production house

Key activities
- Principal photography
- Blocking
- Lighting
- Final rehearsals
- Shooting

Post-production

Key players
- Production house
- Post-production studios – visual effects, sound effects, special effects, editing, digitisation, mixing

Key activities
- Editing
- Sound effects
- Music production
- Special effects
- Mixing

Release

Key players
- Production house
- Audio and video release company
- Distributors
- Satellite owners

Key activities
- Promotions start 6-8 weeks before
- the date of theatrical release
- Music is released 6-8 weeks before
- the date of theatrical release
- Theatrical release
- Satellite release and DVD release;
- after a month of theatrical release

Source: PwC Analysis

Impact of Global Economic Slowdown

Rationalisation of costs in film production

The global economic slump incapacitated the film industry, with projects either being scaled down or shelved. The artists costs which had climbed up substantially in the past few years furthered hampered the release of several films. This eventuated to newer films being negotiated at lower rates and some rates being rationalised for existing films. The correction was estimated to the tune of 20-30%.

Revenues from other streams drying out

The rise in cost of production had resulted in mounting expectations of revenue earning potential for the films. Producers usually de-risk themselves from the fluctuations of fortunes of movies at box office by pre-selling all the rights. This was further supported in 2008 by increase in cost of rights acquisition by broadcasters and intermediaries, several of whom had promising funding pipeline. However, the scenario changed with sinking economy. Rights were sold at either lower rates than previously achieved or not sold at all which culminated in a stand-off between the producers and broadcasters.

Weak line-up of films in 2009 and first half of 2010

As an outcome of issues like selling off the rights of existing films, some of the producers began facing cash crunch. This led to them either delaying the film production or shelving the projects completely. Since a new film takes around a year for completion, new film projects for 2009 witnessed an insipid line-up. This trend is expected to perpetuate in the first half of 2010.

Impact of Multiplex Strike on Revenues

One of the pre-eminent developments of 2009 was the discord between multiplex operators and film producers over revenue sharing mechanism. No new Hindi films were released in multiplexes since April 4, 2009 till June 2009, causing film exhibitors and distributors a reported loss of Rs. 3.5 billion. Consequently, almost half of the 900 multiplex screens across the country were shut down by the multiplex chains in order to control their costs. Film producers also incurred losses running into many billions, due to procrastination in the film release dates.

Film producers wanted an equal sharing of revenues from movies that was not linked to the performance of the movies. On the other hand, multiplex operators wanted to link the revenue sharing to the performance of movies on box office.

The following revenue sharing mechanism was finally accepted by both parties to resolve the dispute:

Table 4.2 Ticket Revenue Sharing Agreement (Old)

Percent	Multiplex	Producer
Week 1	52	48
Week 2	55	45
Week 3	65	35
Week 4 onwards	70	30

Source: Industry Discussions

Table 4.3 Ticket Revenue Sharing Agreement (New)

Net ticket revenue < 175 million		Net ticket revenue < 175 million	
Multiplex	Producer	Multiplex	Producer
50	50	47.5	52.5
57.5	42.5	55.5	44.5
62.5	37.5	62	36
70	30	70	30

Source: Industry Discussions

However, once the differences were resolved, a host of new movies were released. This resulted in cannibalisation of theatrical revenue among the new releases which further impacted the revenue potential of these newly released movies.

Towards the end of 2009, the release of 3-idiots starring Aamir Khan helped the players minimalise the affect of multiplex strike on their revenues. As per industry estimates, the film made around Rs. 3.8 billion on the box office to become one of the most successful Hindi films.

Key Revenue Streams

Indian filmed industry, like most film industries globally, is highly dependent on appealing content and certain individual stars. A few good movies in a year can spell an excellent year for the industry as well as its participants, while the lack of good content or dearth of new movies from few superstars can set back the industry and can impact all the revenue streams.

There are four key revenue streams from Indian filmed entertainment industry:

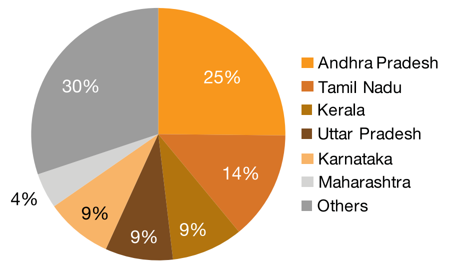
- Box Office Collection – Domestic
- Box Office Collection - Overseas
- Home Video – Domestic and Overseas
- Ancillary Revenues

Box Office Collection – Domestic

Domestic box office revenues would comprise of theatrical revenues from multiplexes and single screen theatres. There are approximately 10,000 theatres in India, of which, there are 900 multiplexes.

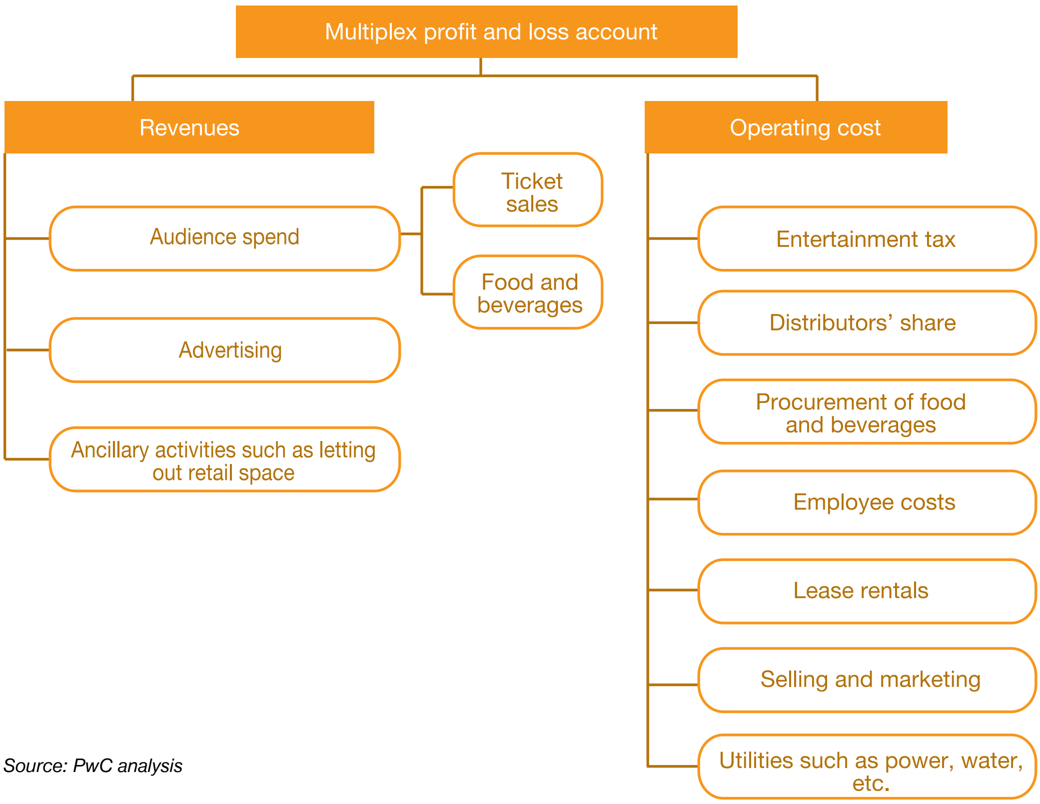
Multiplexes have flourished in India. In 2009, there are approximately 900 multiplex screens registering a double digit growth. However, as compared to the approximately 3 billion admissions in a year, India continues to have one of the lowest screen penetrations as compared to other countries globally.

Chart 4.2 State-wise number of single screens



Source: Film and Television Producer's Guild of India

Chart 4.3 Typical Multiplex Profit and Loss Account



Source: PwC analysis

Usually, multiplexes have smaller per screen seating capacity at approximately 250-300 seats as compared to single screen theatres which has around 600 seat average going up to 1000-1250 seats. However, the occupancy levels for multiplexes are higher at 30-35% as compared to 20-30% for single screen and hence, the average ticket price for multiplexes are higher at Rs. 120 as compared to Rs. 25-40 for single screens. Recently, the industry has also seen the arrival of 'miniplex' which are referred to as smaller screens with smaller seating capacity of 25-100 seats set up by companies such as K Sera Sera. Multiplexes are also spreading their wings in South Indian states. PVR has allocated Rs. 1.2 billion for its expansion plans across the country in 2010 with 50% of these funds specifically for Southern India over the next 18 months. Similarly, K Sera Sera has also announced plans to open 500 miniplexes across India

It is estimated that there are 3 billion viewer admissions in India which is comparatively higher than that in the US. The revenues from multiplexes and single screen are expected to be Rs. 70 billion in 2009, down from Rs. 81 billion in 2008.

Table 4.4 Domestic Box Office Revenues for 2005-09

Rs. Billion	2005	2006	2007	2008	2009	CAGR
Box Office - Domestic	52.8	64.0	71.5	81.3	70.0	7.3%
% change		21.2%	11.7%	13.6%	-13.8%	

Source: PwC Analysis and Industry Estimates

Box Office Collection - Overseas

Overseas distribution is primarily divided in three territories, US, UK and rest of the world with US contributing the maximum.

Overseas box office collections also saw a stark dip in revenues for reasons similar to that of domestic box office. It is estimated that overseas box office revenues were Rs. 8 billion in 2009 versus Rs. 10 billion in 2008. While multiplex strike resulted in less number of movies released abroad, recession caused lower number of prints being released abroad. This resulted in fall in revenues for top performing movies in India and internationally.

Table 4.5 Overseas Box Office Revenues for 2005-09

Rs. Billion	2005	2006	2007	2008	2009	CAGR
Box Office - Overseas	5.7	7.0	8.5	10.0	8.0	8.8%
% change		22.8%	21.4%	17.6%	-20.0%	

Source: PwC Analysis and Industry Estimates

Home Video

Home video segment consists of sales and rentals of movie DVDs and VCDs. This segment is heavily affected by piracy with only 10% revenues sneaking into the industry. However, the year gone was piquant for home video segment. The multiplex strike came as a blessing in disguise for this segment. With the lack of entertainment options in the form of new movies, consumers resorted to buying DVDs and VCDs of classic Hindi and Hollywood movies. Home video segment was estimated to be Rs. 6.5 billion in 2009 as compared to Rs. 5.9 billion in 2008.

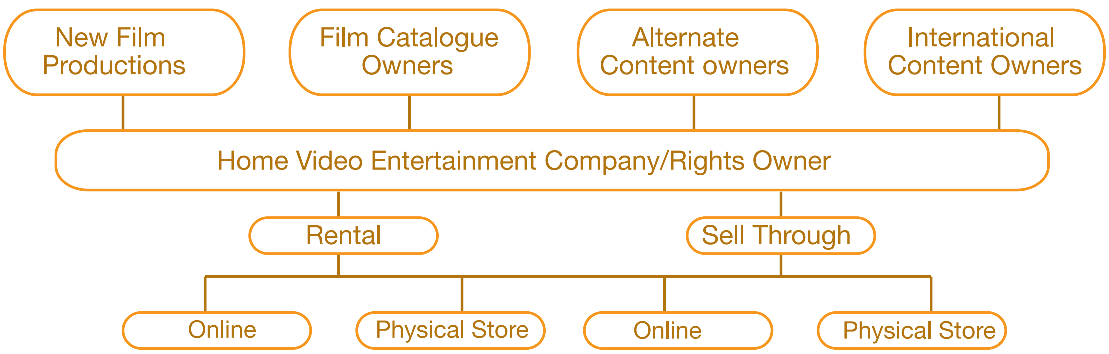
Table 4.6 Home Video Revenues for 2005-09

Rs. Billion	2005	2006	2007	2008	2009	CAGR
Home Video	4.3	6.4	7.4	5.9	6.5	11.2%
% change		50.5%	15.3%	-20.9%	10.6%	

Source: PwC Analysis and Industry Estimates

Furthermore, there is an inherent change in the business model of home video in India. The home video market is converting to sell-through from rental, which constituted 100% of sales in 2004. By 2014, sell-through is expected to capture 90% of the market. The migration to sell-through is leading to sharp declines in rental spending. It is estimated that rental spending dropped by 41% in 2008. This change in business model was spurred by the entry of Moser Baer in the market in 2007. Moser Baer slashed the retail prices of its DVDs and VCDs to the levels at which pirated products were sold and rented. As a result of this disruptive strategy, other players in the business were also forced to slash their prices to similar levels as Moser Baer. This encouraged the sell-through market as DVDs were now available to consumers at low prices.

Chart 4.4: Typical Home Video Value Chain



Source: PwC Analysis

There were a number of new initiatives taken by the leading players in the industry to augment this segment:

- Reliance BIG Home Video: Launched 20 titles which have won 'Best Picture' award at Oscar such as Gladiator, The Godfather, Gone with the Wind, The Departed, Shakespeare in Love and Casablanca.
- Shemaroo Entertainment: Launched UTV World Movies titles such as House of Flying Daggers, A Tale of Two Sisters, A Room with a View, La Zona and The Phantom Lover. The titles were launched under Shemaroo's banner.

The prices of home video rights, like other segments, saw a steep increase in 2008. In 2009, with economy collapsing, just a handful of players were willing to pay those prices. The prices almost doubled that of 2007. For Category A movies, the cost of acquiring home video rights were in the range of Rs. 30-40 million. For Category B movies, the cost of acquiring home video rights was in the range of Rs. 10-20 million.

Table 4.8 Home Video Acquisition Costs in years 2007-2009

Movie	Year of Release	Price (INR million)	Category
Om Shanti Om	2007	29.6	A
Welcome	2007	34.8	A
Jab We Met	2007	12.7	B
Tashan	2008	40	A
Sarkar Raj	2008	40	A
Jimmy	2008	2.6	C
Golmaal Returns	2008	30	B
Chandni Chowk to China	2009	10	A
Slumdog Crorepati	2009	8	B

Source: PwC Analysis

Table 4.7 Home Video Revenue Models prevalent in India

Key Players	Rental		Sell Through		Online Download	Online Streaming	Library	
	Online	Physical	Online	Physical			No of titles	No. of languages
Moser Baer	N	N	Y	Y	N	N	~10,000	18
BigFlix	Y	Y	Y*	N	Y	Y	~14,000	8
Eros	Y	N	Y	N	Y	Y	~1,900	1
T-Series	N	N	Y	N	N	N	~350	8
Excel Home Video	Y	Y	Y	Y	Y	N	~2,200	3
SeventyMM	Y	N	Y	N	Y	Y	~2,000	14
Shemaroo	N	Y	Y	Y	N	N	~1,500	4

Source: PwC Analysis

In 2009, the prices have corrected and are almost at the level of 50-60% of the peak levels; for instance, for Category A movies, the cost of acquiring home video rights are now in the range of Rs. 10-20 million as compared to Rs. 30-35 million. These lower acquisition costs are likely to yield better margins for home video players in the future.

In the long run, growth in Blu-ray high definition ("HD") videos will offset a declining DVD market and propel overall sell-through. Rental company Movie Mart launched its online Blu-ray disc renting and selling facility in 2009. It is claimed to be the first online Blu-ray discs renting website in India.

Ancillary Revenues

Ancillary revenues include revenue from cable and satellite syndication (broadcast syndication), mobile, online and other new age media avenues. Broadcast syndication and mobile emerge as the two major segments in this revenue stream.

Broadcast Syndication: It consists of film content, live action and animation content. Film content forms 85% of broadcast syndication content aired on channels. The acquisition prices for rights to content for broadcast shot up significantly in 2008. Here again, recession evoked a lull in the industry. The movie production cost was quite high in 2008 and, hence, the producers expected a higher price from broadcasters in 2009. Unfortunately, due to lack of funding and downturn, broadcasters were not willing to pay the prices. This led to a virtual buyer-seller stand-off in 2009.

Chart 4.5 Cost of Acquisition of Satellite Rights

2008		
Ghajini	A	200
Singh is King	A	160
Jannat	B	90
Khuda ke Liye	B	50
Dasvidani	C	5
Phoonk	C	5

2009		
Ajab Prem ki gajab Kahani	A	50
Blue	A	50
CC2C	A	40
Billu	A	30
Slumdog Millionare	E	45

Source: PwC analysis

The gloomy economic turnaround led to business model doing a volte-face. Since the broadcasters were unable to secure budgets for bulk deals as in the past, the new model emerged, where rights were split among multiple broadcasters. Such that, on an overall basis, the revenues of film producers were secured and the broadcasters continued to obtain and broadcast new film content which was key to their business.

Apart from broadcasting on television, new revenue streams were evaluated. Broadcasting of new movies was done in association with DTH service providers. A number of films such as Slumdog Millionaire, Aa Dekhen Zara, Main Aur Mrs.Khanna and Ajab Prem Ki Ghazab Kahani were released on DTH in 2009 within a couple of weeks of their domestic theatrical release.

Mobile: With the arrival of 3G, there would be a burgeoning of content supplied over mobile. Telecom operators are waiting to utilise the bigger bandwidth to provide host of services to their users in form of mobile VAS. Bharti Airtel recently launched Airtel Talkies, which provides subscribers access to movie content such as film soundtrack, key dialogues, storyline and so on before movie release. Airtel Talkies offers both upcoming new releases and all-time classic movies in five languages - Hindi, Tamil, Telugu, Kannada and Malayalam. This would also act as a promoting mechanism for the movies.

Hollywood in India

The US / International film industry in India had an estimated size of Rs 300 crores ($66 million) in 2009 and is expected to increase steadily. This industry revenue consists of the box office collections of US / International films released in India in 2009.

US / International films are making a mark with the Indian masses and are no longer confined to audiences in metro and large cities. Dubbed versions of US / International films are appealing to the Indian masses staying in small towns and villages.

- For Spider-Man 3, Sony had released 558 prints across the country. Of these, 261 prints were in Hindi, 162 in English, 156 in Tamil and Telugu, three special IMAX prints and six in Bhojpuri. It was a first for a Hollywood movie. A three-month long marketing campaign covered nine metros and nearly 70 small towns. The Bhojpuri version of the movie ran to packed houses at halls in Bihar's interiors.
- Hollywood blockbuster Avatar, has grossed over Rs 100 crores in India, making it the biggest ever film for Fox in India after breaking Titanic's record collections of Rs. 55 crores. Avatar heralds the trend for viewers to pay higher prices for a 3D movie experience.

A recent trend has been the release of children films by US / International studios in India in the summer season and their stupendous success at the box office. Bollywood produces lesser number of such children films where Hollywood has taken lead in India. Last year, the two stars of Hollywood for Indian summer were Harry Potter and Night at the Museum.

- Night at the Museum, a 20th Century Fox release, grossed Rs 2.3 crores in India over its opening weekend and about Rs 4 crores overall.
- Harry Potter, an all time children's favourite, grossed about Rs. 20 crores. Warner Bros released Harry Potter & the Half Blood Prince with 350 prints and 450 screens in India.

To tap the high potential in India, international film studios have ventured into the country.

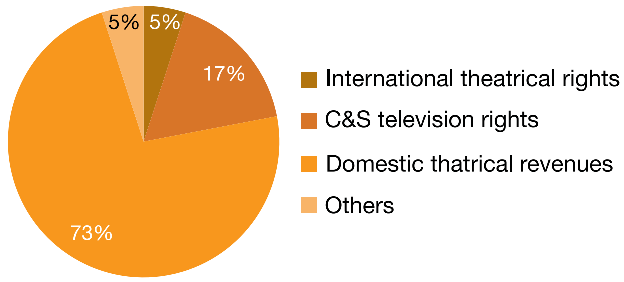
- Warner Bros released its film made in association with Ramesh and Rohan Sippy: Chandni Chowk to China in January 2009. It ventured in India as distributors with the film Saas, Bahu Aur Sensex. Warner Bros also signed a three-movie deal with People Tree Films and a one film tie-up with Tandav Films. The production house has also brought in internationally acclaimed Indian filmmaker Shekhar Kapur to direct a $200 million Hollywood fantasy-epic Larklight.
- Fox STAR Studios tied up with Vipul Shah for a multiple-film exclusive deal.

Some international players have also forayed into film exhibition with Mexican global multiplex operator Cinepolis announcing plans to invest Rs 1,700 crores in India for its film exhibition business over the next seven years. It has already established an Indian subsidiary that is in talks with mall developers for opening 500 movie screens by 2016. In the first phase of expansion, the company plans to invest Rs 370 crores for opening 110 screens across eight locations. In July 2009, the exhibition chain tied up with Advance India Projects Limited (AIPL), to set up its property in their mall project in Amritsar.

Regional Films in India

Hindi films rule mainstream cinema in India and typically make up a significant portion of total domestic box-office collections. However, over the last few years, regional language films have shot in popularity with releases in a greater number of theatres both within and outside the Indian territory.

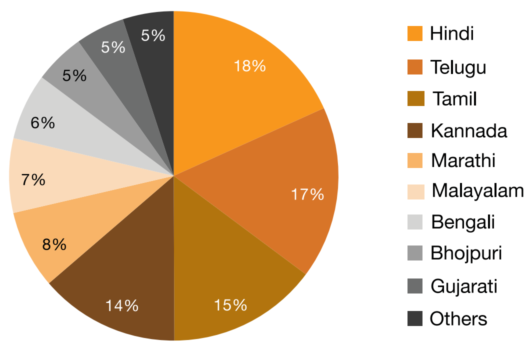
Chart 4.6 Market Size of South Indian Film Industry



Source: PwC Analysis and Industry Estimates

Within regional languages, the South-Indian segment is a pivotal market in terms of number of film releases within the four Southern states comprising Andhra Pradesh, Tamil Nadu, Karnataka and Kerala together accounting for a majority of the total number of film releases in India. Other regional language markets in India include films made in Bengali, Bhojpuri, Marathi, Punjabi and others. The total domestic box-office collections from regional language films in India are estimated to be about Rs. 15 billion.

Chart 4.7: Language-wise share of number of films released



Source: Film and Television Producer's Guild of India

As South India market forms the major part of the regional cinema revenue and due to the fact that single screens dominate the South Indian market, the regional market for films were not affected by the multiplex strike.

Regional market also leads over Hindi films for digitisation across the industry. It is estimated that around a third of the films produced in regional language are in digital format. This also helps in combating piracy. Technologically also, South Indian films are leading over Bollywood with the use of digital intermediates, VFX and computer imagery.

Key trends in Filmed Entertainment Industry

Dubbing in regional languages

A number of Hollywood and Hindi films have realised the potential of regional cinema and there have been increased instances of international Bollywood films being dubbed in other languages.

For instance, It's a Wonderful Afterlife, Gurinder Chadha's latest English film is dubbed in Punjabi and Hindi.

- Toy Story 3: Hindi dubbing
- Shrek Forever After: Hindi dubbing
- Avatar: English, Hindi, Tamil, and Telugu
- Ninja Assasin: Hindi, Tamil, and Telugu, English

A number of English movies are now dubbed in local languages as they yield better returns than the English version of the same.

Table 4.9 Typical Cost of Dubbing

Production Time	1-2 months
Voice Artist Cost	Rs. 20-50 k
Total Cost	Rs. 500-1500 k

Source: PwC Analysis

Digitisation of Indian cinema

Many single screen cinemas are going digital in line with multiplex screens to enhance users' experience. There are currently approximately 3,000 digital cinema screens in India which have been put up by companies such as UFO Moviez and Real Image.

There are several advantages of digital cinema screens, most prominent of which includes savings on print costs and reducing piracy.

Table 4.10: Advantages of Digital Cinema

Benefits	Producer	Distributor	Exhibitor	Audience	Nation
Savings in Print Cost	Nominal one time investment for Digital Prints. Possibility of releasing old films also	No investment for Digital Prints	No investment for Digital Prints	No increase in ticket costs	Savings of foreign exchange in importing film stock
Wide Release of Film	Early release in all centres protects film from piracy and adverse publicity	No investment for Digital Prints allows distributor to give as wide a release as possible with no extra costs	Digital distribution reaches even C and D centers on day of release	Audience in C and D centres will get access to new releases on day of release	Increase in cinema collections means increased entertainment tax revenues
Durability of Media	As opposed to optical prints which deteriorate in quality, digital prints will have virtually unlimited shelf life	No expenses on reprints in case of a hit film and no loss in case of a flop	No hassles such as bad quality prints, delivery dates and so on	Good and uniform viewing experience	Good quality prints shall result in increased collection
Curb on Piracy	Digital content protection software restricts piracy	No expenses on reprints in case of a hit film and no loss in case of a flop	Maximses a film's theatrical potential in the initial period thus increasing revenues	Access to good quality theatre viewing in the early part of a film's life	Curb on piracy will increase cinema collection
Promoters Niche Cinema	Producers are able to experiment with newer genres of cinema	No risk situation since investment in prints and copyright is minimal	Provides access to newer variety of cinema	Provides access to newer variety of cinema	Encourages film production and enhances revenue potential

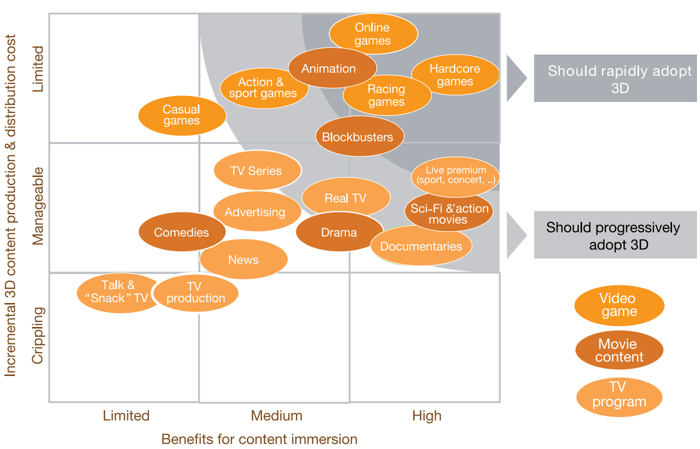
Promotes Regional Specific Films	Golden opportunity to invest in regional films	Generates newer revenue streams	Provides access to newer variety of cinema	Provides access to newer variety of cinema	Encourages film production and enhances revenue potential
Lower Break Even Point	A wide release ensures early recovery of money	Early recovery of investments in copyright print and publicity	Decreased expenses on account of running cost of theatres	Encourages producers to make good and meaningful cinema	Production of more films will increase cinema collections

Source: UFO Moviez

3D Screens on rise

With the success of Avatar, 3D cinema in India has received further impetus. The number of 3D screens in larger and smaller towns has leapt and the trend is expected to flow ahead. Adlabs has also announced the launch of its BIG Digital 3D at the Adlabs Cinema in New Mumbai. It had also pioneered the use of 6D in the first screen of its type in the Adlabs Cinema in Agra in partnership with Israel-based Cinema Park Network.

Chart 4.8 3D Cost Benefit Analysis



Source: PwC – Eyes wide Open Report, 2010

Deal Watch

The film exhibition segment witnessed the first signs of consolidation in Feb 2010 with Inox Leisure buying out 43.3 per cent equity interest in Fame India from its promoters for approximately $14 million. However, this deal had several complexities, with ADAG - owned Reliance Media Works making a counter offer for Fame.

The exhibition business witnessed a private equity transaction in Jan 2010 with IFCI acquiring a minority equity interest in Satyam Cineplex, a movie theatre chain based in North India. With economies of scale being a prime value driver in the film exhibition space, this segment is expected to witness further consolidation.

On cross border deals, Network18 acquired 33.20 % to consolidate its stake to a majority of 69.2% in an AIM-Listed Indian Film Company. The Indian Film Company Limited is a closed-end investment fund. Its objective is to generate returns on investment in a diverse portfolio of Indian films; films primarily targeted at the Indian audience across different genres, languages and budgets. The company is focused on building a film library of intellectual property rights (IPR) in various formats, including satellite, home video and mobile technology.

In another cross border deal in in May 2010, Reliance Big Entertainment Limited acquired an undisclosed majority shareholding in the Los Angeles and London-based international film sales company IM Global, which was founded by Stuart Ford in 2007. The two companies had formed a sales alliance in February 2010 after which IM Global began distributing Reliance's Hindi film output internationally. The successful sales alliance has now led to Reliance acquiring an undisclosed majority stake in the company for an undisclosed amount.

In another cross border development Aug 2009, Reliance MediaWorks, formerly known as Adlabs, acquired iLabs UK, which is based in the Soho district of London. iLabs, which runs film-processing facilities, was acquired for an undisclosed amount.

On the domestic deals front, in Apr 2009, financial services firm Religare Enterprises has acquired an additional 24% stake in its private equity joint venture firm Vistaar Religare Capital Advisors Ltd. The stake has been acquired from Vistaar Entertainment Ventures and post the deal, Vistaar Religare will become a subsidiary of Religare Enterprises. The JV firm manages Vistaar Religare Film Fund, which has a corpus of Rs 200 crore.

In an another domestic transaction in Oct 2009, 40% stake of PSTL's (Pyramid Saimira Theatre Limited) production company was sold to Kolkata-based RDB Group for undisclosed amount. Pyramid Saimira Group announced a strategic partnership with RDB Group for the group's Production Company Venture, Pyramid Saimira Production International Limited (PSPIL). With this strategic alliance and with combined expertise, PSPIL plans to produce 28 films and 1785 hours of TV content for the fiscal year 2010 - 2011.

Key Challenges for the Filmed Entertainment Industry

Entertainment Tax exemptions

The entertainment tax exemption provided by the State Governments has served as an incentive for multiplex expansion and as a result, most multiplex properties have been functioning under subsidies on entertainment tax. With the expiry of these subsidies, we can expect a drop in realisations over the next five years, creating fluctuations in the profit and loss account structure of such exhibitors.

Increasing Talent Cost

Though the talent costs took a dip in 2009, they have been rising ever since the market has ameliorated. In the Indian market, there are limited stars and hence limited talent to market. Since talent cost is a major part of overall production cost, it would also result in increase in movie cost.

Piracy

The Indian film industry is significantly impacted by online piracy. A study undertaken by Motion Picture Distributors Association (MPDAI) has put India among the top ten countries in the world, where online piracy is at its peak. Hollywood (English Films), Bollywood (Hindi Films), Tollywood (Telugu Films) and Kollywood (Tamil Films) are the chief victims of this crime. Research has shown that online piracy of film and television content in India is mainly through file sharing networks. For example, Vishal Bharadwaj's Kaminey was downloaded a record number of times (estimated at 350,000 times) in India and abroad. The situation is equally bad for regional language films with 88% of Telugu and 80% of Tamil films being downloaded from the internet.

With digitsation of cinema's piracy is being countered by the producers. Piracy using digital camcorder can be tracked to its original cinema using digital imprint hidden within the print and the same is unique for each theatre. The Government is also taking action against piracy with audio and video piracy being put under Maharashtra Prevention of Dangerous Activities (MPDA) Act in Maharashtra. Tamil Nadu had previously taken similar action.

Content

Apart from multiplex strike, the industry was also affected by lack of good content. "3-idiots" saved the industry from abject losses, but otherwise there were not many good movies to bank upon. In times to come, if multiplexes are going to charge as high as Rs. 400 – 700 per ticket, movie viewers would also demand better and original content from the industry.

Global Outlook

We project filmed entertainment spending in North America, EMEA (Europe, Middle East, Africa), Asia Pacific, and Latin America will rise at a 4.8% compound annual rate, reaching $107.5 billion in 2014 from $85.1 billion in 2009. Asia Pacific will be the fastest-growing region, increasing by 7.2% compounded annually to $29.3 billion in 2014 compared with $20.7 billion in 2009. North America will jump by 3.7% compounded annually to $45.3 billion in 2014 from $37.8 billion in 2009. Spending in EMEA will increase from $24.3 billion in 2009 to $29.8 billion in 2014, growing at a 4.2% CAGR. Filmed entertainment in Latin America will total $3.1 billion in 2014, up from $2.4 billion in 2009, a 5.2% gain compounded annually.

Box office spending will be enhanced by growth in 3-D screens and 3-D releases that are proving to be very popular. Growth in Blu-ray will begin to offset declines in DVDs and assist the sell-through market. Growing penetration by high-definition television (HDTV) sets will fuel demand for high-definition (HD) videos, impacting physical sell-through. Growth in kiosks and low-cost rentals will motivate rental spending in every region except EMEA. Rental increase will ultimately moderate, as competition from video-on-demand and from online distribution increases. The convenience of online rental services will encourage spending. Faster

Table 4.11 Global Filmed Entertainment Market (US$ Millions)

Component	2005	2006	2007	2008	2009 P	2010	2011	2012	2013	2014	2010 14 CAGR
Box Office	23,888	25,390	26,410	27,377	30,656	32,097	34,226	36,432	39,062	41,665	6.3
% Change	-4.2	6.3	4.0	3.7	12.0	4.7	6.6	6.4	7.2	6.7	
Home Video											
Physical Sell-Through %	36,843	36,685	36,530	34,583	32,559	32,065	32,803	34,109	35,928	37,892	37,892
Change	-1.8	-0.4	-0.4	-5.3	-5.9	-1.5	2.3	4.0	5.3	5.5	3.1
In-Store Rentals	17,774	17,855	18,013	17,547	17,939	18,425	18,799	19,154	19,502	19,849	
% Change	-4.6	0.5	0.9	-2.6	2.2	2.7	2.0	1.9	1.8	1.8	2.0
Online Rental Subscriptions	1,210	1,510	24.8	2,822	3,550	4,205	4,788	5,277	5,686	6,014	
% Change	46.1	24.8	45.4	28.5	25.8	18.5	13.9	10.2	7.8	5.8	11.8
Digital Downloads	2	30	113	290	433	593	809	1,199	1,651	2,111	37.3
% Change		1400.0	343.3	118.0	49.3	37.0	36.4	48.2	37.7	27.9	
Home Video Total	55,829	56,080	56,872	55,242	54,481	55,288	57,199	59,739	62,767	65,866	3.9
% Change	-2.0	0.4	1.4	-2.9	-1.4	1.5	3.5	4.4	5.1	4.9	
Filmed Entertainment Total	79,717	81,470	83,282	82,619	85,137	87,385	91,425	96,171	101,829	107,531	
% Change	2.7	2.2	2.2	-0.8	3.0	2.6	4.6	5.2	5.9	5.6	4.8

Source: PwC Entertainment &Media Global Outlook 2010 - 2014

broadband speeds, rising broadband penetration and devices that facilitate TV viewing will propel a small digital download market. We expect moderate growth in digital downloads during the next two years and then a pick up in growth in 2012, reflecting movement in the market—beginning with early adopters and through to mainstream use—which will significantly expand the market. While countries are at different stages in their development, on average, we expect the transition from early adopters to mainstream to begin in 2012. Piracy will continue to hold down spending—particularly in Asia Pacific and Latin America in addition to a number of countries in EMEA. Key factors affecting the market in any given year are the quality of releases and their appeal to consumers, a development we cannot predict.

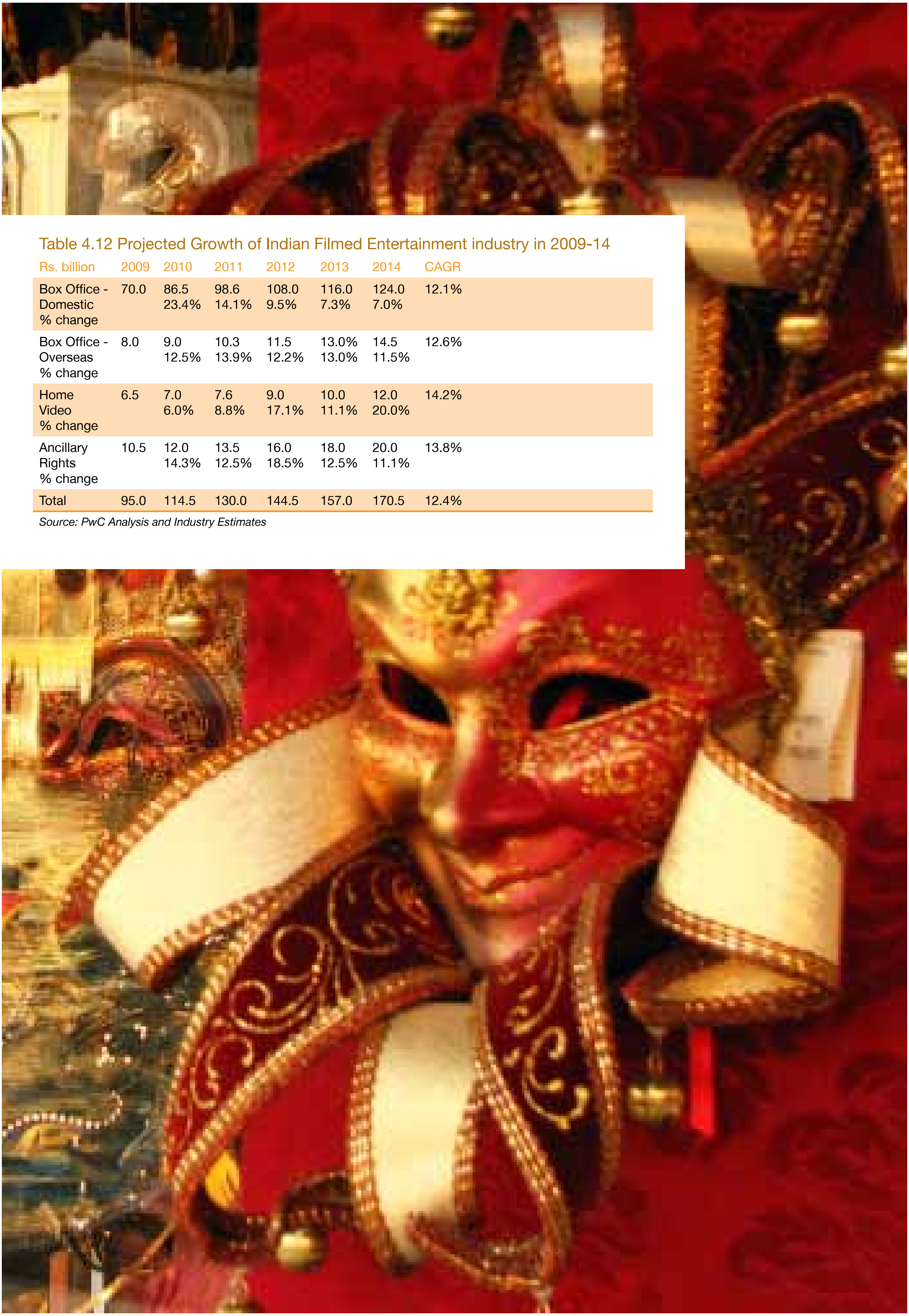
Indian Outlook

- Indian filmed entertainment industry is projected to grow from Rs. 95 billion in 2009 to Rs. 170.5 billion in 2014 showing a CAGR of 12.4% for the next five years.
- Domestic box office is estimated to be back on the upward trend and grow from the current size of Rs. 70 billion in 2009 to Rs. 124 billion in 2014. This growth would be supported by the spread out in multiplex sector and increased dominance of digitisation which would help curb piracy.
- Rising demand for Indian movies abroad will drive the overseas theatrical revenues and they are expected to grow from Rs. 8 billion in 2009 to Rs. 14.5 billion in 2014.
- Increasing initiatives by the Government to curb piracy, decreasing dependence on rental market and growing digitisation will drive the home video market and it is expected grow from Rs. 6.5 billion in 2009 to Rs. 12 billion in 2014.
- With increasing mobile penetration, arrival of 3G and increased demand for new movie content by broadcasters, ancillary revenues are also expected to grow from Rs. 10.5 billion in 2009 to Rs. 20 billion in 2014.

Table 4.12 Projected Growth of Indian Filmed Entertainment industry in 2009-14

Rs. billion	2009	2010	2011	2012	2013	2014	CAGR
Box Office - Domestic	70.0	86.5	98.6	108.0	116.0	124.0	12.1%
% change		23.4%	14.1%	9.5%	7.3%	7.0%	
Box Office - Overseas	8.0	9.0	10.3	11.5	13.0%	14.5	12.6%
% change		12.5%	13.9%	12.2%	13.0%	11.5%	
Home Video	6.5	7.0	7.6	9.0	10.0	12.0	14.2%
% change		6.0%	8.8%	17.1%	11.1%	20.0%	
Ancillary Rights	10.5	12.0	13.5	16.0	18.0	20.0	13.8%
% change		14.3%	12.5%	18.5%	12.5%	11.1%	
Total	95.0	114.5	130.0	144.5	157.0	170.5	12.4%

Source: PwC Analysis and Industry Estimates



At a glance

Market size		
2009	2014	CAGR
Rs. 9 billion USD 0.19 billion	Rs.16 billion USD 0.33 billion	12.2%

Market Definition

Indian radio market includes advertisers spending on radio stations.

Outlook in brief

- Indian Radio industry faced a tough time in 2009 owing to slowdown in advertising. Lack of reliable measurement tools further dampened the radio industry revenues.
- Resolution of music royalty issue, along with issues on multiple frequencies and extending license period remains critical for the industry in 2010.
- Increasing mobile penetration is helping increase radio listenership as mobile is becoming one of the primary medium of radio access.
- Phase III licensing is expected to take place during 2010 and this would give a boost to the radio industry.
- Depending on the Phase III success, the radio advertising industry may grow at a higher than the projected rate of 12%.
- Phase III is also likely to help radio increase its penetration and help regional growth of radio stations.

Radio advertising

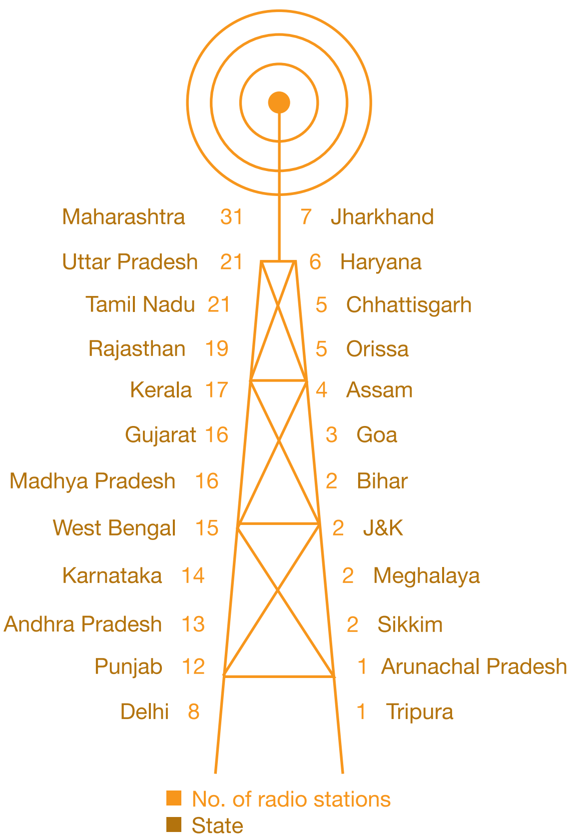
Indian Radio Advertising Industry

The year 2009 echoed a kind of landmark achievement for the radio industry, as it was the first full year of operations for all the radio stations in India. By year end, there were 248 radio stations operational in India. Further buoyancy is expected in this industry as 700 additional radio stations are estimated to come up after the FM Radio phase-III auctions are concluded. This is expected towards the end of 2010.

However, the first half of 2009 limped lethargically as industries across the world slashed their marketing budgets and tightened their screws due to the global recession. The radio industry too was emaciated by the weak economy. Most advertisers focused on spending on platforms which provided high and measurable returns on investment. In 2009, due to recessionary pressure, advertisement rates were slashed by 20-25% by most radio stations.

The following graph gives the split of the number of channels in each state.

Chart 5.1 State-wise spread of radio stations



Source: Industry Research and Ministry of Information & Broadcasting

The charts below give the details of the number of existing channels in each city as well as the classification of each city.

Chart 5.2 Existing Radio Stations with their classification

S.No	Cities	No: of stations	Classification
1	Agartala	1	D
2	Agra	3	B
3	Ahmedabad	5	A
4	Ahmednagar	2	C
5	Ajmer	3	C
6	Akola	1	C
7	Aligarh	1	C
8	Allahabad	3	B
9	Amritsar	4	B
10	Asansol	2	B
11	Aurangabad	2	C
12	Bangalore	7	A
13	Bareily	2	C
14	Bhopal	4	B
15	Bhubaneshwar/ cuttak	3	C
16	Bikaner	1	C
17	Bilaspur	1	C
18	Chandigarh	2	C
19	Chennai	8	A+
20	Cochin	3	B
21	Coimbatore	4	B
22	Delhi	8	A+
23	Dhule	1	C
24	Gangtok	2	D
25	Gorakhpur	1	C
26	Gulberga	1	C
27	Guwahati	4	C
28	Gwalior	4	C
29	Hissar	4	D
30	Hyderabad	4	A
31	Indore	4	B
32	Itanagar	1	D
33	Jabalpur	4	B
34	Jaipur	5	A
35	Jalandhar	4	C
36	Jalgoan	2	C
37	Jammu	1	C

S.No	Cities	No: of stations	Classification
38	Jamshed pur	3	B
39	Jhansi	1	C
40	Jodhpur	4	C
41	Kannur	4	C
42	Kanpur	3	A
43	Karnal	2	D
44	Kolhapur	2	C
45	Kolkata	9	A+
46	Kota	3	C
47	Kozikode	2	C
48	Lucknow	3	A
49	Madurai	3	B
50	Mangalore	3	C
51	Mumbai	7	A+
52	Muzaffarpur	1	C
53	Mysore	2	C
54	Nagpur	4	A
55	Nanded	1	C
56	Nasik	2	C
57	Panaji	3	D
58	Patiala	4	C
59	Patna	1	B
60	Pondicherry	3	C
61	Pune	4	A
62	Rachi	4	C
63	Raipur	4	C
64	Rajahmundry	1	C
65	Rajkot	3	A
66	Rourkela	2	C
67	Sangli	1	C
68	Shilong	2	D
69	Sholapur	2	C
70	Siliguri	4	C
71	Sri-nagar	1	C
72	Surat	4	A
73	Thiruvanantha	4	C
74	Thrissur	4	C
75	Tiruchi	2	C
76	Tirunelveli	2	C
77	Tirupati	2	C
78	Tuticorin	2	C
79	Udaipur	3	C
80	Vadodara	4	B
81	Varanasi	4	B
82	Vijaywada	2	B
83	Vishakapatnam	4	B
84	Warangal	1	C
Grand total		248	

Source: Ministry of Information & Broadcasting

TRAI estimates that the size of the radio industry in India was Rs. 9.0 billion in 2009 as compared to Rs.8.3 billion in 2008 showing a relatively smaller growth of 8% over the preceding year as compared to growth in the previous periods. It is estimated that the share of radio continued to hover at around 4.2% of the total advertisement pie.

Table 5.1 Growth of Indian Radio Industry in 2005-09

Rs. billion	2005	2006	2007	2008	2009	CAGR
Radio Advertising	3.2	5.0	6.9	8.3	9.0	29.1%
% change		*56.3%*	*38.0%*	*20.3%*	*8.4%*	
Radio share in Ad pie	2.5%	3.1%	3.6%	3.8%	4.2%	

Source: PwC Analysis and Industry Estimates

Growth in Radio Listeners

Interestingly, 2009 witnessed a significant growth in listeners over the entire day and especially during early morning (5am-7am) and late evening (9pm-12pm) periods. One of the prime reasons attributable to this high growth is that listeners are tuning into radio via their mobile phones which have in-built FM receivers.

Chart 5.3 Average Audiences – Radio

March 2008

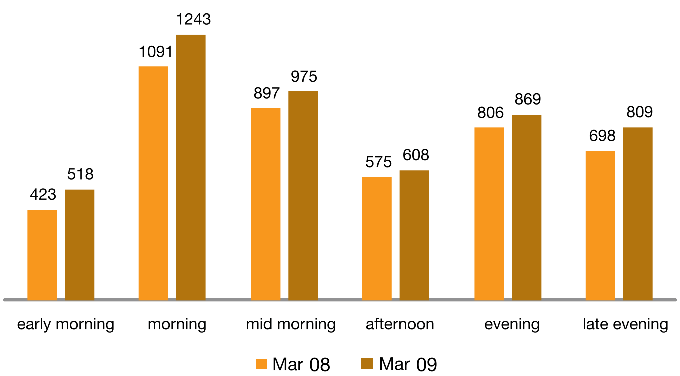
Early morning	Morning	Mid morning	Afternoon
423	1091	897	575
806	698		
Evening	Late evening		

March 2008

March 2009

Early morning	Morning	Mid morning	Afternoon
518	1243	975	608
869	809		
Evening	Late evening		

March 2009



Source: RAM

Advertising data from Adex indicates that TV channel promotions topped the advertisers chart in 2009 followed by cellular phone service. TV channels have begun preferring radio for promotions due to the soaring numbers in radio listeners who tune in while traveling back home.

Chart 5.2 Top Advertiser categories on Radio

Rank	Advertiser
1	TV channel promotions
2	Cellular phone service
3	Independent Retailers
4	Social Advertisements
5	Properties/Real Estates
6	Cars/Jeeps
7	Publications/Books
8	Insurance- Life
9	Jewellery
10	Educational Institutions

Source: RAM/Adex Jan-Mar 2009

In 2009, the top advertiser on Radio was HLL (in the retail & consumer category) followed by the cellular companies. The TV channel promotions (which was the leading category in 2008 on top last year) was far less since the TV industry itself was going through an abysmal phase.

Table 5.3 Top Advertiser Spends by Category on Radio

Advertiser	Spend	Category
Hindustan Lever Ltd	55.4	Retail and Consumer
Vodafone Essar Ltd	45.6	Cellular Phone Service
Tata Teleservices	35.9	Cellular Phone Service
Sony Network	34.5	TV Channel Promotions
Pantaloons Retail India Ltd	31.1	Independent Retailers
Star Tv Network	29.4	TV Channel Promotions
Life Insurance Corp Of India	27.8	Financial Services
Lufthansa	27.4	Airlines
Ministry Of Health & Fly Welfare	26.5	Government
Bharti Airtel Ltd	24.5	Cellular Phone Service

Source: Adex: 2009

Key Strategic Initiatives by Radio Players in 2009

Alliances between radio operators to boost advertising revenues

Big FM, which has 45 radio stations across India, entered into an alliance with Radio Dhamaal, which is a radio station operated by B.A.G entertainment having nine stations. They have also inked another tie up with Rangila FM, radio station operated by Raneka Fincom having a single station in Chhattisgarh. Both these tie-ups have been initiated with the aim to provide advertisers with deeper in-roads. With these alliances, Big FM now has a footprint in 55 locations, up from its earlier 45 locations and this stands as a good example of mutually symbiotic alliance. Through these alliances, stations have begun cross-selling and offering advertiser's larger packages to reach bigger audiences than they otherwise could, thus providing more sustainability to revenues. Alliances are also a relatively risk-free opportunity for stations to explore new markets.

Other examples of this type of alliance are Radio Misty, which operates in the Eastern cities of Siliguri and Gangtok and has a sales alliance with Radio One, which broadcasts in seven cities. Radio Mirchi has alliances with Radio Chaska in Gwalior, Radio Gupshup in Guwahati and Radio Mantra's eight stations.

Some broadcasters are also looking outside India for expansion opportunities. The sector's first out-bound investment took place in 2008 when Bennett Coleman & Company Ltd. (BCCL) acquired Virgin Radio Holdings from UK-based SMG Plc for $106 million, re-branding it as Absolute Radio.

ADAG's BIG FM has ventured offshore to make an alliance with Singapore's state-owned Media Corp. Radio to launch Big Bollywood 96.3 FM, broadcasting Bollywood music.

Yet another instance is Radio Mirchi's tie-up with Radio Mantra of the Dainik Jagran Group. This arrangement has resulted in incremental revenues to both the brands/ networks. In this model, Radio Mirchi has been able to add value to Radio Mantra through better access to national clients and agencies.

Radio-Mobile initiatives

Radio listenership is steadily increasing on mobiles, which is propelling radio operators to look into this medium to further enhance their listenership base.

- Radio Mirchi entered into a tie-up with Bharti Airtel to permeate its reach further with the launch of Mirchi mobile. Airtel customers can thus avail 12 different Radio Mirchi stations on their mobile by subscribing to the service. Such customers earlier were able to listen to radio stations operating only in their city. The pricing of such services has also been kept attractively low, for example, as per Airtel's scheme; subscribers can avail 100 minutes of radio listening for Rs.10 per week.

- Big FM collaborated with OnMobile to launch radio on mobile platform. Leading private FM service provider 92.7 Big FM and one of the leading players in the value added services (VAS) space, OnMobile, have joined hands to come up with Big Mobile Radio. The new service aims to offer mobile subscribers access to 17 multi-lingual radio channels across India and in international markets such as Malaysia, Singapore, UAE, Bangladesh, Sri Lanka and Indonesia.

With the launch of these services on the mobile platform, the reach of Big FM expands from 45 cities to over 4500 cities and towns including rural areas and the services will be offered in an ad-free format.

Radio-Online initiatives

Radio City's online venture Planetradiocity.com has launched their internet radio station called 'Fun Ka Antenna.'

The internet radio plays music across genres of film, non-film, Sufi, ghazals, lounge and international music, current as well as retro hits. It is targeted at a younger audience with a zealous taste for a wide variety of music. There are also independent shows that focus on world, pop and retro; electronic 'n dance; and lounge music.

'Fun Ka Antenna' has been designed specifically for Indian audiences across the globe with an elaborate range of music and programming that includes theme based music sets, RJ hosted shows, dedication based shows and radio series.

- Many FM stations are encouraging their RJs to reach out to listeners using social networks like Facebook, Twitter and Orkut building up a fan base for themselves, and for the FM station. This helps the listeners to engage with their favorite RJs even after the airtime on the radio. Moreover, the FM stations themselves have their fan page where the listeners can connect with the station. My FM is one such station which has taken these initiatives and has elicited an extremely favorable response.

Re-branding to gain reach

Branding plays a vital role in establishing a strong channel and program association amongst listeners. Some private FM stations have incurred large costs on building merely 'Top of Mind Recall' for all listeners, irrespective of their preference or affinity to the station. But as the market matures and niche channels develop with defined target groups and unique value propositions, branding exercises are expected to strengthen.

Sun Network's radio venture, SFM (Suryan FM) has announced its intention to re-brand Red FM, which is expected to help SFM gain mileage in cosmopolitan markets of Mumbai, Kolkata and Delhi.

Hello FM 106.4, the radio venture promoted by Malar Publication, has undergone a name change and is now called Radio Hello FM 106.4. The Tamil Nadu based radio station, which till now was more inclined towards the Tamil language is now proposing to focus on colloquial languages.

Last year, Fever FM changed its language of communication to Kannada in Bangalore in an attempt to sound different from the scores of other radio stations in Bangalore. This was accompanied by an increased use of the regional language by its radio jockeys while interacting with listeners.

Content improvisations…aimed to increased interactivity with listeners

Due to the high music royalty costs and to give listeners a refreshing experience, radio stations have planned various new initiatives such as talk shows, games and quizzes.

Radio One's (Mid-Day group) 'Music Ka Shahenshah', is one such show. It is the search for India's most passionate music lover. This show is based on a quiz format to test the listeners on questions about songs, music, singers, composers and so on.

Radio City is set to launch the third season of 'Musical-e-Azam', a live music festival on radio which showcases eminent Indian singers along with candid conversations with the singers, call-ins from their celebrity friends and listeners, star memorabilia and opportunity for the lucky fan to meet & greet their favourite star.

Deal watch

In the radio segment in August 2009, Warburg Pincus invested in Synergy media for a 3.2% stake for amount of 0.3 Million USD. Synergy Media Entertainment, the FM radio broadcasting company of Dainik Bhaskar group, got the FIPB (Foreign Investment Promotion Board) approval to get Warburg Pincus (through investment arm Cliffrose) as an investment partner. Synergy Media is diluting 3.2 per cent stake to Warburg Pincus for Rs 15.2 million, valuing the radio business at Rs 475 million.

In another development in August 2009, South Asia Multimedia Technologies Ltd (SAMTL) that had picked up 6.98 per cent stake in South Asia FM Ltd (SAFL), (a subsidiary of broadcaster Sun TV Network Ltd) in the year 2008 increased its stake in the equity of SAFL from 6.98% to 20%. The present shareholding of Sun TV Network Limited in SAFL is 59.15%. Sun TV Network had earlier entered into a strategic alliance through its subsidiary SAFL with Red FM to further its FM radio broadcasting business in the North, West and East Indian markets.

Relaxation of FDI limits, permission to own multiple frequencies in a city and the permission to air news and current affairs will be some of the factors that will influence the growth of this segment. Relaxation of regulatory norms is likely to facilitate consolidation amongst domestic players. This could also stimulate interest from large international private equity players and global radio majors.

Table 5.4 Select Private Equity Deals in Radio

Company	Amount (US$ million)	Stage	Investors	Investment Type	Stake (%)	Date
Synergy Media	0.3	Late	Warburg Pincus	Foreign	3.2	Aug-2009

Source: PwC Analysis

Table 5.5 Select Domestic Deals in Radio

Acquirer	Target	Acquisition Price US $ Million	Deal Type	% Stake	Date
South Asia Multimedia Technologies Ltd	South Asia FM Ltd	N.A.	Increasing stake to 20%	13.02%	Aug -2009

Source: PwC Analysis

Key challenges for the Radio industry

Phase-III licensing, challenges and issues

Ministry of Information and Broadcasting (MIB) is looking to roll-out the phase-III licenses for radio industry by end of 2010. Phase-III will witness an addition of 200+ towns for private FM. It is estimated that 780 new stations would be added to the existing 248 stations across India. Phase-III is said to be focused on tier-II and tier-III cities and will further enhance the spread of radio in India.

- UP & Uttaranchal account for 123 proposed stations.
- Andhra Pradesh is proposed to host 94 stations.
- Maharashtra is proposed to have 87 new stations.

However, this proposal has been in the pipeline for over a year. Some of the other issues that radio operators have include:

1. Allowing multiple channels in a city by an operator.
2. Offering news and current affairs.
3. Tradability of licenses.
4. Complete networking between stations in different cities.

While some of these have been given the nod in principle by Government (see table below), other issues like music royalty are still under discussion. Many in the industry believe that unless the music royalty issue is resolved, phase-III actions cannot be embarked upon.

Community radio

According to the Ministry of Information and Broadcasting (MIB), 47 community radio stations were operational in India by November 2009, including 45 campus-based stations and two community radio stations run by NGOs. Some of the community radio stations that were granted approval in 2009 include a number of stations run by civil society groups such as Sangham Radio (Pastapur, Medak District, Andhra Pradesh), Radio Bundelkhand (Orchha, Madhya Pradesh), Mann Deshi Tarang (Satara, Maharashtra), Namma Dhwani (Budikote, Karnataka), Radio Mattoli (Wayanad, Kerala), Kalanjiam Samuga Vanoli (Nagapattinam, Tamil Nadu) and Barefoot (Tilonia, Rajasthan).

By 4 December 2009, the MIB had issued ‘Grant of Permission Agreements’ (GOPA) for additional 62 community radio stations. Most of the GOPAs were issued to educational institutions. Among the campus-based community radio stations that commenced in 2009 SARANG 107.8 is the only one in Karnataka, though there are few more which have received SACFA (Standing Committee Clearance for Frequency Allocation).

Table 5.6 Issues and Challenges faced by Radio Operators

Issue	Representation of radio operators	TRAI recommendation	Government's initial response
Multiple Frequencies	Want to have access to multiple frequencies.	Ownership of multiple frequencies should be allowed subject to a minimum of three private broadcasters in a district. The cap on number of frequencies - any one broadcaster can own at district level 50% of all available frequencies in the district.	This would be allowed as long as there is a presence of three different channels in a city and no player has more than 40% of the total frequencies in that city.
News & Current Affairs:	Allow broadcast of news and current affairs.	The private broadcasters to be permitted news and current affairs but limited the sourcing of news to a few authorized bodies – like AIR, DD, certain wire services and authorized TV channels.	This is acceptable as long as the news originates from AIR or is an audio version of the news on DD. The Association of Radio Operators for India (AROI) will continue to work with the Government on the subject to resolve this anomaly vis-à-vis a powerful medium like television news broadcast.
Networking	Total networking between stations in different cities.	Full-scale networking should be permitted. This would improve viability of radio operators in smaller towns as it will reduce operating costs and investments in capital expenditure.	This would be allowed. However, at least 20% of the content of any station has to be local.
District Level Licenses		All licenses in the future would be given on a district level basis. All existing city level broadcasters would be incentivized to spread their operations across the district.	For technical and logistic reasons, the Government claims that it is not in position to accept the recommendation.
Ceiling of 15% on the overall channels allocated to a radio station		This cap should be removed.	It is important to maintain this cap to ensure that smaller players' interests are protected.
Foreign Direct Investment		FDI in general entertainment radio stations to be permitted up to 49% and in radio stations undertaking news broadcast to 26%.	This has been accepted.
Tradability of Licenses		Change of ownership to be permitted after 3 years of operations in lieu of the present norm of 5 years.	This has been accepted.

Source: ENIL Annual Report, TRAI

Music Royalty Issue:

Background: Private FM industry in India is still at an infant stage and is making losses of hundreds of crores since its inception. Private FM industry was given a lease of life in July 2005 by the Ministry of I&B through a policy called Phase-II policy. Ministry of I&B auctioned 338 frequencies in 91 cities. Out of these about 250 frequencies have been taken up by private operators.

Issue: Radio operators are required to pay a 'per-needle-hour' rate to PPL and IPRS, the royalty collection agency of the music industry. This rate of Rs. 661 per needle hour is a fixed rate irrespective of the category of the city and listenership of the radio station. For radio stations in smaller cities which have lower listenership, this fixed rate is detrimental to the survival of their business.

View of radio operators:

- Radio promotes music, helps music companies and artists.
- Radio broadcasters already operate under a high cost structure.
- Even the amortisation of the OTEF (One Time Entry Fee) over the period of the license places tremendous pressure on the profitability of the radio companies. In the case of many broadcasters, the amortisation of OTEF is estimated to be anywhere between 25% and 100% of revenues.
- Since radio channels are local by nature, the number of people employed to build a national network is very high. Hence, in addition to the amortisation of OTEF, one of the critical cost components is the high wage bill.

In this context, further increase in music royalties will impact the radio industry even more adversely. Radio operators hence desire a revenue-sharing model with the music industry for royalty on the lines of their arrangement on license fee with the Government. AROI has proposed revenue share rate in the range of 0.25% to 5% for different radio stations based on their advertising revenue potential.

View of music companies:

- The representation of PPL and IPRS, the royalty collection agency of the music industry, is that when the new media — satellite radio, internet radio, mobile radio, ring tones — pay about 30% of revenues as royalty, there is no justification for charging low single-digit percentage royalty from commercial radio stations. Thus, PPL now wants to increase rates further and is proposing Rs 2400 per "needle" hour or 20% of radio revenues whichever is higher. Currently, the rate fixed by the Copyright Board is Rs. 661 per needle hour.

Developments in 2009

An amendment that proposes that till the time compulsory licenses are granted to FM radio players by the Copyright Board for airing content, the broadcasters would be required to pay the negotiated amount. However, the general belief is that since compulsory license takes eight to ten years, it would lead to music companies demanding exorbitant royalty fees.

Where are we now?

The music industry, the satellite and web radio stations, and the Copyright Royalty Board came to an agreement that allows a rising rate of royalty over a period of time, so that radio stations pay less in their struggling years and the music industry gets higher share of revenues as the radio stations mature.

What are the next steps?

In May 2010, the Supreme Court gave the Copyright Board a period of four months to resolve royalty issue which is expected to speed up the process of music royalty hearings by the Copyright Board.

Source: PwC analysis

Under the new (2006) community radio policy, any not-for-profit 'legal entity' - except individuals, political parties and their affiliates, criminal and banned organisations - can apply for a community radio license. Central funding is not available for such stations, and there are stringent restrictions on fundraising from other sources. Only organisations that are registered for a minimum of three years and have a proven track record of local community service can apply. License conditions implicitly favour well-funded stations as against inexpensive low power operations, several of which (e.g. Mana Radio in Andhra Pradesh and Raghav FM in Bihar) ran successfully on shoe-string budgets before the imposition of any community radio policy.

The license entitles them to operate a 100 watt (ERP) radio station, with a coverage area of approximately 12 kilometres radius. A maximum antenna height of 30 meters is allowed. Community radio stations are expected to produce at least 50% of their programmes locally, as far as possible in the local language or dialect. The stress is on developmental programming, though there is no explicit ban on entertainment. News programmes are banned on community radio in India, as also on commercial FM radio. However, the Government recently clarified that certain categories of news are permitted on radio, including sports news & commentaries, information on traffic & weather conditions, coverage of cultural events & festivals, information on academic events, public announcements pertaining to utilities like electricity & water supply, disaster warnings and health alerts.

Five minutes of advertising per hour is allowed on community radio. Sponsored programmes are not allowed except when the programme is sponsored by the Government at the Centre or State.

Activists and community workers from all over India have banded together, under the aegis of the 'Community Radio Forum', in order to coordinate training and support for community radio stations, as also to continue to petition for a more proactive community radio policy.

The Community Radio Forum, India, was registered as a 'Society' and 'Trust' on 26 February 2008. However, community radio continues to face a number of challenges in India. Since community radio is a non-profit venture there are not many takers for the social cause alone. Moreover, there are costs involved in maintaining and running the station and the advertising options are also limited as the target audience for such stations is also limited. Thus, community radio stations are being taken up by educational institutes and NGOs to drive the social cause.

Global Outlook

The radio market will increase by 3.5% compounded annually to $51.4 billion in 2014 from $43.2 billion in 2009. The North American radio market, which is the largest, with revenues of $18.2 billion in 2009, is expected to grow 4.6% on a compound annual basis to $22.7 billion in 2014. The radio market in EMEA will increase at a 1.4% CAGR from $16.4 billion in 2009 to $17.6 billion in 2014. We expect the Asia Pacific radio market to increase 4.4% on a compound annual basis from $7.4 billion in 2009 to $9.3 billion in 2014. The radio market in Latin America is projected to show the largest growth, shooting up by 9.3% on a compound annual basis from $1.2 billion in 2009 to $1.8 billion in 2014.

Table 5.7 Global Radio Market (US$ Millions)

Component	2005	2006	2007	2008	2009 P	2010	2011	2012	2013	2014	2010 - 14 CAGR
Radio Advertising	32,924	33,878	34,123	32,582	27,925	28,440	29,419	30,660	32,131	33,740	3.9
% Change	3.0	2.9	0.7	-4.5	-14.3	1.8	3.4	4.2	4.8	5.0	
Public Radio License Fees	11,804	12,022	12,329	12,490	12,726	12,903	13,028	13,169	13,459	13,527	1.2
% Change	3.6	1.8	2.6	1.3	1.9	1.4	1.0	1.1	2.2	0.5	
Satellite Radio Subscriptions	759	1,360	1,913	2,415	32,559	32,065	32,803	32,803	32,803	32,803	32,803
% Change	157.3	79.2	40.7	-5.3	-5.9	-1.5	2.3	2.3	2.3	2.3	2.3
In-Store Rentals	17,774	17,855	18,013	17,547	2,539	2,869	3,190	3,486	3,781	4,093	10.0
% Change	-4.6	0.5	0.9	26.2	5.1	13.0	11.2	9.3	8.5	8.3	
Total Radio	45,487	47,260	48,365	47,487	43,190	44,212	45,637	47,315	49,371	51,360	
% Change	4.2	3.9	2.3	-1.8	-9.0	2.4	3.2	3.7	4.3	4.0	3.5

Source: PwC Entertainment & Media Global Outlook 2010-2014

Weak economic conditions worldwide lowered spending significantly in 2009. We expect a modest rebound in 2010 and faster growth beginning in 2011 as economy resurrects. Many broadcasters are exploring ways to expand their exposure through digital radio and internet radio, but those alternatives are not expected to be major sources of revenue for some years. Satellite radio will boost spending in North America. Modest increase in public radio license fees will help maintain the radio markets in EMEA and Asia Pacific.

Indian Outlook

- With phase-III licensing largely expected in this year, it is believed that the radio industry will receive a massive boost. It would improve the penetration of private FM in the country as more FM stations would be present in smaller towns.
- It is expected that in 2010 and 2011, the radio industry would show a very healthy growth rate due to phase-III licensing. PwC estimates that by 2014 the radio industry would be Rs. 16 billion industry from its current levels of Rs. 9 billion, growing at a CAGR of 12.2%.

Table 5.8 Projected growth of Indian Radio Advertising Industry in 2009-14

Rs. billion	2009	2010F	2011F	2012F	2013F	2014F	CAGR
Radio Advertising	9.0	10.0	11.0	12.3	14.0	16.0	12.2%
% change		11.1%	10.0%	11.8%	13.8%	14.3%	

Source: PwC Analysis and Industry Estimates

- The share of the radio industry in the total advertisement pie is estimated to steady at around 4.3% till 2014.
- This growth in the industry would however depend on some key factors:
  - Phase-III Success – Phase-III is important for the growth of radio industry as it would improve the permeation of radio in smaller towns. This in-turn would depend on resolution of some key issues like music royalty, multiple frequencies, FDI limit, networking and so on.
  - Radio license fees rationalisation - The shift from a fixed license fee to the revenue share model in phase-II policy of private FM broadcasting is expected to result in more viable radio business models.
  - Availability of listenership data- As radio expands, the availability of organised research providing segmented data on audience listenership is likely to precipitate advertisers' comfort with the medium.

- The radio industry may also see consolidation within the industry post launch of phase-III due to various reasons, most important being the high cost of operations.

The Indian radio industry has a strong growth potential, if mechanisms and policies are put in place to provide it with appropriate support. India, with its diverse regional influences, is in a prime position to take advantage of the growth potential of this segment. With privatisation gathering momentum, the increased number of private radio channels across the country is likely to transform commercial radio from an urban phenomenon to a national one, as has been the case with satellite television.

At a glance

Market size

2009	2014	CAGR
Rs. 7.5 billion USD 0.16 billion	Rs.26.5 billion USD 0.55 billion	28.6%

Physical Sales

2009	2014	CAGR
Rs. 4 billion USD 0.08 billion	Rs. 2.5 billion USD 0.05 billion	-9.0%

Mobile VAS Music

2009	2014	CAGR
Rs. 2.1 billion USD 0.04 billion	Rs. 19 billion USD 0.40 billion	55.3%

Market Definition

The music market consists of consumer spending on:

- Physical Sales: Includes revenues from cassettes and CDs through distributors and retailers as well as modern retail and online sales / home delivery.
- Mobile VAS: Sale of music in the form of various products like ring tones, songs, CRBT(Caller Ring Back Tone) and others that happens through the mobile.
- Radio Broadcast: Radio stations including governments' All India Radio, private FM stations and satellite radio play music from various sources; they pay royalty for the content played, a part of which comes to the music company.
- Online Download: Sale of music through internet download. This does not include pirated or illegal download.
- Public Performance: Royalty paid by event organizers for the use of music in their events and at public places.

Outlook in brief

- Increasing mobile penetration, advent of 2G/3G and portable music players have given a boost to digital music; however physical sales continue to drop with piracy being the main culprit.
- There is a move by some players to utilize this opportunity of digital music and provide free music online which is also DRM free. One such case in point is Nokia's Ovi store
- Mobile VAS which contributed 28% to the music revenues in 2009 is expected to contribute 70% by 2014. Currently it is dominated by CRBT downloads. With 3G auctions being completed recently, it is estimated that other forms of music usage such as live streaming will show increased demand.
- Music royalty issue is a major bone of contention between radio and music players. Successful resolution of this issue and rollout of Phase III in radio will help music companies increase their revenues from radio players.

Music

Table 6.1 Growth of Indian Music industry in 2007-09

Rs. billion	2007	2008	2009	CAGR
Physical Sales % change	6.5	5.3 -18.5%	4.0 -24.5%	-21.6%
Mobile VAS % change	0.7	1.0 42.9%	2.1 110.0%	73.2%
Radio % change	0.2	0.4 100.0%	1.0 150.0%	123.6%
Internet % change	0.0	0.0 20.0%	0.1 377.8%	139.4%
Public Performance % change	0.2	0.2 47.8%	0.4 52.8%	50.3%
Total	7.6	7.0	7.5	-0.2%

Source: PwC Analysis and Industry Estimates

Table 6.2 Segmentation of Music industry

Segment	What does it cover?
Physical Sales	Sale of cassettes and CDs is the traditional source of income for music companies; CD & cassette sales happen through traditional retail involving distributors and retailers as well as modern retail and online sales / home delivery.
Mobile VAS	Sale of music in the form of various products like ring tones, songs, CRBT and others happens through the mobile phones providing an additional source of income to the music companies.
Radio Broadcast	Radio stations including AIR, private FM stations and satellite radio play music from various sources; they pay royalty for the content played, a part of which comes to the music company.
Online Download	Sale of music through internet download is prone to piracy and the revenue coming to the organized sector is trivial in India as of now.
Public Performance	Event organizers are supposed to pay royalty for the use of music in their events as well as at public places. This provides an additional small revenue stream to music companies.

Source: PwC Analysis

Nokia launched its online music stores or popularly called “Ovi stores” in a bid to help the cause of legal downloads in India in 2009. Users can download music online from these stores by registering on the website. The store carries an extensive selection of Indian music across different genres. The music space lets users search, organize and listen to music collections; either from the PC, mobile devices, CDs or Nokia music store that also recommends tracks.

The Nokia music software supports Indian regional languages including Punjabi, Gujarati, Marathi, Sanskrit, Konkani, Kannada, Telugu, Tamil and Hindi. There are currently 22 music stores and about 9 million tracks. Nokia’s Ovi music store is inching towards making Nokia’s music catalog DRM-free, globally.

Source: Industry Research

Indian Music Industry

India’s music industry is scaling on a high note thanks to the increasing usage of mobile phones, advent of 2G/3G and the burgeoning of portable music players. Though the physical sales of music CDs and audio cassettes lulled a gloomy tune, the levitation in “soft” format of music and revenues from other medium has covered up for the same. This also led to increased piracy and, consequently, lower average revenue coming to the content owners.

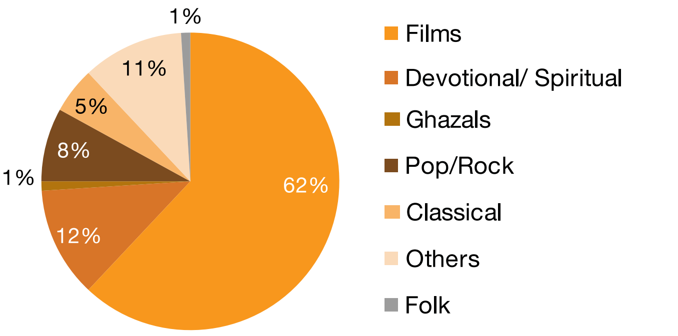
Indian music industry is currently estimated to be Rs. 7.5 billion in 2009 as compared to Rs. 7 billion in 2008 registering a CAGR of 8.5%.

Music industry earns its revenue from five major streams namely, physical sales, mobile VAS, radio broadcast, online download and public performance royalty.

Physical Sales

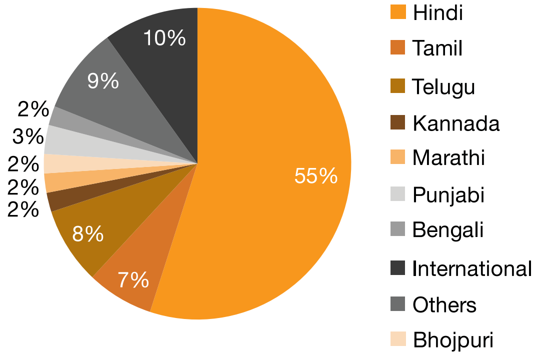
- Physical sales include the traditional sources of income for music companies. It accounted for 53% in 2009 of the total revenues to music companies down from 76% in 2008. This format has been humming the tune of consistent downfall in the past and the trend is expected to continue. Other digital revenue channels like online and mobile VAS, coupled with the failure to control piracy, have been a bane for this medium.
- Physical sales, currently, are mainly in form of CDs, with films standing out as the most important genre for this category. It depends on films for volumes. Retailing is more prominent in tier-II and tier-III cities resulting in lower margins on sales. Most of the demand in this category is from the new film music.
- Devotional genre is the next important segment of the music market with 12% business share in physical sales. The demand for physical format continues in the devotional genre given the nature of it being played by housewives / mornings at home / religious places.
- Hindi is the largest language segment for music followed by Tamil and Telugu and this fragmentation is expected to remain the same in the future.
- Industry experts opine that organized retail will kindle an upbeat tempo in the physical sales especially in the CD segment. Audio cassette sales are expected to continue the trend downwards. Physical sales, in general, would keep dwindling with the rise of digital and new age media sales. Some of the key players in this segment are trying to counter piracy by reducing the price points to more affordable level.

Chart 6.1 Genre-wise Distribution of Overall Physical Sales



Source: PwC Analysis and Industry Estimates

Chart 6.2 Language-wise distribution of overall physical sales

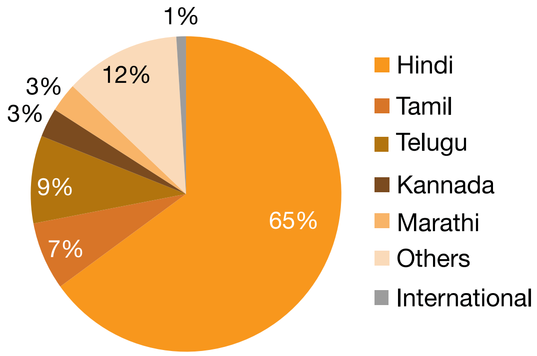


Source: PwC Analysis and Industry Estimates

Mobile VAS

- India's mobile subscriber base stood at nearly 525 million in 2009 up from 234 million connections at the end of 2007 registering more than double digit growth. This increase has elicited positive indications in the music industry, too, as mobile VAS contributes 28% to the music industry, up from 14% in 2008 and by 2014 it is projected to contribute over 70% to the music industry.
- The above fact was asserted this year as Airtel declared itself as the largest music company in India with the revenues of Music Bharti (its mobile entertainment division) surpassing the revenues of Saregama the largest music company in India. Major portion of mobile VAS revenues are expected to come from CRBT (caller ringback tones) and the remaining would come from mobile radio and music on demand. It is estimated that over 200 million music downloads were completed through Airtel connections in 2009. However, it is anticipated that only 30-35% of the revenues goes back to the music industry while the rest is kept by the telecom operator.
- Hindi is the most popular language for Mobile VAS followed by Tamil and Telugu.
- Completion of 3G auction will incite more enthusiasm in the mobile VAS industry in the next few years. There will be more bandwidth available for downloading music to our handset. Moreover, with the proportion of music streaming and with the increased speed, mobile FM users will also multiply.

Chart 6.3 Music Language Distributions



Source: PwC Analysis and Industry Estimates

Given the low ARPU for telecom operators in India and low call charges, it will also be in interest of telecom operators to propagate VAS.

Radio Broadcast

- Radio Broadcast is an important source of revenue, at present. With the inevitable roll-out of phase-III radio licencing in India, radio industry is set to intonate a wave of optimism and growth. It is estimated that 700 new stations would be added to the existing 248 stations across India. Phase-III is said to be focused on tier-II and tier-III cities and further boost the penetration of radio in India. Radio broadcast, currently, contributes 13% to the overall music industry revenue and it is expected to sustain at the same level.

- Radio stations, as of now, pay Rs. 660 'per needle hour' to PPL or IPRS which further passes down the revenue to publishers, lyricists and composers after deducting the administrative costs which is around 15%.
- PPL is also looking to increase the 'per needle rate' or the music royalty rate from the current levels to Rs. 2,400 levels. This has stirred a stand-off point between the broadcasters and the music companies as the broadcasters are contemplating to reduce the rates. Due to this issue, the phase-III rollout is, currently, held up. On resolution of this issue, radio broadcast revenues to music companies will get a thrust either due to increase in volume or 'per needle rate'.

Online Download

- Online download of music is a gargantuan market. However, this segment suffers from rampant piracy and illegal downloads. It is estimated that globally only 5-10% of the online downloads are legal. However, given the initiatives taken by the Government, it is expected that this segment will show a higher growth. It will be further fuelled by the advent of 3G and is expected to shoot up at a healthy CAGR of 52% in the next 5 years.

Public performance

- Public performance is emerging as India's promising industry and was estimated to be Rs. 130 billion in 2008. Corporatization of event management companies is catching speed, as more and more companies form collaborations with advertising firms. The trend is also tilting towards moving to professional firms for getting events organized in order to minimize hassles and regulatory issues. Certain portion of the revenues goes as royalty to the music industry for each performance and is based on the bargaining power of the event management company. Presently, it's a small contributor to the industry and is expected to grow at a CAGR of 23% till 2014.

Key trends in Music Industry

Mobile Music

- UTV has launched a music video channel on mobile. UTV@play provides the users an exclusive music channel offering vast catalogue of music videos on mobile. It comprises of Bollywood and international music. UTV has tied up with major mobile operators like Idea, Vodafone, MTNL and BSNL for this venture.
- Aircel has launched 'Music Connect' to help share the songs played by the user with their friends on social networking sites. This service is available on subscription.
- Mirchi Mobile on Airtel offers users the facility to follow 12 Radio Mirchi stations on Airtel from anywhere in India – even on mobile phones without FM receivers.
- Reliance offers "Music Box" – a service in which you can download multiple tunes bundled together in different boxes. Reliance Communications has also announced the launch of its mobile jockey portal. This service will provide the callers a platform to share their views and emotions with a jock live, on-air. While, initially, Reliance will launch this service in Hindi, Telugu and Malayalam, other language jockeys will also be introduced soon. This 24-hour live service will allow callers to call anytime from anywhere. The mobile jockey or 'MJ' will be equipped with lots of chat subjects like Page3 (media gossips), fashion, marriage, education & food recipe, friendship, current events, personality grooming, movies & music and career & household tips.
- As a part of its agreement with onMobile, Vodafone provides its subscribers with VAS offerings like ringback tones and voice portal. Vodafone has launched Vodafone Mobie Box Office that offers users the service of listening to the dialogues or the synopsis of the movie, songs or watch teasers of upcoming movies on their Vodafone mobile phones.

Tie-up for content distribution

- Faced with widespread piracy and sinking revenues from physical format sales, music companies are resorting to collaborations for selling their content. Reliance's Big Entertainment has tied up with T-Series and Hungama Digital to share the current and future music catalogue of Big Music. These companies will distribute Big Music's content on all the formats. T-Series, through Hungama Mobile, will distribute Reliance Big Music's catalogue across platforms like radio, internet, IPTV and mobile networks. The catalogue will be available for download on Hungama's digital distribution network, consisting of all telecom carriers in India and 37 other countries.

Initiatives to promote music using social networking

- o Hungama Digital launched Hungama MyPlay, which can be used by Facebook users. The users can also share the links and online playlists with their friends. However, the same cannot be copied to any other device. Hungama, which has over 2 lakh songs in its catalogue, would set the trend for companies to target social networking sites to popularize music.

Key challenges for the Music industry

Piracy has been and remains the biggest challenge for the industry

- Lack of any enforcing mechanism, weak laws and large market for music are some of the reasons encouraging piracy. It is estimated that 64% of all music downloaded online is illegal. Now, as the 3G auction is completed, the number of music downloads is set to increase, which would further propagate piracy if right controls are not taken. DRM, as an approach to curb piracy, has received its own flak. However, there are number of active portals which provide free music. Tighter Government controls and more crackdowns on the music pirates can harmonize the industry growth.

Acquisition rights

- Music acquisition cost is another major snag for the publishers. Pre-downturn time, the cost were at astronomical levels, however, currently, they are at more realistic levels. In future, if the rates of acquisition increases, the same will be passed on down the line and user industry will take a beating.

Music royalty costs

- There is an incongruity between music publishers and user industries (particularly radio) over the royalty cost. While one feels that the rates should go up, the other feels that the rates should be decreased to help phase-III expansion. In years to come, it would be a challenge to set the right price for music which is acceptable to both parties.
- PPL is also looking to increase the 'per needle rate' or the music royalty rate from the current levels to Rs. 2,400 levels. This is a moot point between the broadcasters and the music companies as the broadcasters are looking to slash the rates. As a result, the phase-III rollout is currently held up. On resolution of this issue, radio broadcast revenues to music companies would escalate, either by increase in volume or 'per needle rate'.

Music composers feel that they do not get their share of the royalty revenues of the music they have composed. To amend this, the central Government has proposed an amendment to give independent rights to authors of literary and musical works in cinematograph films. This is being done to ensure that music composers retain their right to receive royalties and the benefits of copyright societies. It also ensures that composers receive royalty when their music is commercially exploited.

Source: Industry Research

Global Outlook

Global spending on recorded music is approaching a turning point. Spending will decrease in 2010 and then begin to rebound as increases in the digital market offset ongoing declines in physical spending. Low-single-digit gains are projected for 2011–14. Spending for the forecast period, as a whole, will increase at a 1.1% CAGR to $27.9 billion in 2014 from $26.4 billion in 2009. Despite this advance, the market in 2014 will remain 19% below its level in 2005. Asia Pacific will be the fastest-growing region during the next five years, rolling ahead at a 4.3% CAGR to $10.4 billion in 2014 from $8.4 billion in 2009. Asia Pacific will surpass EMEA (Europe, Middle East, Africa) in 2011 to become the largest region. North America will fall at a 2.4% CAGR to $7.1 billion from $8 billion. EMEA will expand at a 0.9% CAGR, rising from $9.3 billion to $9.7 billion. Latin America will decrease at a 0.3% CAGR to $632 million from $641 million in 2009.

Physical distribution will regress in each region because of competition from legitimate digital services and piracy. Declines will moderate as the physical market begins to approach a core level, because many

Table 6.3 Global Recorded Music Market (US$ Millions)

Component	2005	2006	2007	2008	2009p	2010	2011	2012	2013	2014	2010–14 CAGR
Physical Distribution	32,398	29,480	25,367	20,971	18,269	16,119	14,371	12,987	11,824	10,885	
% Change	-6.0	-9.0	-14.0	-17.3	-12.9	-11.8	-10.8	-9.6	-9.0	-7.9	-9.8
Digital Distribution	2,127	3,610	5,212	6,269	8,103	9,800	11,670	13,366	15,141	16,988	
% Change	96.9	69.7	44.4	20.3	29.3	20.9	19.1	14.5	13.3	12.2	16.0
Total	34,525	33,090	30,579	27,240	26,372	25,919	26,041	26,353	26,965	27,873	
% Change	-2.9	-4.2	-7.6	-10.9	-3.2	-1.7	0.5	1.2	2.3	3.4	1.1

Source: PwC Entertainment &Media Global Outlook 2010-2014

people—principally in the expanding, over-45-years-old demographic—still prefer music in physical formats. The digital market will be fuelled by new services. In EMEA, streaming services will become important drivers of growth. Streaming services will also contribute to development in North America, although online downloads will continue to rule as the main driver. In Asia Pacific and Latin America, new digital stores and online and mobile streaming services will expand the market.

Smartphones are steering growth in all regions as users purchase music through application stores and online digital stores while bypassing wireless carriers to access music. Broadband growth also is positively impacting the potential digital market. Distinctions between online and mobile distribution are blurring as services are becoming accessible to all digital devices. The adoption of graduated-response systems—which involve internet services provider's issuing warning to file sharers that escalate in severity, with the ultimate threat of disconnecting a person's internet access—is proving to be a significant deterrent to piracy in the countries in which such measures have been implemented. Success in combating online piracy through graduated-response programs will help stabilize the industry.

Indian Outlook

- Total music industry would grow from current Rs. 7.5 billion to Rs. 26.5 billion in 2014 witnessing a CAGR of 29%.
- Music industry is predicted to grow at a faster pace as the % sales of non-physical formats overtakes that of physical format. It is estimated that from the current share of 53%, the share of physical format would be a mere 9% in 2014 de-growing at a CAGR of 9%.
- This is also on account of good growth in the mobile VAS segment. Completion of 3G auction and growth in mobile penetration indicate that 2010 and 2011 would be extremely rewarding for the music industry.
- If there is a favorable resolution of music royalty issue between the radio and music industry, it would further give an impetus to this industry.

Table 6.4 Projected Growth of Indian Music industry in 2009-14

Rs. billon	2009	2010F	2011F	2012F	2013F	2014F	CAGR
Physical Sales	4.0	3.4	3.2	2.9	2.7	2.5	-9.0%
% change		-14.8%	-7.6%	-7.9%	-6.9%	-7.4%	
Mobile VAS	2.1	5.0	8.8	12.2	15.3	19.0	55.3%
% change		138.1%	76.0%	38.6%	25.4%	24.2%	
Radio	1.0	1.6	2.0	2.4	2.9	3.3	27.0%
% change		60.0%	25.0%	20.0%	20.8%	13.8%	
Internet	0.1	0.2	0.3	0.4	0.5	0.7	52.1%
% change		111.6%	70.3%	38.1%	24.8%	31.1%	
Public Performance	0.4	0.5	0.6	0.7	0.9	1.0	22.7%
% change		31.5%	19.1%	33.3%	15.8%	15.3%	
Total	7.5	10.7	14.8	18.7	22.3	26.5	28.6%

Source: PwC Analysis and Industry Estimates

At a glance

Market size		
2009	2014	CAGR
Rs. 6 billion USD 0.12 billion	Rs.15 billion USD 0.31 billion	20.0%

Market Definition

The Indian internet advertising market consists of revenues from displays, classifieds, paid searches, videos and other online formats. Revenues reported exclude spending on content downloaded over the internet such as music, video and others which are covered under respective sectors (for example - online music sales as a part of music chapter).

Outlook in brief

- Indian internet advertising market is one of the fastest growing segments in the E&M industry
- Internet advertising industry is faced with challenges around measurement tools which is inhibiting its growth potential
- With increasing reach of mobile and broadband penetration, complemented with the arrival of new modern technologies like 3G, the internet advertising industry is projected to grow at a faster pace

Internet Advertising

Indian Internet Advertisement industry

Galloping at a high speed, internet advertising was one of the fastest growing segments in the Indian E&M industry. Not as bogged down by the economic slump as its more expensive counterparts, this industry leaped by 20.0% from 2008 to reach Rs. 6 billion in 2009. This forward march was further propelled by an increasing internet user base and broadband expansion.

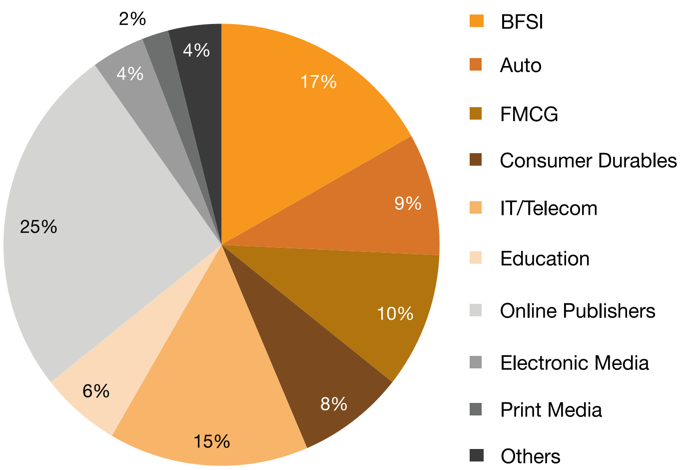
Table 7.1 Growth of Internet Advertising Industry in 2005-09

Rs. billion	2005	2006	2007	2008	2009	CAGR
Internet Advertising	1.0	1.6	2.7	5.0	6.0	56.5%
% change		*60.0%*	*68.8%*	*85.2%*	*20.0%*	

Source: PwC Analysis and Industry Estimates

During the downturn, there were a number of companies that increased their online ad-spend to test market new products. FMCG sector introduced a number of new products and many telecom players forayed into the Indian market during 2009, providing extra impetus to online video advertisements.

Chart 7.1 Sector-wise break-up of Internet Advertising



Source: Internet and Mobile Association of India

Online publishers had the highest share in the advertisement pie for internet advertisers, followed by BFSI and IT/Telecom. Advertisements for mobile phones and for loans enjoyed the highest click through rate from active internet audiences.

Table 7.2 Internet Advertisement Product Categories

Online advertisement for different product categories	Percentages
Mobile Phone/Instruments	58%
Ads for Loans by Banks/Financial	50%
Entertainment Sites	42%
Ads for Job Sites	40%
Investment options like Mutual Funds	39%
Education/Training related	37%
Computer/Laptop/Printer/Scanner	38%
Air Tickets Ads	35%
Personal Products	28%
Insurance Ads	28%
Hotels & Holiday Tours/Packages	25%
Automobile Ads	23%
Matrimonial Advertisements	20%

Source: Internet and Mobile Association of India

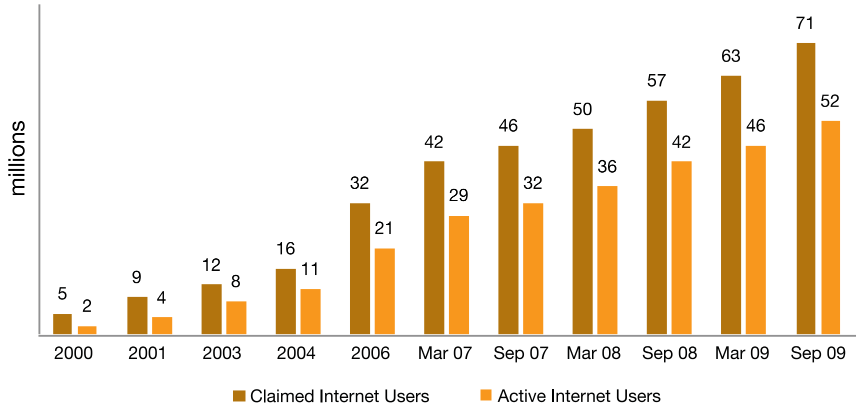
Advertisement effectiveness can be measured on three main parameters:

- CPI (cost per impression)/ CPM (cost per 1000 impressions): This is a passive mode of online advertisement where in advertisers pay for a fixed number of impressions displayed to the internet user.
- CPC (cost per click): This is a more interactive and effective method of measuring the advertisement effectiveness where advertisers pay depending on the number of times the advertisement is clicked by the user.
- CPA (cost per acquisition): Considered to be the most powerful method of all, here payment is done based on user clicking the advertisement as well as completing a step in sales process.

India – One of the Fastest Growing Internet Markets around the World

- Internet has become the window to the world. The effusive need and use of internet has culminated in deeper penetration of broadband in India. Increasingly, users are getting more dependent on internet to share and receive up-to-date information and other relevant things. The claimed internet population in India increased from 63 million in 2008 to 71 million in 2009 while active internet users jumped from 42 million in 2008 to 52 million in 2009.

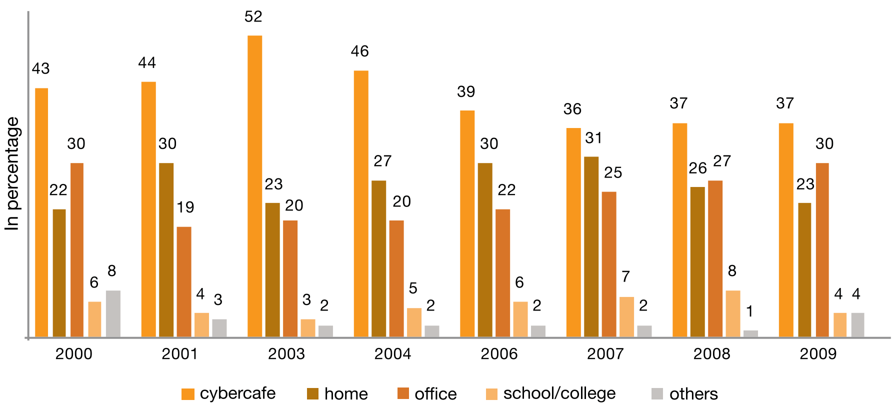
Chart 7.2 Claimed and Active Internet Users



Source: Internet and Mobile Association of India

The proportion of active internet users shot up indicating that more users are using internet on a regular basis. Presently, majority of offices provide internet facilities to their employees and this is one of the reasons behind the soaring numbers of active internet users.

Chart 7.3 Patters of Internet Usage



Source: Internet and Mobile Association of India

Social Networking Takes Off in Big Way Online

Social networking in India took off in a big way with five of the top 10 most visited websites in India being networking or blogging portals.

Table 7.3 Popular websites in India

Rank	Website	Description
1	Google.co.in	Indian version of this popular search engine. Search the whole web or only web pages from India. Interfaces offered in English, Hindi, Bengali, Telugu, Marathi and Tamil.
2	Google.com	Enables users to search the web, use net and images. Features include page rank, caching and translation of results and an option to find similar pages. The company's focus is on developing search technology.
3	Yahoo.com	Personalised content and search options. Chat rooms, free e-mail, clubs and pager.
4	Facebook.com	Social networking portal.
5	Youtube.com	Video sharing portal.
6	Blogger.com	Allows users to create and read blogs.
7	Orkut.co.in	Social networking portal.
8	Wikipedia.com	Creates wikis or pockets of information for users.
9	Rediff.com	On-line portal with free e-mail and many other services.
10	Twitter.com	Social networking and micro-blogging.

Source: alexa.com, June 2010

Several local Indian social networking sites like Bigadda.com, ibibo.com, bharatstudent.com and others undertook many initiatives to attract users. Bigadda.com successfully completed "India Bike Rally", an online reality contest and has come up with "Revital Get Fit India", another reality show. ibibo.com also launched "ibibo superstar" in association with MTV.

Existing Media Players Expanding their Online Offerings

Many existing media players have also expanded their offerings online. Jagran Prakashan launched onlymyhealth.com, a portal providing information on health and lifestyle, which offers information on medicine, yoga, therapies, parenting and so on. Times Group has launched Timescity.com to provide information on specialty and lifestyle within various cities in India.

Online "Video" Advertising Gaining Prominence

Online video advertisements are strengthening their foothold, thanks to higher recall and awareness compared to banners and other mediums of passive advertisement. An AC Nielsen research indicates that online video ad has 85% recalls as against 54% of the same ad on television. Previously, playing video ads was restricted due to lower internet speed, however with arrival of 3G and more fervent broadband usage, it is estimated that online video content will receive a boost. To monetise this market, Komli Media, Artivision and Neo@Ogilvy have partnered for online video content in India.

Number of Deals for Ad-Sales Increasing

Online players are getting into long term ad-sales contracts, allowing third parties to manage their ad sales.

- Networkplay.in inked deals with Linkedin and Makemytrip.com for ad sales alliance
- Global Cricket Ventures, owner of iplt20, clt20.com, cricket.com and others, entered into a partnership with Google India to monetise online advertising revenue for the IPL website.

Expanding Geographically

Players are also expanding geographically to acquire more properties and work across the value chain.

- Komli Media acquired Australia based PostClick, an online media sales company. Postclick is a representation site focusing on selling part of ad-network.
- Ybrant Digital, digital marketing solutions provider acquired privately owned Max Interactive, the top ad network in Australia.
- Ybrant also acquired 'dream ad', the leading ad network in Latin America.

Deal Watch

Elephant Capital Investment in Global Cricket Ventures

An interesting development in 2009 was the investment of Elephant Capital in Global Cricket Ventures (GVC). GCV, a joint venture between Canada's Live Current Media and UAE's NetlinkBlue, owns the exclusive licenses for digital and mobile rights to the Indian Premier League (IPL) uptil 2017. It also undertakes the development and running of the official IPL and Champions League websites. In order to realise the potential of the online advertising market, GCV had entered into a partnership with Google India, whereby Google India would monetise the sponsorship and advertising revenue for the IPL website and would gain the right to stream IPL matches on a dedicated IPL channel on You Tube.

Reliance Industries enters Telecommunication sector with buyout of Infotel Broadband

Reliance Industries (RIL) has bought Nahata-family owned Infotel Broadband. Infotel was the only company to get licences for all 22 circles during the BWA auctions. RIL would be getting 95% stake in the company for Rs. 4,800 crores in the form of fresh equity. Infotel bid Rs. 12,848 crores for the spectrum. This is the first move towards by RIL for entering the telecommunication sector since the Ambani brothers called off their non-compete agreement.

Table 7.4 Select Private Equity Deals in Internet Advertising

Company	Amount (US$ million)	Investors	Investment Type	Stake (%)	Date
Global Cricket Ventures	10	Elephant Capital	India-dedicated	50%	Nov 2009
Reliance Industries	1000	Infotel Broadband	Buyout	95%	June 2010

Source: PwC Analysis

In another development, Ybrant Digital, the leading provider of digital marketing solutions acquired privately owned Max Interactive, the top ad network in Australia. The details of this all-cash deal are not known. Recently, Ybrant's had acquired 'dream ad', the leading ad network in Latin America in April 2009.

Max Interactive Pty Ltd. specialises in banner-based web advertising, mobile and eMail marketing with marquee list of advertisers such as Vodafone, Telstra, HP, Nokia, Nissan, Citibank, American Express, Visa, Rabo Bank, Land Rover, Qantas, Jack Daniels, Newscorp, Adobe, Qantas, Virgin and Nestlé.

Table 7.5 Select Cross Border Deals in Internet Advertising

Acquirer	Target	Acq Price US$ Million	Deal Type	% Stake	Date
Ybrant Digital	Max Interactive Pty Ltd.	N.A.	Acquisition	Not Available	August-2009

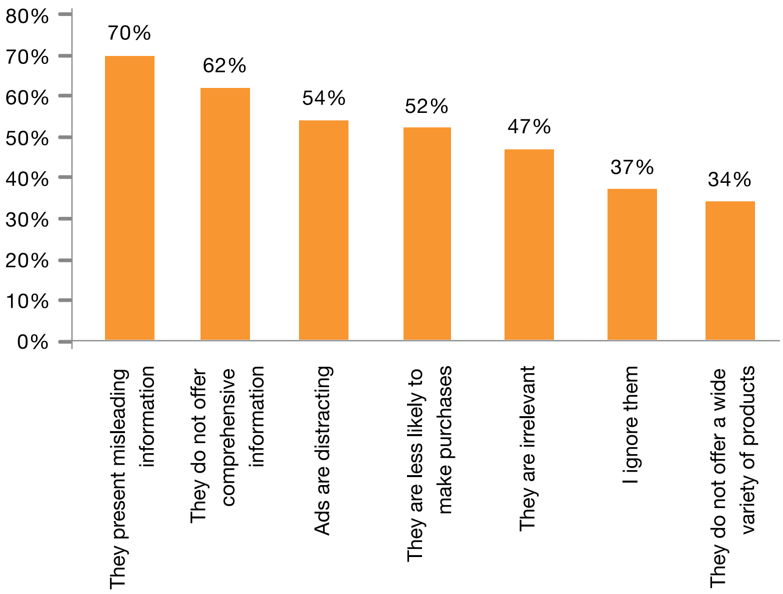
Source: PwC Analysis

Key Challenges for the Internet Advertising Industry

Lack of trust in online medium

According to a survey by the Indian internet and mobile association, 70% users feel that online information is misrepresented and inaccurate.

Chart 7.4 Problems faced by users in Online Display Advertisement



Source: IMAI

Lack of proper measurement mechanism

There is a general distrust among advertisers regarding the effectiveness and reach of online advertisement. This results in lower advertisement rates for online portals.

Global Outlook

We project spending in North America, EMEA (Europe, Middle East, Africa), Asia Pacific, and Latin America will increase from $60.6 billion in 2009 to $103.8 billion in 2014, marking a growth of 11.4% CAGR. Spending in North America will add up to $36.1 billion in 2014, up from $24.6 billion in 2009, averaging 7.9% growth compounded annually. EMEA will pass North America to become the largest region in 2014, at $36.2 billion, a 12.8% compound annual increase from $19.8 billion in 2009. Asia Pacific will average 14.3% compounded annually from $15.3 billion in 2009 to $29.8 billion in 2014. Latin America, the smallest region, at only $814 million in 2009, will expand at a 15.9% CAGR to $1.7 billion in 2014.

Broadband household growth will be the principal driver of wired internet advertising. Paid search, a format not available in other media, will continue to attract spending towards the internet. In the mobile market, wireless network upgrades, growth in mobile access subscribers and increasing penetration by internet-enabled smartphones will take forward mobile advertising.

Table 7.6 Global Internet Advertising Market (US$ Millions)

Category	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	14 CAGR
Wired Internet Advertising											
Search	10,115	15,232	20,727	25,472	28,049	30,909	34,725	39,286	44,428	49,962	12.2
% Change	64.8	50.6	36.1	22.9	10.1	10.2	12.3	13.1	13.1	12.5	
Display, Classified, Other	15,395	21,046	27,321	31,023	30,253	32,455	35,235	38,574	42,225	46,230	8.9
% Change	38.7	36.7	29.8	13.6	-2.5	7.3	8.6	9.5	9.5	9.5	
Total Wired Internet Advertising	25,510	36,278	48,048	56,495	58,302	63,368	69,960	77,860	86,653	96,192	10.5
% Change	48.0	42.2	32.4	17.6	3.2	8.7	10.4	11.3	11.3	11.0	
Mobile Advertising	248	456	801	1,573	2,256	2,807	3,681	4,675	6,011	7,651	
% Change	293.7	83.9	75.7	96.4	43.4	24.4	31.1	27.0	28.6	27.3	27.7
Total	25,758	36,734	48,849	58,068	60,558	66,175	73,641	82,535	92,664	103,843	
% Change	48.9	42.6	33.0	18.9	4.3	9.3	11.3	12.1	12.3	12.1	11.4

Source: PwC Global E&M Outlook 2010-2014

Indian Outlook

Internet advertising industry is estimated to march ahead from Rs. 6 billion in 2009 to Rs. 15 billion in 2014 showing a CAGR of 20% over the next five years.

With increasing spread of mobile and broadband complemented with arrival of modern technologies like 3G, the industry might even witness a higher growth rate than projected.

Table 7.7 Projected Growth of Internet Advertising Industry in 2009-14

Rs. billion	2009	2010F	2011F	2012F	2013F	2014F	CAGR
Internet Advertising	6.0	7.0	8.0	9.5	12.5	15.0	20.11%
% change		*16.7%*	*14.3%*	*18.8%*	*26.3%*	*25.0%*	

Source: PwC Analysis and Industry Estimates

At a glance

Market size

2009	2014	CAGR
Rs. 12.5 billion USD 0.26 billion	Rs. 21 billion USD 0.43 billion	11.0%

Market Definition

The Out-of-Home (OOH) advertising industry consists of advertiser spending on media such as:

- Billboards
- Street furniture (bus shelters, kiosks, etc.)
- Transit displays (bus sides, on-train print, taxi toppers, etc.)
- Sports arena displays and
- Captive ad networks (in such venues as elevators).

Outlook in brief

- Even though OOH segment showed a decline in 2009, the trend is likely to reverse in 2010 on the back of re-bound in advertising growth.
- Government is expected to formulate clear regulations and clean up unauthorized street furniture which will benefit OOH industry.
- OOH Industry likely to see the arrival of improved measurement tools which are likely to assist the growth of industry.
- The digital OOH advertising it is expected to excel with more players getting into interactive forms of OOH media.

Out-Of-Home Advertising

Indian Out-of-Home Advertising Industry

Like all other industries, Out-of-Home (OOH) sector too suffered a major setback due to the financial catastrophe. First half of 2009 was characterised by a sizeable weakening in advertisement rates for OOH to the tune of 20-30%, but, consequently, the ad volumes increased for the industry. This increase in ad volumes helped OOH industry to sustain itself. During the second half of 2009, the markets picked up again and there was slight increase in the ad rates as well as volumes. However, the ad rates for OOH industry are still not at the levels witnessed before the period of recession.

The OOH market in India was Rs. 12.5 billion in 2009 as compared to Rs. 15 billion in 2008 showing a drop of 17% over the previous year.

Table 8.1 Growth of Indian OOH industry in 2005-09

Rs. billion	2005	2006	2007	2008	2009	CAGR
Out of Home Advertising	9.0	10.0	12.5	15.0	12.5	8.6%
% change		11.1%	25.0%	20.0%	-16.7%	
OOH share in Ad pie	6.9%	6.2%	6.4%	6.9%	5.8%	

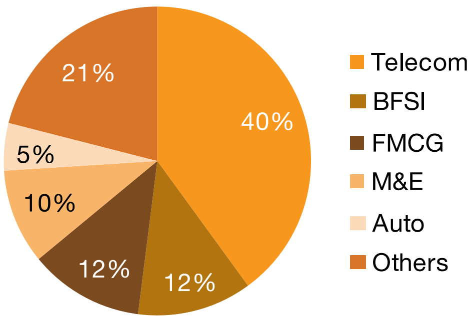
Source: PwC Analysis and Industry Estimates

Telecom remains the force behind OOH

OOH advertising plunged in 2009. While sectors like real estate and retail reduced spending, traditionally largest contributor, telecom added lesser value compared to previous years. Besides, financial services and entertainment sectors also went on a cost-cutting spree. However, telecom still remained the major contributor.

- Pan-India campaigns to announce the entry of new telecom players such as Tata DoCoMo and UniNor coupled with increased branding by existing telecom players such as Vodafone, Airtel, Loop Mobile and Aircel helped drive the OOH market in 2009. Entry of more new players such as Datacom and Etisalat and number portability in the offering will in all likelihood drive the market further in the coming years.
- Telecom will remain the driving force in the future as a number of new offerings by the telecom players need to be communicated to the consumers. These players need to talk to the consumers on a day-to-day basis. Moreover, OOH also helps these players target localised city-specific and area-specific offering.

Chart 8.1 Sector-wise advertising spends for OOH



Source: PwC Research

Key trends in OOH Industry

Innovative concepts

A number of novel avenues and concepts for OOH advertising were explored by the industry to attract the advertisers. These include screen branding, AFP concepts and sun board fabrication as branding agents. Moreover, companies also tried out more innovative ideas.

Table 8.2 Innovative concepts by OOH companies

Posterscope	*Big Bazaar*	Posterscope came up with the idea of a giant wheel jutting out of the billboard. The wheel was made to rotate showing the old products and the new products with the help of a moto. The copy of the creative read 'Naya Kharido Purana Badal Dalo'. The medium used was mobile vans in Delhi and NCR. This was used to showcase the Big Bazaar exchange offer.
Times OOH	MTS	Roadblock: Along the DND Flyover, stretching from Noida in Uttar Pradesh to Mayur Vihar in Delhi, the entire toll plaza was covered with the MTS branding in the form of boom barriers, canopies, standees and lane dividers. In all, 16 sites were branded with MTS.
Mundra OOH	Aircel	Aircel put up an inflated raft at Milan Subway in Mumbai, which sees a lot of flooding every year. The message simply said, "In case of emergency, cut rope". The raft came handy on July 13 and 14, when heavy rains lashed the city. People stranded at the subway used the raft to move around and men in Aircel branded T-shirts were available to help commuters.
Mundra OOH	Aircel	Aircel put up an IPL Scorecard at Mahim Causeway.
Posterscope	Google IPL	Posterscope created a live score board on a mobile van that gave ball-by-ball live scores. This exercise was carried out in Delhi, NCR and Mumbai.

Source: PwC Research

More localisation to improve connectivity with the customers

Advertisers have realised the importance of targeted, significant offering as compared to bombing customers with any and every kind of offer. OOH has been effective in providing not only localisation, but also relevant area-specific targeting to the customers. OOH allows the advertisers with local input window which can be tailored and updated continuously to enhance connectivity with the customers. This in turn has helped them in getting more attention from them. For example, posters in a certain locality give information of local shops, activities, key happenings in that particular area. These are specially directed at the local population in that vicinity, thus making it more personalised and attractive. On other hand, many OOH advertisements in malls give details of related offers, for instance, gym posters in women's trial rooms.

Growth of Digital Billboards

The replacement of traditional billboards with digital ones and the increased utilisation of digital networks are spurring the revenue growth of this industry. Digital signage has immense potential when it comes to improving customer experience and enhancing sales. DLF Emporio Mall has brought together TDI International India Ltd, Samsung and Scala, to provide digital signage boards at the mall's entrance. The technology has been provided by TDI. Clients can upload their advertising on these digital signages from their offices.

Improvement in Street furniture

Mumbai's municipal corporation is trying to modernise the city through the use of new street furniture, including information kiosks, benches, garbage cans and bus shelters.

For example, the bus stops in Mumbai have been remodeled. Cities like Pune, Bangalore and Delhi are also initiating tenders for street furniture. Delhi has initiated major drives in revamping street furniture owing to the incumbent Commonwealth Games to be held there in October. Delhi Tourism and Transportation Development Corporation (DTTDC), on behalf of Public Works Department (PWD) and Government of National Capital Territory of Delhi (GNCTD) has invited six agencies, including Laqshya Media, JC Decaux, Graphisads and Hindustan Publicity, to participate in the bidding process for installation and maintenance of street furniture on roads leading to the Commonwealth Games venues.

The project is aimed at the development of street furniture such as police booths, vending kiosks, public toilets, tree guards, dust bins, information panels, benches, free standing panels and prepaid auto booths across locations. The ad rights for the street furniture are being given away for a stipulated period of seven years. Some of the major street furniture providers in India include Big Street, Laqshya, and Parivartan City Infrastructure, including some foreign companies like Ströer.

Mobility of Advertisement Carriers

There is increased use of mobile signages, digital and otherwise, by the advertisers. These could include mobile LED trucks carrying the hoardings which can be stationed anywhere in the city, cabs/taxis which advertise the products across the city or even people carrying the advertisements. For example, radio cabs like Meru frequently carry advertisements. Apart from these, there are buses and elevators which can carry content that can be updated real-time. BEST buses have now introduced TV sets within many buses. Red bull had launched a campaign in which cars with a red bull can on their body zoomed around the roads.

Rationalisation of Bidding for Government Tenders

Many OOH players bid astronomical prices to acquire good properties in 2008-09. Big Street, a new entrant promoted by ADAG group, bid Rs. 79 crores for Bandra skywalk. However, on the turn of 2009, downturn had hit the market and the players could not make the desired returns. The gestation period, which is generally longer in this industry, became even more stretched. In 2009, this led to many players surrendering their properties and backing out of the already inked deals. Players carried out a rationalisation exercise to build the right portfolio of properties. They are now bidding more intelligently based on what the realistic returns would be and what advertisers would be willing to pay. No longer are the advertising rates governed by the price at which property was acquired, but the strategic location, type and target of the property.

Deal watch

In 2009, advertising major Hype Integracomm Pvt Ltd picked up a majority stake in the Pune-based Asawari Publicity to enter the OOH segment. Asawari Publicity Pvt Ltd is a two-year-old company providing outdoor media solutions to a large number of private companies.

Table 8.3 Select deals in OOH

Acquirer	Acquirer	Acquisition Price US $ Million	Acquisition Price US $ Million	% Stake	Date
Hype Integracomm Pvt Ltd	Asawari Publicity Pvt Ltd	N.A.	Majority Stake	NA	Apr-2009

Source: PwC Analysis

Key challenges for the OOH industry

Lack of any audience measurement system

The OOH industry does not have any established audience measurement system. This does not allow the media planners to compare OOH with other forms of media and thereby justify their investment in this medium. Even in good times, media planners have to justify their call for new media, and during the downturn, the call becomes even more difficult. There are attempts by the certain players to tackle this challenge, such as, Times OOH along with Neilson conducted audience efficacy for airport advertisement. Similarly, MRUC (Media Research Users Council) has recently launched Indian Outdoor Survey (IOS) in June 2009, to address this need. The survey was launched in Mumbai and further expanded to Pune. It would aid in estimating traffic and efficacy and help media planners be more informed.

Experts hope that this would usher in more transparency in the OOH media and help boost the industry. Some of the findings of the survey were as below:

- Outdoor reach is close to print reach. Outdoor reach is comparable to that of print and is much higher than other media. While outdoor's reach is 66% that of print is 67%.
- Based on gender, media reach is higher among males across media and the difference in reach is the highest in outdoor. While the percentage of men that can be reached outdoors is 77%, the same figure for women is 50%.
- Based on age, media reach is higher among younger audiences and tapers off with age. Younger generation can be targeted more through OOH as they are constantly on the move.

Lack of OOH property in smaller towns

Most of the players in the OOH industry are currently focused on metros or tier-I cities and not so much on tier-II or feeder towns. With mounting mobile penetration and smaller towns being the next in line for telecom growth, OOH media would need to build good properties in and around these towns.

Government regulation: Multiple authorities involved

OOH media, till recently, was quite unorganised with no common industry body. Thus, there was no common mechanism to communicate to the Government or put forth the challenges of the industry. Further, there are multiple layers of approvals involved for any new property, thereby delaying the process of building new property. This, in turn, saw the industry growth flinching. Now, with the formation of Indian Outdoor Advertising Association (IOAA) in 2007, the industry expects that the Government would pay more heed to their demands and are painting more positive picture of growth for this industry.

Global Outlook

The OOH market will grow by 4.5% on a compound annual basis from $24.1 billion in 2009 to $29.9 billion in 2014, making it one of the faster-growing advertising markets over the period. Asia Pacific had the largest OOH market in 2009, at $8.6 billion, a total projected to increase 5.9% compounded annually to $11.4 billion in 2014. EMEA will grow at a 3.2% CAGR during the next five years, reaching $9.5 billion in 2014, up from $8.1 billion in 2009. North America will grow 3.2% on a compound annual basis from $6.4 billion in 2009 to $7.5 billion in 2014. Latin America is expected to show the largest gain, growing by 8.8% on a compound annual basis from $1.0 billion in 2009 to $1.6 billion in 2014.

OOH advertising will gain share in North America, Latin America, and major of Asia Pacific during the next five years, benefiting from (1) increased use of digital billboards, which expand the effective OOH inventory because multiple ads can be shown on the same display and (2) improved OOH audience measurement that makes it easier for advertisers to compare OOH with other media. And, in the process, encouraging advertisers to incorporate OOH in their overall advertising campaigns and increase their spending in this medium. The expansion of captive video networks will also stimulate the growth of this sector because OOH can reach people in areas inaccessible to most other media. OOH also goes hand-in-hand with

Table 8.4 Global Out-of-Home Advertising Market (US$ Millions)

Region	2005	2006	2007	2008	2009 P	2010	2011	2012	2013	2014	2010 14 CAGR
North America	6,602	7,129	7,694	7,395	6,366	6,121	6,305	6,625	7,022	7,465	*3.2*
% Change	*8.2*	*8.0*	*7.9*	*-3.9*	*-13.9*	*3.8*	*3.0*	*5.1*	*6.0*	*6.3*	
EMEA	8,287	9,025	9,709	9,907	8,127	8,161	8,317	8,635	9,00	9,503	*3.2*
% Change	*6.9*	*8.9*	*7.6*	*2.0*	*-18.0*	*0.4*	*1.9*	*3.8*	*4.3*	*5.5*	
Asia Pacific	8,412	8,736	9,354	9,459	8,562	8,695	9,164	9,799	10,546	11,412	*5.9*
% Change	*2.2*	*3.9*	*7.1*	*1.1*	*-9.5*	*1.6*	*5.4*	*6.9*	*7.6*	*8.2*	
Latin America	750	868	929	995	1,024	1,109	1,208	1,318	1,439	1,559	*8.8*
% Change	*23.8*	*15.7*	*7.0*	*7.1*	*2.9*	*8.3*	*8.9*	*9.1*	*9.2*	*8.3*	
Total	24,051	25,758	27,686	27,756	24,079	24,086	24,994	26,377	28,012	29,939	
% Change	*6.0*	*7.1*	*7.5*	*0.3*	*-13.2*	*0.0*	*3.8*	*5.5*	*6.2*	*6.9*	*4.5*

Source: PwC Entertainment &Media Global Outlook 2010-2014

increased mobile ad spending as advertisers seek media to reach people away from home and while they are shopping.

Although these developments also apply to EMEA, growth in that region will be limited because the OOH market in a number of countries in EMEA is saturated. There is virtually no room for additional billboards in some countries and the large supply of inventory is holding down prices. Also, in several of the larger countries— particularly, France, Germany, Italy, and Spain—the shift to digital is proceeding at a gradual pace.

In Asia Pacific, as a whole, the slower rate of growth is due principally to Japan, which also has a saturated market. We project the remaining countries to increase at an 11.9% compound annual rate during the next five years. OOH is beginning to be developed in several Latin American countries as transit ads and street furniture are increasingly being used. In Latin America, a strong economy in Brazil and high inflation in Argentina and Venezuela accounted for the increase in 2009. Implementing new venues will give a further edge to the OOH advertising industry.

Indian Outlook

- OOH industry is expected to bounce back in 2010 and with some help from organised audience measurement system and with expected Government support, this industry would take brisk strides towards increasing bottomlines. PwC estimates that by 2014 OOH industry would be Rs. 21 billion industry from its current levels of Rs. 12.5 billion, growing at a CAGR of 11%.

Table 8.5 Projected Growth of Indian OOH industry in 2009 -14

Rs. billion	2009	2010F	2011F	2012F	2013F	2014F	CAGR
Out of Home Advertising	12.5	13.5	15.0	16.5	18.5	21.0	*11.0%*
% change		*8.0%*	*11.1%*	*10.0%*	*10.0%*	*13.5%*	
OOH share in Ad pie	5.8%	5.7%	5.7%	5.6%	5.6%	5.6%	

Source: PwC Analysis and Industry Estimates

- The growth in OOH industry would be further assisted by Common Wealth Games and Football World Cup in 2010 and ICC Cricket World Cup in 2011 apart from the expected escalation in telecom industry due to the recently concluded 3G auction.
- The digital OOH advertising was among the faster growing areas within the OOH in 2009 and it is expected that it would continue to retain its luster. According to Nielsen research report, 70% people recall seeing digital screens in the surveyed areas while 90% of these recall the ad being played.
- The industry is still in a nascent stage and we do not see any consolidation in near future. However, over the next five years, there could be some consolidations in the industry, as it begins to mature.

At a glance

Market size		
2009	2014	CAGR
Rs. 23.8 billion USD 0.5 billion	Rs.73.4 billion USD 1.5 billion	25.2%

Animation		
2009	2014	CAGR
Rs. 18.5 billion USD 0.38 billion	Rs. 54 billion USD 1.12 billion	23.9%

Gaming		
2009	2014	CAGR
Rs. 5.3 billion USD 0.17 billion	Rs.19.4 billion USD 0.30 billion	29.4%

Mobile Gaming		
2009	2014	CAGR
3.0 billion	13.0 billion	34.0%
USD 0.06 billion	USD 0.27 billion	

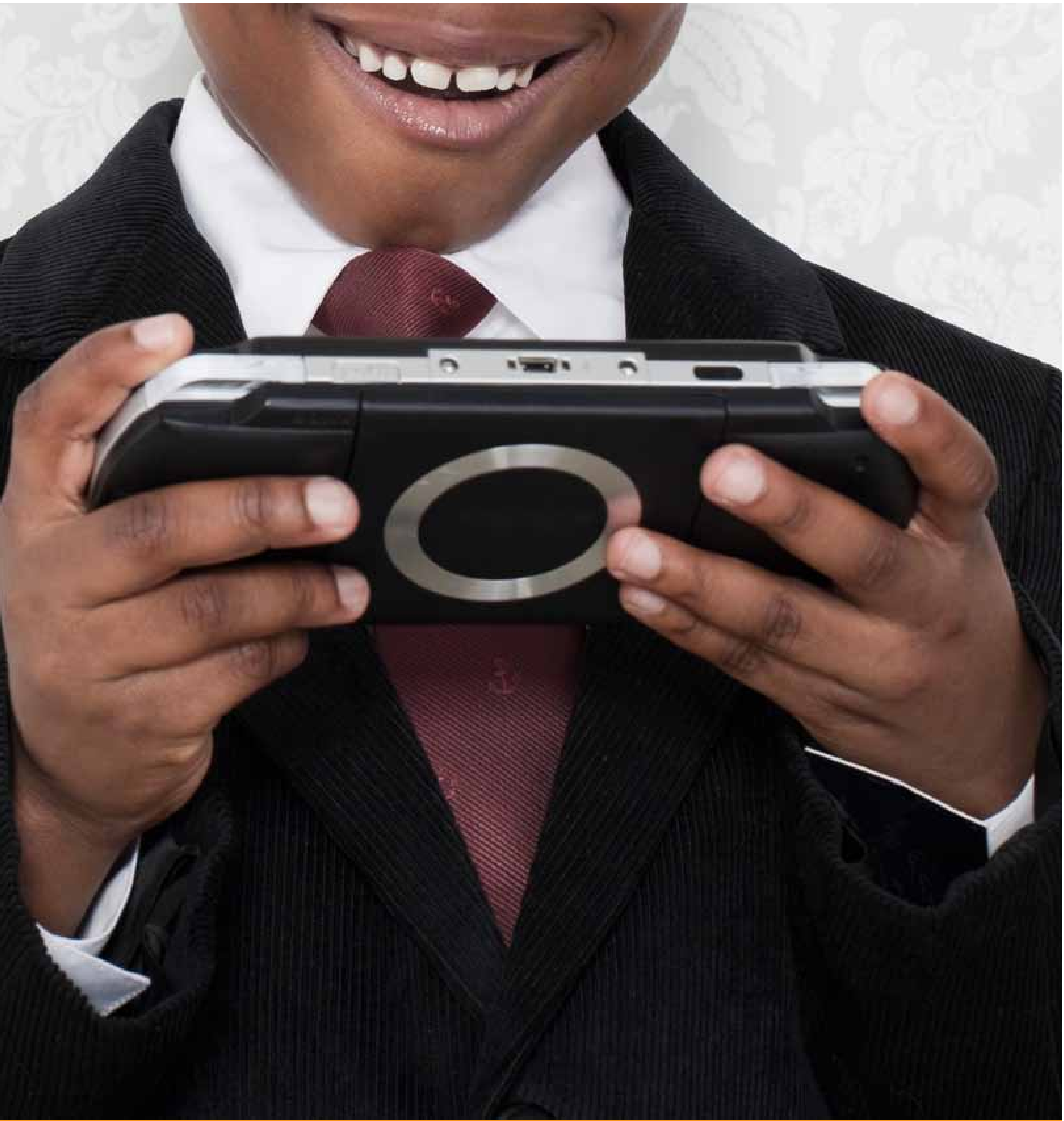
Market Definition

Overview of Indian Animation, Gaming and VFX markets discussed in this chapter:

- Animation: Animation revenues include spending on work outsourced to India, locally created animation movies and revenues earned as part of animation used in commercials.
- Gaming: Gaming revenues comprise revenues earned from mobile, console, PC and online gaming. This includes incomes generated by gaming parlours, sales of CDs and DVDs, online games and expenditure involved in developing software for games, for domestic and international companies. It excludes the purchase of consoles or peripherals used to play games.
- VFX: VFX includes revenues generated from shots created for producers for domestic and international movies.

Outlook in brief

- Indian companies are undergoing strategic alliances and partnership with the global counterparts which have fuelled the demand for the production services in India.
- Gaming industry is witnessing a fast growth because of its technical and infrastructure capabilities to provide gaming related services that meet international standards.
- India continues to leverage its low cost advantage combined with the entrepreneurial drive of its companies to position itself in the global front.



Animation, Gaming and VFX

Indian Animation, Gaming and VFX Industry

Currently estimated at Rs. 23.8 billion in 2009, the Indian animation and gaming industry marked a positive

Table 9.1 Growth of Animation and Gaming Industry in India

Rs. billion	2006	2007	2008	2009	CAGR
Animation % change	10.5	13.0 23.8%	15.6 20.0%	18.5 18.6%	20.8%
Gaming % change	2.1	2.7 28.6%	4.0 47.0%	5.3 34.4%	36.4%
Total % change	12.6	15.7 24.6%	19.6 24.6%	23.8 21.8%	23.7%

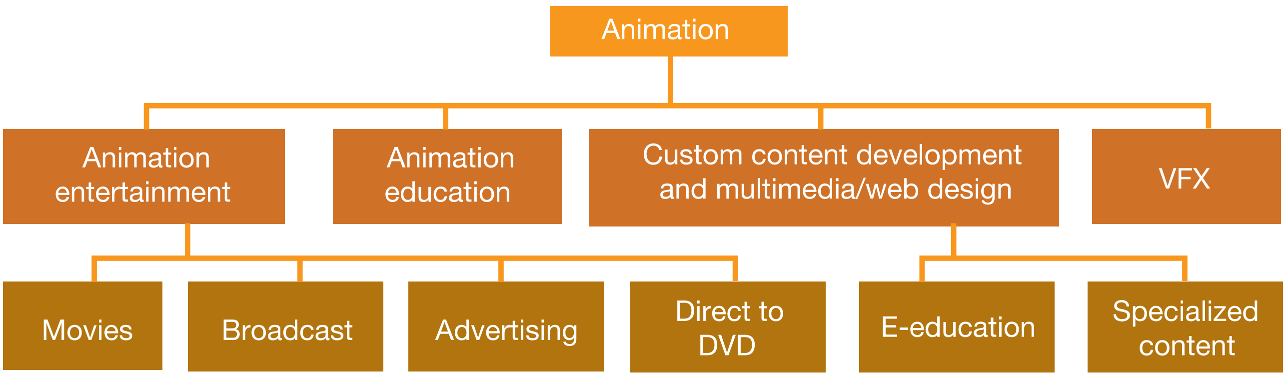
Source: PwC Analysis and Industry Estimates

Hampered by the global economic recession, the industry reported minimal growth in the first half of 2009. However, the industry picked up pace in the second half, with several new projects being ushered in India's way.

Indian Animation Industry

Traditionally, Indian animation segment has witnessed significant growth on the back of high-end work outsourced from international studios complemented with increased demand of animated content in the film and television industries. The structure of the Indian animation industry is illustrated below:

Indian Animation Industry



Strength

- English speaking population-competitive advantage.
- Leveraging rich heritage and culture to develop original content.
- Relatively affordable cost of production compared to other outsourcing countries.
- Change from service model to co-production and Intellectual property creation model.

Weakness

- Lack of trained manpower.
- High retraining costs.
- Lack of Government support to encourage original content.
- Lack of Government intervention to promote the industry.
- Not treated as mainstream career option by many professionals.
- Lack of focus on R&D.
- High remuneration vis-à-vis skills.
- Attrition is a major concern area.
- Lack of awareness of the industry unlike IT industry.

SWOT Analysis

Opportunities

- Strategic alliance of Indian studios with foreign companies to share risk and build long term relationship. Eg:DQ Entertainment formed a 51:49 percent venture with Onyx Films.
- Indian companies adopting inorganic growth route to expand their global market share .Eg: Crest Communication has acquired Rich Animation.

Threat

- Growing competition from China, Philippines ,South Korea etc.
- Government intervention in other countries to promote the industry on the global front.

Source: PwC analysis

Value Chain

At present, Indian animation companies primarily operate in the production and post-production stages of the value chain. When it comes to IP creation and concocting fresh ideas, these companies still stand at a very nascent stage.

However, off late, this sector has received substantial boost with a number of domestic animation movies and television series being conceptualized and produced by local companies.

Outsourcing Model

- Companies work on the contract basis.
- This model does not involve sharing risk and revenue .
- Indian companies are moving up the value chain with low cost advantage.

Co-Production Model

- In this model, the companies are co-partner to the overseas production house.
- They either share the intellectual property rights along with the revenues or partially sharing the revenue and partially gets fixed fee from their overseas co-partners.

Original Content Model

- This model involves entrepreneurial competence to develop a complete product from pre-production stage to final distribution stage.
- Few Indian Companies are moving towards this model.

Moving up the Value Chain

Indian industry requires a strong support of the Government to promote the industry and develop the skills to meet the growing demand of competent human capital.

Source: PwC study for Ministry of Information & Broadcasting 'Talent gap assessment for Indian animation, gaming and VFX industry'

	Animation		VFX		PC& Console Gaming		Mobile Gaming	
	P	F	P	F	P	F	P	F
Intellectual Property right Development	◔	◑	○	○	○	○	○	◔
Pre-Production	◔	◑	○	○	○	○	○	○
Production	◕	●	●	◕	◕	●	◕	●
Game Programming					○	◔	○	◔
Testing					◕	●	◕	●
Porting					◕	●	◕	●
Post Production	◑	◕	◔	◕				
Sales/Distribution								

Not Out-sourced ○
◔
◑
◕
Completely outsourced ●

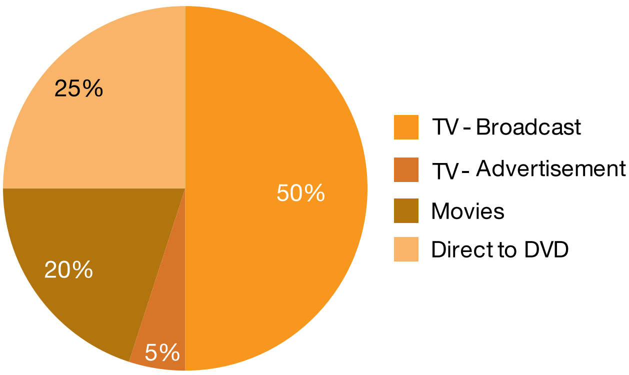
P-Present
F-Future

Source: PwC study for Ministry of I&B 'Talent gap assessment for Indian animation, gaming and VFX industry'

Key Revenue streams

As far as the animation industry is concerned, majority of the revenue from India is generated from television (55%), which includes content made for broadcasting and advertisements. The rest is divided between movies (20%) and direct to DVD content (25%). The reason behind such slender contribution from movies is because it is cost prohibitive for Indian film producers to produce full-length animated feature films. A typical animation movie can cost approximately Rs. 100 million with movie production forming around 60-70% of the cost.

Chart 9.1 Revenue Distribution of Animation Industry



Source: Nasscom Industry Report 2009

Analysis of Revenue Streams

Animation Movies: Compared to 2008, which witnessed a good number of movies released theatrically – Bal Ganesh, Ghatothkach, Roadside Romeo, Kung Fu Panda, Wall-E, 2009 saw this number slipping drastically. Only a handfull of movies like Bal Ganesh 2, Ice Age 3, UP were released in 2009 owing to calamities like the global recession. Several movies which were slated to release in 2009 were either shelved or postponed due to the financial slowdown. Yet, some international movies like Ice Age 3 that were released in India hit the high note. Interestingly, many of the movies are now dubbed in various regional languages like Tamil and Telugu to cater to the local audiences. Avatar, for example, tasted success in its Tamil and Telugu versions, besides doing well in Hindi and English.

Dubbing has also given a fillip to the market for international films in India, especially in the animation genre. International studios enhance their customer base by dubbing movies in regional languages. It is noteworthy to observe that the animation market is expanding due to dubbing, a trend similar to that witnessed in live action films.

Though 'Bollywood' cuts across a range of genres like action, romance, drama and comedy, Indian animation films essentially continue to revolve around the mythological genre since Indians relate easily to mythology. Popular Indian animated films such as Bal Ganesh, Ghatothkach, Lava and Kusa that are based on mythological characters bear testimony to this fact.

Television Broadcasting: A massive proportion of animated content aired in India on channels is developed overseas. With growing popularity, companies have developed content for TV broadcast like Little Krishna by BIG Entertainment and the second season of Chota Bheem on Pogo. BIG has recently acquired rights to produce animation season on Chandamama based on a popular comic with the same name.

Table 9.2 Indian Animation Shows

Television Channeli	Number of Indian animation shows
Cartoon Network	4
POGO	11
Nickelodeon	0
Disney Channel	2
Playhouse Disney	1
Disney XD	0
Hungama TV	0
Cbeebies	0
Animax	0
Spacetoons Kids TV	0

Source: www.wikipedia.org, company websites

In 2010, the focus of animation studios and broadcasters is increasingly towards producing more local Indian content for television, some of which include:

- Kumbh Karan, produced by Turner and Cornershop to be aired on Pogo channel.
- Krish, Trish & Baltiboy, acquired from the Children's Film Society of India (CFSI) and produced by Graphiti Multimedia, to be aired on Cartoon Network channel.
- Mahabharata, to be seen for the third time on Indian television on Star Plus, to be produced by Swastik Pictures.

Advertising: Chirpy and charismatic, animated characters are becoming increasingly popular for advertising and brand promotions. Though, currently, the volumes are not on a large scale, the demand for the same is accelerating. Animated ads cost about the same as live action commercials, but with faster turnaround time. At present, the companies are focusing on advertisement creation and character development. In 2008, the advertisement for Force Motors was created by Rocket Science studios. In 2009, the advertisements for ApnaCV.com, TATA-AIG and Bajaj Allianz used animation. TATA AIG went a step further and created two animated brand ambassadors, Sukhi and Dukhi, for their campaign.

Direct to DVD: Most of the revenues in the animation segment are from outsourcing work as the domestic Indian market is still developing. This is encouraging animation film producers to release the animation movies directly on the DVDs such as Luv and Kush as the theatrical revenues from such films from domestic Indian release may not be substantial. Globally, this format is used especially if there is insufficient budget for a broadcast release or if the movie has a limited market; like in the case of sequels. The revenues are mainly from licensing for home video market or revenue sharing with distributors.

Key trends in Animation Industry

- Boost to television broadcasting with increased interest in kids channels

  Kids channels excelled in 2009. Channels such as POGO and Nickelodeon have indicated a considerable rise in their ratings, thus building the conviction in the market that there is high potential in this area that can be further explored. More channels are either acquiring new content made locally or producing the content themselves such as Little Krishna by BIG Entertainment. International channels are also showing confidence in the local studios and encouraging them to produce the content locally.

- More animation movies being created locally

  Many projects were shelved or postponed and only a handful of movies were released in 2009 due to recession. But with the financial conditions improving and with Bollywood displaying great interest in this sector (after the success of some animation movies), a renewed enthusiasm has been noted in conceptualizing and creating content suitable to local taste. Studios have understood the importance of owning the content and hence are looking to create new content, locally. Many Indian animated films are in the pipeline, such as:

Table 9.3 Ratings of Kids' Television Channels

Television Channel	2008	2009
Cartoon Network	50.4	50.4
POGO	40.3	43.7
Hungama TV	30.2	30.2
Nickelodeon	23.5	33.6
Disney XD	20.2	16.8
Disney Channel	13.4	13.4
Spacetoon Kids TV	0.0	0.0
CBeebies	0.0	0.0
Animax	0.0	0.0

Source: TAM

  - Kuchi Kuchi Hota Hai produced by Karan Johar.
  - Toonpur Ka Superhero by Kumar Mangat and Krishika Lulla.
  - Delhi Safari by Krayon pictures.
  - Arjun by UTV motion pictures.
  - Alpha and Omega by Crest Animation.
  - Bal Hanuman 2 by Astute Media Vision.
  - The Prodigies by DQE entertainment, Onyx films and Fidelite films, France.
  - Zokkomon by Walt Disney.
  - Ab Dilli Dur Nahin produced and directed by Nikhil Advani.

- Greater share of outsourcing market

  India offers tremendous cost arbitrage in the areas of pre to post-production. A 30 minutes animation film can be made at almost 1/4th the cost of producing the same in the West. With surging investments in state-of-the-art equipment, more companies would look to target India as the outsourcing hub. Recently, Mumbai-based Crest Animation and US-based Lionsgate Family Entertainment announced their second movie titled Norm of the North planned to be released in 2012. Currently, they are producing Alpha and Omega due to be released in October 2010.

- Newer revenue streams: merchandising, mobile downloads

  The industry is exploring new revenue streams like merchandising which are not yet fully tapped to its potential. However, progressive production houses are focusing on exploring this area to maximize their returns. Recently, Diamond comics has given out merchandising and animation license to License India of popular comic heroes like Chacha Chowdhary , Pinki, Saboo, Billu and others to use the same on kids toys and miscellaneous merchandises.

Mobile is another promising revenue stream which is being explored by companies, currently, in the form of mobisodes. For example, service providers like Vodafone have launched mobisodes on their network. Star India had also created mobisodes of their serials, as had Rajshri Productions. Ram and Ria is a sitcom produced specifically for mobile and internet screens.

- Growth in animation education segment

  Several education institutes are trying to enhance their learning experience by providing education through animation. Moreover, some DTH operators are also producing custom education content for learning (like Active Learning, Active Wizkids and others by Tata Sky). Hence, this is a growing segment for animation industry.

  The Ministry of Information and Broadcasting (MoIB) has decided to set up a national centre of excellence (NCoE) to support and augment the animation, gaming and VFX industry in India.

Key challenges for the Animation Industry

- Low Capital investments

  One of the major upheavals is the low level of capital investment in the Indian animation industry. Besides, not only the quality of service provided is limited, but the size of existing players is also small. It is pivotal for the industry to invest if it needs to have an end-to-end concept to marketing solution.

- Human capital requirement

  As the demand for animation gains precedence, India would also need to keep up on the human capital needs. Currently, there are not only just few schools in the country providing animation courses. Slack awareness about the future potential of the animation sector mars the growth of this industry. Furthermore, the handfull of schools which do provide these courses follow a very substandard level of educational courses. The Ministry of Human Resource Development (HRD) would need to focus on this issue if the industry has to expand extensively in coming years.

- Tough competition from foreign animation

  Going by the trends in past few years, most domestic animation movies revolve around mythological characters, thus attracting users on their own. However, when it comes to extending their competence in other genres, domestic studios would need to compete with international Hollywood movies that already enjoy the advantage of higher capabilities at their disposal. But, with added interests in domestic IP generation and investments in local setups, this gap is being bridged.

MoIB's Vision for NCoE

To support nurturing of talent in Animation, Gaming and VFX domain through organized enhance education thereby supporting Industry Growth

1	Help in fulfillment of Skills requirement of the Animation, Gaming and VFX Industry
2	Act as Incubation Center for development of competencies & commercial ventures
3	Serve as the Centre for creativity in the domain through Research & Developement
4	Provide a competitive edge to Indian Industry by developing skills for IP creation

Key Stakeholders	Government	Domain Industry	Students
	Technology Companies	Entertainment Industry	Research Industry

Source: PwC Analysis

SWOT Analysis of the Current Training System

Strength

- Large no. of Government Art Colleges which hone the art skills.
- Initiative taken by some companies to work with private institutes to develop the course curriculum.
- Industry working with the foreign institutes to open state of the art training institutes.(e.g., Indian school of games)

Weakness

- Lack of regulatory body governing the norms for animation, gaming and VFX course curriculum.
- Lack of an Accreditation System for Educational Institutes
- Lack of standard course curriculum.
- Lack of Government intervention to provide infrastructure and fund.
- Lack of quality faculty.
- Lack of financial assistance to the students.
- Unregulated growth of private institutes

SWOT Analysis

Opportunities

- Government Colleges can be taken as starting point to bring art and animation in mainstream.
- With introduction of animation , gaming courses in art college, it will enable more visibility and awareness of the industry.
- Initiative by the local trade bodies and some state governments in skill development area.
- E.g., Maratha Chamber of Commerce, Maharashtra Government.

Threat

- Most Private institutes focus more on software training than nurturing basic skills.
- With the unstructured education system,indian industry may not be capable to deliver quality output and compete in the global market
- Lack of Government intervention to develop adequate skills may hamper the growth of the industry.

Source: PwC study for Ministry of I&B 'Talent gap assessment for Indian animation, gaming and VFX industry'

Comics

Comic characters are also increasingly being used for animation productions:

- ACK Media has launched Amar Chitra Katha series on Cartoon Network. The 26-episode Amar Chitra Katha series is being produced by ACK Media and Turner International.
- ACK Media is producing a stereoscopic three-dimensional animation film with Suppandi as the main character in Amar Chitra Katha. The film is expected to be released in November 2010.
- ACK Media, in partnership with MoFirst has launched Amar Chitra Katha on Android for both the Indian and the international market.

Indian Gaming Industry

Though the rapidly expanding broadband penetration in India has led to increase in the number of active gamers in the country, fragmented distribution network and piracy are holding the sector back. Indian gaming industry is currently estimated to be Rs. 5.3 billion in 2009 as compared to Rs. 4.0 billion in 2008 registering a CAGR of 34.4%.

SWOT Analysis of Indian Gaming Industry

Strength

- Huge base of youth population.
- Off shoring work to create confidence among the Indian studios to undertake end-to-end work for the Indian market.
- Studios collaborating with the training institutes to design specialized course curriculum for gaming.
- Eg: Lakshay Digital collaboration with AAG.

Weakness

- Content developed for the domestic consumption lacks quality and innovation.
- Lack of enabling infrastructure.
- Playing electronic games is not a part of the mainstream culture.
- Lack of quality game development skill-set.
- Lack of Government intervention to provide financial assistance to the studios to hire and train people, and invest in better technology..

SWOT Analysis

Opportunities

- Rising broadband penetration, falling PC prices and increasing mobile subscription.
- IT companies venturing into game development. Eg: Satyam's Nipuna.
- Setting of captive centers by global companies.
- Indian Gaming industry to witness heavy investments from other companies in other related fields such as animation companies .UTV Software acquiring stake in IndiaGames.

Threat

- Growing competition from China, Philippines ,South Korea etc.
- Government assistance in other countries to build gaming culture and promote the industry.

Source: PwC Analysis

Table 9.4 Growth of Indian Gaming Industry

Rs. Billon	2006	2007	2008	2009	CAGR
Mobile % change	1.0	1.5 50.0%	2.5 67.6%	3.0 19.3%	44.2%
PC % change	0.3	0.3 20.0%	0.6 28.6%	0.7 44.4%	22.9%
Console % change	0.6	0.6 8.3%	0.7 6.7%	0.8 18.0%	10.9 %
Online % change	0.2	0.3 25.0%	0.4 50.0%	1.0 155.6%	68.6%
Total % change	2.1	2.7 28.6%	4.0 47.0%	5.3 34.4%	36.4%

Source: PwC Analysis and Industry Estimates

Indian gaming industry consists of primary four segments:

- Console Gaming
- Mobile Gaming
- PC Gaming
- Online Gaming

Tale 9.5 Key Segments of Gaming industry

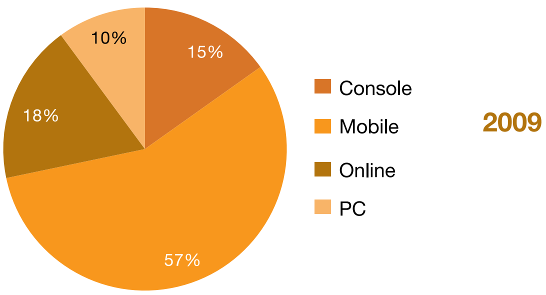
Segment	What does it cover ?
Console Gaming	Games played on dedicated hardware devices are known as consoles. In some cases, output devices are computers or televisions. These consoles can be fixed such as Xbox and Sony's PS3 or can be portable such as Sony's PSP (Play station Portable). Apart from the consoles and output devices, these devices also require software games.
Mobile Gaming	It refers to games played on mobile. These can include regular mobile phones, smart phones or other high-end mobile phones. The games are small java based application unlike console gaming where there is a full-fledged software engine behind the game.
PC Gaming	These are software games available in compact discs or DVDs running on personal computers. Depending on the games, it requires high-end graphic cards and accelerator cards. These are generally single players in nature, however they can also be network based games. Single player games are at times played against the computer on your own personal computer.
Online Gaming	These games are classified as Massively Multiplayer Online Role-playing Games (MMORG) and played over internet. Herein, large numbers of players interact over the internet. Apart from the graphic cards and accelerators cards, one also needs to have a high-speed broadband connection.

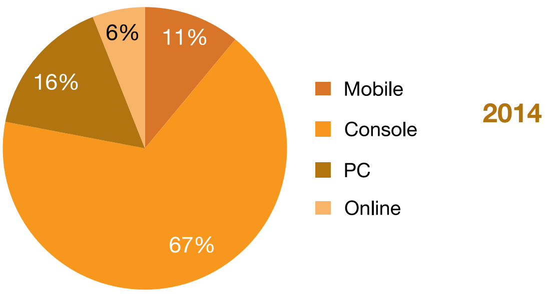
Source: Nasscom Industry Report 2009

Analysis of Segments

- Console gaming currently accounts for around 15% of the market share in 2009 (Source: Nasscom Industry Report 2009). This includes only the software application and does not take into account the purchase of consoles or peripherals used to play the games. It is estimated that hardware console market in India is around Rs. 3.5 – 4 billion. Further, PwC estimates that console gaming will grow at a good 22% CAGR.
- Mobile gaming is the largest segment commanding around 57% of the market share backed by robust volume of players and mobile phones in the market. However, the revenue share is skewed towards the VAS providers with telecom players like Bharti, Reliance and others taking away the chunk of 70-75% of revenues, while the rest goes to content providers. PwC estimates that, in future, the market for mobile gaming would accelerate at lightening speed and is set to capture 67% of the market by 2014 thanks to the exorbitant penetration of mobile phones.
- Online gaming market is less affected by piracy due to better control over the licenced products to play the MMORG games online. Hence, the market for online games is larger than PC gaming which is severely debilitated by piracy. However, though online gaming is expected to escalate at a steady rate, due to faster growth of mobile gaming, the market share is likely slip.
- PC gaming is the smallest segment which is again being impaired by piracy. Illegal copies of PC games are available in the market for as low as Rs. 50 – 100. Moreover, since the games are played mostly on private network or personal computer, user is less concerned about getting the legal copy of the game. Besides, since the original copy is priced at 10 to 15 times the illegal copy, it becomes more economically viable for the user who, hence, prefers to buy the copy from the local market. Thus, the market for PC gaming is the smallest compared to others. Though the Government is cracking down on the pirated market and bringing in more stringent laws, there are still lots of loopholes on the implementation side and, therefore, the market is not expected to change soon.

Chart 9.2 Segment-wise evolution of the Indian Gaming Industry





Source: PwC Analysis and Industry Estimates

Key trends in Gaming Industry

- Arrival of 3G

  The 3G auction finally got underway and concluded successfully with the Government achieving a huge windfall gain. 3G will provide higher speed and more spectrum space for data and voice. Currently, the telecom operators are commanding a very low ARPU from the existing telecom users. Hence, it is expected that mobile operators will push more VAS applications and gaming, in particular, to the users. This would boost the mobile gaming industry in the country.

- Increasing broadband penetration

  India registered a total of 7.82 million broadband subscribers in 1st quarter of 2010, up from 3.1 million in 1st quarter of 2008 indicating a rising CAGR of 59% over the past two years. Broadband penetration is the key to growth of online gaming as well as augmenting the general awareness about gaming.

- Social gaming - the next big thing

  Social gaming is a new segment which is growing at a very fast rate. Internet users are getting addicted to social networking sites like Facebook, Orkut, Ibibo and others. A large portion of their time (30-40%), driven by gaming, is spent on these social networking sites. PwC estimates that in the next 3-5 years, social gaming would be a major revenue generator for content creators.

> Zygna is one of the largest developers of social games, with its presence spreading over most social networking sites. Its range of games such as FarmVille, Texas HoldEm Poker, Mafia Wars and others, rank among the top 5 applications on Facebook. According to reports, Zygna's estimated market value is around $3 billion and has monthly active user audience of 230 million just on Facebook.

- Zapak is expanding in India as well as overseas

  Zapak has around 150 Gameplexes across India. Of these, 30 are owned and the rest are franchisees. The company is vying at expanding this figure to around 200 Gameplexes. Recently, Zapak tied up with NDTV games with the aim to popularize gaming in India and also provide users with quality content. BIG entertainment also acquired stake in Codemaster, a UK-based console gaming developer, to expand its interests in gaming. If the trend continues, these activities can give a major thrust to gaming activities in the country.

- Online Gaming is emerging as a platform for marketing of films

  3 Idiots, one of the top films of 2009, tied up with Zapak.com, an Indian online gaming portal to launch www.idiotsacademy.com, which offers the film's unique content in tune with the theme of the movie targeting the youth. The movie website leverages on gaming and other innovative digital applications.

> **How local content on the gaming platforms is increasing their popularity**
>
> - Amar Chitra Katha has come out with a multi-user game called The Legend of Katha. It is a multi-player role based game.
> - Disney has also launched a game based on Aladdin, called Aladdin-wild ride.
> - Syncere Arts, the Toronto-headquartered company with a development facility in Gujarat, is working on a game based on the Mahabharata.

Key challenges for the Gaming industry

- Expensive hardware and software

  Console hardware prices are in the range of Rs. 5,000 to Rs. 20,000 in the Indian market. Comparatively, the grey market, offers the same at a substantial discount. Going by the current prices, these gaming consoles are just a cherished dream for most teenagers in the country. To add to it, the software games for these consoles are in the range of Rs. 500 to Rs. 2,500 making it expensive for the general masses. What makes things more difficult is that the games are launched in the Indian market much later compared to the world release. Hence, grey market still presents a better route for users to lay their hands on the latest games.

- Delay in 3G launch

  Post the completion of auction of 3G spectrum, if there is any delay in launching services for the 3G users, it could have an adverse effect on the mobile gaming market.

- Piracy

  Piracy is the single most negative factor for the gaming industry. Most of the games which are legitimately available for Rs. 500 to Rs. 1,500 are available in pirated market at 10% of the original price. Most new games reach the pirated market within a week of their release. Due to the existing price difference, users either prefer to buy the game from the grey market or download the same from the internet.

- Broadband speed and penetration

  Average broadband speed per use in India is around 256-512kbps, while that required for a MMORG is over 512kbps. Better service quality and higher speed at relatively cheaper prices would help the online gaming industry grow at a faster pace.

Indian VFX Industry

VFX comprises of computerized digital animation and process known as composition. It helps producers visualize the shots before they are taken, thus making the shot more effective and less expensive. Cost arbitrage available with India makes it an even more attractive destination for international films.

Avatar

Prime Focus provided stereo 3D visual effects and motion graphic design for the film. The bulk of Prime Focus' work was done for the film's Bio lab and Ops Center, the bustling hub for military operations and one of the key environments in the film. Prime Focus designed displays for the Op Center's Holotable over which the film's main characters discuss their missions and plans to mine a valuable mineral found on the planet Pandora. Using the original live-action plate of a table with a greenscreen across the top, Prime Focus modeled the hardware that went inside the table, the projector beams and added graphics projected above the table of the terrain, including the Home Tree. These graphics were designed in 2D in Adobe Illustrator, animated in Adobe After Effects, placed on cards in 3D and rendered in Autodesk 3ds Max. Prime Focus Software's Krakatoa particle system was used for the 3D terrain, which gave the images a scan-lined LIDAR-like quality, as if a satellite roving the planet's atmosphere captured the footage. To make the Ops Center feel alive and bustling with activity, Prime Focus also designed interactive stereographic displays for dozens of screens, so every monitor screen had a sense of movement and depth. Each screen was composed of four-to-eight layers, rendered in different passes and composited together. The Prime Focus VFX team also created displays called Immersives that provided a 180-degree stereo perspective, allowing military personnel to control air traffic flow in 3D. Additionally, Prime Focus contributed CG helicopters, buildings and atmospheric elements seen from the Ops Center and Commissary windows in several sequences.

Table 9.6: VFX Industry Value Chain

Concept development	Live action capture	Scanning and editing	VFX creation	Compositing and transfers
Decision to use VFX to enhance live action, VFX house may be present to determine budget and ability to execute	Footage captured on camera VFX supervisor Emerging trend of presence of VFX supervisor	Digitization of live action footage to enable VFX creation	Created using computer generated images	Final compositing of VFX against blue/ green screen and live action Transfer of composited film onto desired exhibition format

Source: PwC analysis

Additionally, Bollywood and Hollywood movies are pushing the Indian VFX industry on a high growth path. Indian companies have proven their credentials, recently, with Prime Focus playing a key role in VFX of Avatar, a recent Hollywood superhit movie.

Other VFX outsourcing examples:

- Prime Focus VFX- 175 visual effects shots for the film The Twilight Saga: New Moon delivered about 19 compositing shots.
- Prime Focus VFX-124 visual effects shots for the film G.I. JOE: The Rise of Cobra from Paramount Pictures.
- Prime Focus Group provided VFX supervision for the two-part action/drama series The Storm, which aired on NBC. 155 visual effects shots were created by Prime Focus Group's Mumbai, India VFX facility.

The Twilight Saga

Prime Focus contributed majority of the film's most frequently featured visual effects, including CG water, atmospherics, CG matte painting and environment work and the "Diamond Skin" effect on Edward and the other vampire characters. Prime Focus key software packages included Autodesk Maya, Autodesk 3ds Max and Autodesk Mudbox for 3D modeling, eyeon Fusion for compositing, Prime Focus Software's Krakatoa for particle rendering and Prime Focus Software's Flood and Flood: Surf for fluid simulation. Prime Focus' Vancouver studio handled the bulk of the work. Key effects included creating apparitions of the Edward Cullen (Robert Pattinson) character and custom designing the "Diamond Edward" effect, whereby Cullen's skin sparkles when coming into contact with sunlight.

Bollywood movies are also utilizing VFX extensively with movies like My Name is Khan, Blue, Paa, Wake up Sid and many more using it to good effect.

- 3 Idiots- A total of about 100 VFX shots were done by Fable Farm Studios which took about a year to get completed and were carried out in parallel to the shoot of the movie. Some of the shots include the flood sequence, creating the CG car in the opening scene and the lamp sequence which had some seamless visual effects on the screen.
- Paa- Prime Focus has delivered 664 VFX shots and full DI for the Amitabh Bachchan starrer Paa. The VFX in the film mainly involved a lot of prosthetic makeup augmentation on Auro, the main character of the film and an array of television news channel PIPs. The Prime Focus team designed the look for various channels including logos, ticker bands and breaking news. They were then composited on to various screens across all types of locations, mainly homes, offices, and business establishments.
- Wake up Sid - Prime Focus contributed a total of 196 VFX shots for the movie that was completed over a period of about 45 days, primarily involving Digital Matte painting, chroma compositing, CG rain and time lapse transitions. Prime Focus also did the invisible VFX & DI for the movie. Some of the shots include creating the view outside the main character, Sid's room, transition shots from day to night and creating CG rain.

Key Challenges in VFX

- Low budget for Bollywood movies for VFX

  The average budget for a Bollywood movie is almost a fourth of that of Hollywood movies. However, with the growing popularity of VFX internationally, Bollywood movies are looking more and more towards utilizing sophisticated technology to provide a better viewing experience to the movie-watchers.
- Dearth of talent

  There are very few schools providing specialized courses in VFX and hence there is a dearth of skilled manpower. This translates into poorer quality of content being produced.

Global Outlook

The video game market in North America, EMEA (Europe, Middle East, Africa), Asia Pacific and Latin America will expand from $52.5 billion in 2009 to $86.8 billion in 2014, growing at a 10.6% CAGR. Asia Pacific, with three of the top four countries in the world, is the largest region, at $19.4 billion in 2009, and is projected to be the fastest-growing region during the next five years, increasing at a 16.3% CAGR to $41.3 billion in 2014. Online and wireless games—the fastest-growing end-user components of the markets—constitute in Asia Pacific a larger share of total spending than in other regions, and consequently, they have a greater influence on growth. EMEA, the second largest region in 2009, estimated at $16.8 billion, is projected to increase by 6.4% compounded annually to $23.0 billion. North America is projected to increase from $15.1 billion in 2009 to $20.7 billion in 2014, growing by 6.5% on a compound annual basis. Latin America is projected to grow to $1.8 billion in 2014 from $1.1 billion in 2009, a 9.3% compound annual gain.

Table 9.7 Global Video Game Market (US$ Millions)

Component	2005	2006	2007	2008	2009p	2010	2011	2012	2013	2014	2010–14 CAGR
Console Games	18,324	19,751	25,344	29,951	28,169	30,000	31,334	32,873	34,674	36,774	
% Change	-2.9	7.8	28.3	18.2	-5.9	6.5	4.4	4.9	5.5	6.1	5.5
Online Games	3,887	5,274	7,270	9,608	11,655	14,127	17,068	20,781	25,258	30,593	
% Change	50.7	35.7	37.8	32.2	21.3	21.2	20.8	21.8	21.5	21.1	21.3
Wireless Games	2,558	3,603	4,799	6,188	7,313	8,467	9,642	10,957	12,021	13,061	
% Change	68.8	40.9	33.2	28.9	18.2	15.8	13.9	13.6	9.7	8.7	12.3
PC Games	4,460	4,580	4,438	4,119	3,816	3,731	3,672	3,608	3,540	3,483	
% Change	-1.8	2.7	-3.1	-7.2	-7.4	-2.2	-1.6	-1.7	-1.9	-1.6	-1.8
Total End-User Spending	29,229	33,208	41,851	49,866	50,953	56,325	61,716	68,219	75,493	83,911	
% Change	6.3	13.6	26.0	19.2	2.2	10.5	9.6	10.5	10.7	11.2	10.5
Advertising	173	655	1,021	1,337	1,554	1,843	2,135	2,388	2,598	2,845	12.9
% Change	476.7	278.6	55.9	31.0	16.2	18.6	15.8	11.9	8.8	9.5	
Total Video Games	29,402	33,863	42,872	51,203	52,507	58,168	63,851	70,607	78,091	86,756	10.6
% Change	6.8	15.2	26.6	19.4	2.5	10.8	9.8	10.6	10.6	11.1	

Source: PwC Entertainment &Media Global Outlook 2010-2014

The console game market will continue to be driven over the next few years by new games being marketed for the existing generation of consoles: the Wii, the Xbox 360, and PlayStation 3 (PS3). The online market continues to expand due to the increase in penetration of broadband households combined with the growing digital distribution of content. We expect that by 2014 the next generation of consoles will begin to be introduced, which will spur renewed growth in console games. The increasing popularity of massively multiplayer online games (MMOGs), with their subscription fees and microtransactions, is also fostering market growth. Casual games represent a further important component of the online market, helping expand the demographic base and stimulate spending.

The growth of smartphones with improved graphic capabilities will drive demand for wireless games. The growth of third-generation (3G) networks, with their faster speeds, will provide an environment enabling wireless games to match the quality of console games. The market for PC games will continue to deteriorate as consumers turn their attention to newer technologies. The growth of MMOGs, which usually require the retail purchase of a PC game, will partially offset the continuing decline of the retail PC game market. Video game advertising is emerging as an additional revenue stream. The dynamic in-game advertising segment is increasing in importance and is being fuelled by the growth of the online game market.

Indian Outlook

- Indian animation and gaming industry has shown tremendous growth in the past and it seems that this growth would continue in the future. PwC estimates that the animation and gaming industry would be a Rs. 73.4 billion industry by 2014 from the current level of Rs. 23.8 billion in 2009, surging at a CAGR of 25.2%.
- Mobile gaming will increase with the onset of 3G and console gaming will grow owing to reduction in hardware prices.
- Online and PC gaming will continue to be impacted by piracy and will not be able to achieve its full potential.

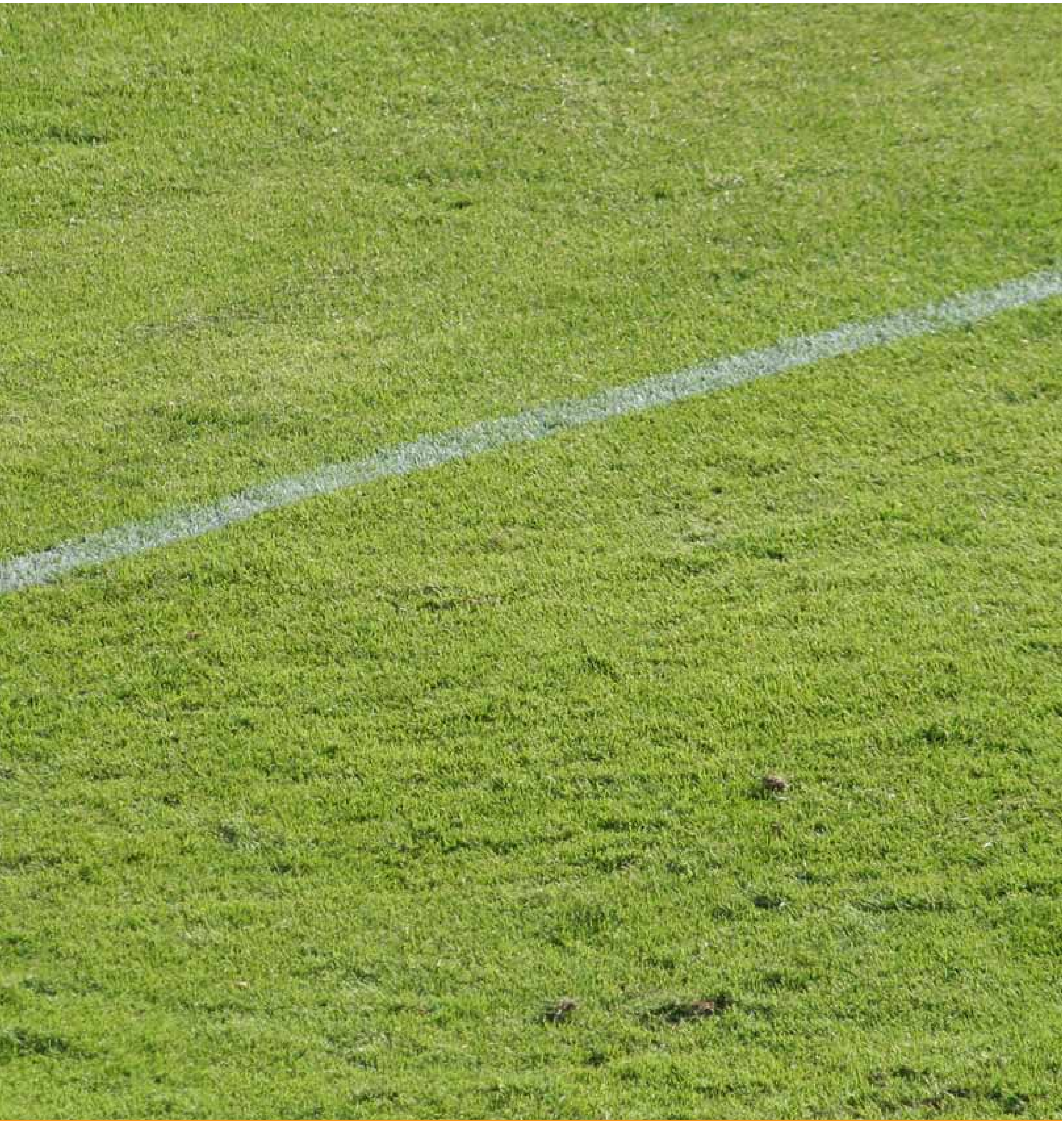
Table 9.8 Projected Growth of Animation and Gaming Industry in 2009-14

Rs. billon	2009	2010F	2011F	2012F	2013F	2014F	CAGR
Animation	18.5	23.0	27.6	33.6	42.5	54.0	23.9%
% change		24.3%	20.0%	21.7%	26.5%	27.1%	
Gaming	5.3	8.1	10.6	13.5	16.3	19.4	29.4%
% change		52.7%	30.7%	27.3%	20.1%	19.0%	
Mobile	3.0	5.2	6.9	9.0	10.8	13.0	34.0%
% change		72.0%	33.0%	31.0%	20.2%	20.0%	
PC	0.6	0.7	0.8	0.9	1.0	1.1	14.6%
% change		23.1%	18.8%	10.5%	9.5%	11.6%	
Console	0.8	1.0	1.3	1.6	1.9	2.2	21.9%
% change		21.8%	27.1%	23.3%	21.0%	16.4%	
Online	1.0	1.3	1.7	2.1	2.6	3.1	26.5%
% change		35.6%	30.8%	23.5%	23.8%	19.2%	
Total Gaming	5.3	8.1	10.6	13.5	16.3	19.4	29.4%
Total	23.8	31.1	38.2	47.1	58.8	73.4	25.2%
% change		30.6%	22.8%	23.3%	24.7%	24.9%	

Source: PwC Analysis and Industry Estimates

- Animation and VFX industry will see larger investments in studios to provide better quality output to the domestic and outsourcing market.
- Broadband penetration and 3G auction will boost the gaming industry in India, especially the mobile gaming segment which will be the largest contributor to the gaming industry in India.
- MIB is expected to take initiatives to address the crucial issue of shortage of talent in this industry and this would give further impetus to the segment.
- Local animation content for television is expected to increase, but in the already established sectors of mythology. Growth beyond this genre is expected only in the medium term future.
- In the case of films, though there is a strong pipeline, most of these are projects that were commissioned about two years back. Major new projects starting production have not seen the light of the day. Hence, growth in locally produced film animated content could be sluggish.
- Gameplexes will influence gaming habits.
- VFX will be increasingly used as a tool to reduce cost of production for film making in India.
- Internationally outsourced work will continue to be the bread and butter of the Indian animation industry and will advance only to the extent of co-productions.

The concept of sports league, as properties for entertainment, has gained impetus in India through the much hyped IPL format of T20 cricket. Though the pioneer in taking cricket into a private league format was the Indian Cricket League (ICL), promoted by India's leading media conglomerate Essel Group, it entered into troubled waters due to the economic slowdown. Sports leagues in India have been tested in other sports such Hockey with Premier Hockey League promoted by ESPN-Star Sports but without much success. Cricket has thus been the only sport to have tasted success with such formats.



Sports Entertainment

Sports Entertainment

The concept of sports league, as properties for entertainment, has gained impetus in India through the much hyped IPL format of T20 cricket. Though, the pioneer in taking cricket into a private league format was the Indian Cricket League (ICL), promoted by India's leading media conglomerate Essel Group, it entered into troubled waters due to the economic slowdown. Sports leagues in India have been tested in other sports such as hockey with Premier Hockey League promoted by ESPN-Star Sports, but without much success. Cricket has, thus, been the only sport to have made a robust mark in such formats.

Though the IPL season 2 faced many obstacles due to security pressures, it sailed through all of them successfully in South Africa, where it was held. With the success of the IPL, the concept is moving towards other sports such as boxing, where India has been selected as one of the 12 global franchisees for the high-profile World Series of Boxing (WSB) slated for September 2010. WSB is being organised by Aiba in association with its marketing partner IMG. Videocon Industry has bought the franchisee rights for India's representation at WSB to be staged in the capital.

The original contract was for a payment of $918million (~Rs. 42 billion) to BCCI for 10 years, ~50% lower than the revised deal this year. Now, MSM/WSG would pay Rs. 6.7 billion for the first four years, after which Rs.11 billion would be the annual fee for five years.

After winning the third season of IPL, Chennai Super Kings valuation shot up from $39.4 million to $48.4 million to become the most valued franchisee among the IPL teams.

IPL Revenue Analysis

IPL teams earn revenue primarily through two streams:

1. Central pool of revenues which is distributed between all the franchisee in some proportion.
2. Local revenues which is earned by the teams in their individual capacity.

New revenues streams helped the IPL teams in season 3 to earn more revenues as compared to the previous years.

Table 10.1: IPL Brand Value League Table 2010

Rank 2010	Franchisee Team	Brand Value 2010	Brand Rating 2010	Rank 2009	Brand Value2 2009	Brand Rating 2009
1	Chennai Super Kings	48.4	A-	4	39.4	BBB
2	Kolkata Knight Riders	46.0	BBB	1	42.1	A-
3	Rajasthan Royals	45.2	A-	3	39.5	A-
4	Royal Challengers Bangalore	41.9	BBB+	6	37.4	BB
5	Mumbai Indians	40.8	BB	2	41.6	A
6	Delhi Daredevils	40.5	BBB	5	39.2	BBB
7	Kings XI Punjab	36.1	BB+	7	36.3	BB
8	Hyderabad Deccan Chargers	34.4	B	8	34.8	CCC

Source: Brand Finance, UK

IPL Season – 3

The IPL has now completed three seasons and has revolutionized sports business in India. Brand IPL has not only been able to attract vast audiences, but has also generated advertisers' and sponsors' interests. Modeled on the successful English Premier League format, IPL has been valued at $4 billion by Brand Finance, a UK based brand valuation company. In March 2009, BCCI and MSM/WSG re-negotiated their deals; now BCCI will be paid $1.63 billion (Rs. 82 billion) over the next nine years for the telecast rights.

Central revenues consist of:

- Theatrical rights: Sold to Entertainment & Sports Direct (ESD) for around Rs. 330 crores for 10 years (2010-2019). The deal will give ESD exhibition rights in public venues such as airport, hospitals, malls, cinema halls, buses, trains, bars, hotels, restaurants, railway stations and other similar public venues. ESD is promoted by PE firm DAR capital group.
- Internet Rights: Global Cricket Ventures, which owns online properties like iplt20.com, clt20.com, and

others, won the rights to showcase IPL online. It also won the merchandising rights for IPL.

- BLIMP: Blimp was a new concept for advertising in the stadiums which was sold to MRF for 24 matches for a sum of around Rs. 15-16 crore.
- Mobile Rights: This includes rights sold for live streaming on mobile and applications used on smart phones.
- Ground sponsorship: This includes strategic time outs that were sold to Maxx Mobile for Rs. 17-20 crore for the year. As associate sponsors, Karbonn Mobiles, Hero Honda, Vodafone and Citibank pay around Rs. 25 crore in a 5 year deal. The title sponsorship with DLF is estimated to be around Rs. 200 crore.
- TV shows deal: IPL entered into a deal to showcase various TV shows around IPL with Colors. This includes IPL Nights, IPL Rockstar, IPL Fear Factor and others. It is estimated to be around Rs. 100 crore.
- On Screen, between deliveries advertisement: IPL 3 also saw a new concept of showcasing advertisement between the deliveries. The rights to these were sold separately.

Local revenues consist of:

- T-shirt Sponsorship: Bangalore is sponsored by UB group alone and hence there is no external sponsorship. Group M ESP estimates that the rest of the teams earn between Rs. 20-40 crore in this form of revenues. There are other sponsorship revenues for the team also which add to their kitty.
- Gate receipts: Revenues from ticket sales are estimated to be around Rs. 15-20 crores. However, KKR were hit as the stadiums were under construction and hence had limited capacity. Moreover, as Hyderabad's matches were shifted to Mumbai, their gate receipts might also have suffered.
- In stadium advertisement: Revenues earned by teams from advertisements within the stadium.
- Merchandising revenues: Consists of revenues earned by teams by selling team t-shirt, mugs, banners and so on.

IPL TV Ratings

IPL 3 saw an advertisement volume of 12 hours down from 31 hour in 2008. The number of brands advertised in IPL 3 remained the same at around 44 as compared to 47 in 2009.

The final for IPL 3 saw a TVR % of 12.85 as compared to 11.69 of IPL 1 and 10.7 of IPL 2. This is the highest of the three IPLs. It had a reach of 49 million as compared to 36 million in IPL 1.

Entry of two new players in IPL arena

- IPL season 4 will see the entry of two new franchisees for Pune and Kochi. Sahara group bid $370 million to get the rights to Pune franchisee, while a Rendezvous Sports World, a consortium of five companies was the other player to have got the rights to Kochi franchisee at a staggering amount of $333.33 million.

Commonwealth games

Commonwealth games will be hosted in India in 2010 in Delhi between 3rd October and 14th October 2010. It would be the first time in India and second time in Asia.

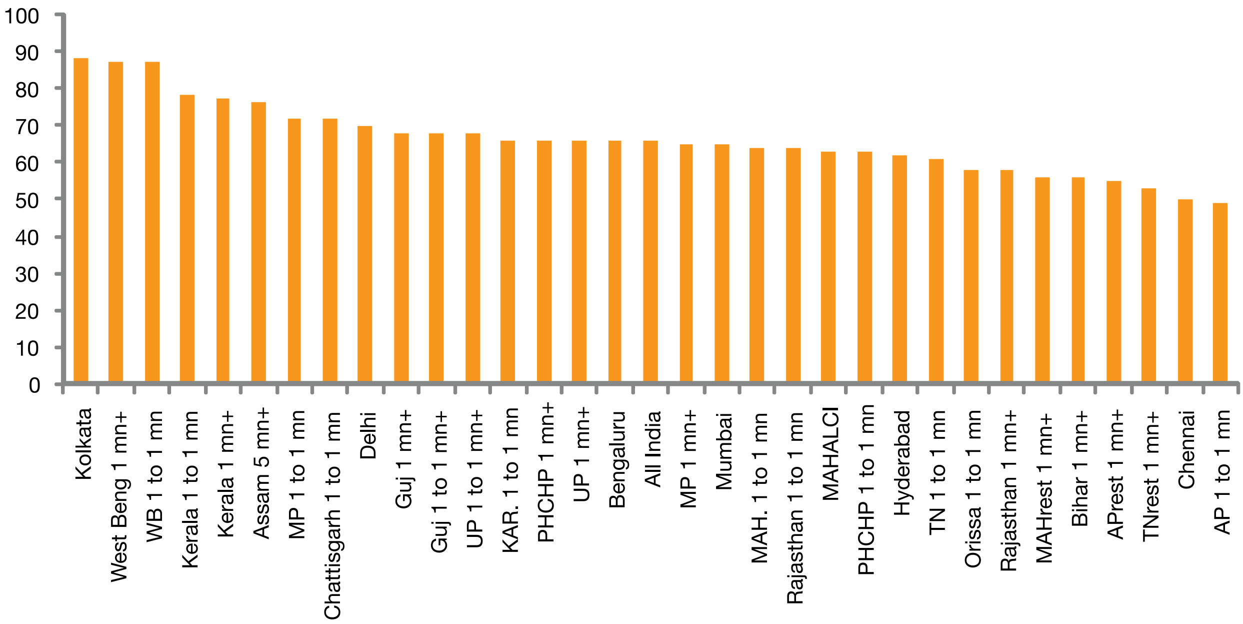
The games committee is targeting revenues of approximately Rs. 1,600 crore from brands participating in the games alone. At the time of writing this report, only two companies, Coca-cola and Hero Honda were confirmed partners to the games. However, there are host of PSU like Indian railways, NTPC, Air India and Central Bank of India. If the media rights are activated like that in IPL, the target can be met, however, given the passion for cricket in India, not many other sports have taken off.

World Cup Football

Football attracts lot of its viewers for domestic and international events from Eastern India which is considered to be the hub for football madness in India.

Further, 2010 witnessed the craze for football during the Football World Cup held in South Africa. The Indian sub-continent rights for the Football World Cup substantially increased, from $ 2.5 million in the 2002 event, to $8 million in 2006 to $42 million during the 2010 event.

Chart: 10.1 Football Viewership in India



Source: TAM


adidas
adidas
17


VHS hi-fi
Panasonic
Colour
Carlsberg
KING

Tax and Regulatory issues impacting the Indian E&M Industry

Television Industry

Direct Tax Issues

1. Taxability of income of telecasting companies

i. Advertisement revenues collected by agents / representatives on behalf of FTC

The advertisement revenues earned by Indian telecasting companies are liable to tax on net income basis (as their worldwide income is taxable in India) at the prevailing rates.

Foreign telecasting companies ('FTCs') are liable to tax in India, only if they have a permanent establishment ('PE')/business connection in India. The taxability, in such case, is only on the income which is attributable to such PE/operations carried out in India. When and in what circumstances do the FTC constitute a PE/business connection in India and the determination of income attributable to such PE/operations carried out in India, continues to be contentious issues between the FTCs and the Indian Tax Authorities.

FTCs generally appoint an agent in India for marketing of advertisement airtime slots. The agent also facilitates collection of advertisement revenues from the advertisers and its remittance abroad.

The Tax Authorities have been contending that, the agent of FTC, who concludes contracts on behalf of FTC or secures orders wholly or almost wholly for FTC in India, constitutes its PE in India. Further, in the case of one of the FTCs, the Income Tax Appellate Tribunal ('the Tribunal') has held that the beaming channels of FTC in India and earning advertisement revenues from India has a business connection with the latter and is liable to tax in India.

Once a PE/business connection of FTC is constituted in India, income attributable to such PE/ operations carried out in India is taxable in the hands of FTCs in India. In cases where India specific accounts are not maintained by the FTCs, the Tax Authorities are empowered to determine the income attributable to the PE/operations carried out in India on the basis of certain methods (viz. percentage of turnover or applying ratio of Indian receipts and total receipts to the total profits of FTCs or any other method as the Tax Authorities may deem fit) prescribed under the IT Rules.

However, the FTCs have been contending that even if the Indian agent constitutes its PE, the payment of arm's length remuneration to the Indian agent would extinguish its tax liability in India. Recently, the Bombay High Court has, in one of the landmark rulings, accepted this proposition. This judgement is likely to bring lot of respite to the FTCs. Subsequently, this Bombay High Court judgement has also been followed by various tax tribunals.

ii. Subscription Fees paid by MSO or Cable Operator to FTC

The FTCs, generally, grant distribution rights for the channels to an Indian company, which, in turn, sub-licences these rights to the Multi System Operators (MSOs), Cable Operators and others.

The FTCs have been taking a stand that the payment for grant of distribution rights is not for any 'copyright' and, hence, is not in the nature of Royalty (taxable on gross basis at a specified rate). The payment is in the nature of business income and would not be taxable in India in absence of any PE/operations carried out in India for earning such income. As against this, the Indian Tax Authorities have not been consistent in their approach on this issue. In some cases, they have been contending that payment by the Indian company to the FTC for grant of distribution rights is in the nature of business income and is taxable on similar lines as the advertisement revenues. Whilst, in other cases, they have been contending that the payment is for grant of copyright and, accordingly, liable to tax in India as Royalty on gross income basis at a specified rate. The issue is pending adjudication at various appellate levels.

2. Deductibility of expenditure incurred for acquiring telecasting rights in films/ programmes

Usually, telecasting rights in films/programmes are acquired by the telecasting companies either on an outright basis or for a limited number of airings over a period of time. Where the rights are acquired on an outright basis or for limited airings that may span over different financial years, the issue is whether the cost of acquiring such rights can be claimed as deduction in the year of acquisition or would the cost have to be claimed over the licence period. In case of television programmes, one view is that significant value of the programmes is derived at the time of first airing itself, after which, there is hardly any residual value of the programme. Accordingly, the entire expenditure on acquisition of rights relating to such programme should be allowed as deduction in the year of first airing itself.

In case of movie rights acquired for limited period or limited airings, the view is that the expenditure should be allowed over the period of time/number of airings. The contrary view is that the expenditure on acquisition of rights should be treated as incurred on acquisition of capital asset, i.e. for acquiring of 'copyright'/'licence' specifically covered as intangible asset eligible for depreciation at a specified rate. This issue continues to be a bone of contention between the telecasting companies and the Tax Authorities.

3. Withholding tax obligations

The withholding tax regime in India requires the payer to withhold tax from specified payments to non-residents that are chargeable to tax in India, viz. Royalty, fees for technical services, interest and so on. However, the Karnataka High Court, in a recent decision, had held that every payment in the nature of income per se to a non-resident or to a foreign company is liable for withholding tax and chargeability of such payment to a non resident is not required to be analysed by the payee for withholding tax from such payment. Subsequently, the Delhi High Court and the Special Bench of Chennai Tax Tribunal dissented with the Karnataka High Court decision to hold that the Income tax Act does not fasten an obligation on the payer to withhold tax at source if the payments to non-residents are not chargeable to tax under the Act. Whilst both the High Court decisions are before the Supreme Court, their outcome is keenly awaited, which should provide clarity on the uncertainty which currently prevails on the obligation to withhold tax while making payment to a non-resident.

The issues, relating to the withholding tax obligations on certain key payments being made by the telecasting companies, are discussed below:

i. Payment for lease of transponders

Characterization of the payment for lease of transponders has been a subject matter of extensive debate and there have been a catena of judicial decision on the issue, without any finality. The Tax Authorities have been contending that the payment is in the nature of Royalty, or is in the nature of Fees for Technical Services and therefore liable to withholding tax. There are conflicting decisions at the appellate level on the subject. In one of the cases, the Tax Tribunal has held that, the payment is in the nature of Royalty under the Act. However, in another case, it was held that, in terms of the relevant tax treaty, the payment is neither in the nature of Royalty nor Fees for Technical Services and, accordingly, such payment is not liable to tax in India. Recently, the Special Bench of the Tax Tribunal has held that the consideration paid by the telecasting companies to the satellite companies is for the 'use' and 'right to use' of the process involved in the transponder and hence it is in the nature of Royalty.

Separately, the Chennai Tax Tribunal has, recently, held that even in case where the broadcasting company pays transponder hire charges to a third party which does not own the satellite that hosts such transponder, still such payment will be construed as Royalty since the ultimate user of the transponder uses a process while utilising it for the transmission of its signals and therefore the payments would retain the same character, despite change of hands from satellite owner to a third party supplier.

ii. Payment by FTCs to foreign companies for acquiring content

The telecasting companies generally acquire the television content either on licence basis or on outright basis. In this scenario, the FTCs have been arguing that the payment for acquiring content from foreign companies is not subject to withholding tax in India as the transaction is between two non-residents outside India. However, in certain cases, the Tax Authorities have been contending that where the FTCs acquire licence in the content for telecasting in India, the payment would be subject to withholding tax in India. Thus, the issue has been a matter of dispute between the tax payers and the Tax Authorities.

iii. Payment of Royalty to foreign companies for sale and distribution of cinematographic films on DVD and VCD

The Indian distributors entering into licence agreements with foreign companies for sale and distribution of cinematographic films on DVD and VCD make periodical payments to such foreign companies depending upon the quantum of sale of on DVDs and VCDs which are often described as 'Royalty' in the agreements executed with such foreign companies. The Indian Tax Authorities have been contenting that such payment constitutes royalty chargeable to income tax in India and therefore the Indian distributors are liable to withhold tax on such periodical payments made to foreign company which holds the copyright of the films. In a recent decision, the Mumbai tax tribunal has held that although 'royalty' has been paid as per the agreement, such periodical payments for sale and distribution of cinematographic films are expressly excluded from the ambit of Royalty as defined in the Indian Income Tax Act and, therefore, the Indian distributors are not liable to withhold tax from such payments .

iv. Payments for production of television programmes

By and large, the television channels acquire the programmes from the television programme producers for broadcasting or telecasting through their channels.

The Indian Tax Authorities have been contending that since the programme producers qualify as professional/ technical persons, payments made by television channels to such programme producers are liable to withholding tax provisions under section 194J. However, the television channels have been contending that such payments are made towards a contract concerning broadcasting and telecasting including production of programmes for such broadcasting or telecasting and, hence, should be covered under provisions of section 194C. In a recent decision, the Delhi High Court has accepted the television channel's contention.

v. Discounts given to advertising agencies

The television channels, generally, enter into agreements with advertising agencies for canvassing and procuring advertisements for television channels for which discounts are provided to the advertising agents.

The Tax Authorities have been contending that such discount is in the nature of commission or brokerage paid by television channels to the advertising agencies and, accordingly, is liable to withholding tax under Section 194H of the IT Act. However, the tax payers are of the view that the television channels provide discount on tariff charged by them for the ad spots and, hence, the question of payment of commission by television channels to advertising agencies does not arise at all. Accordingly, there would be no scope of withholding tax from such non existent payments. Further, the relationship between the television channels and the advertising agents is on principal-to-principal basis and not that of a principal-agent. Accordingly, it would not fall within the purview of Section 194H of the IT Act. Recently, the Kerala High Court, based on the facts of the case, has held that there exists a Principal to Agent relationship for such transactions and the agreement entered by the parties is nothing but an agency arrangement and therefore the discount is in the nature of commission liable to withholding of income tax under section 194H.

Indirect Tax Issues

Television networks are used as means for advertisement, display of programs and so on. Typically, the television broadcasters earn revenue from advertisements and subscription charges collected from multi system operators (MSOs) and cable operators. Other source of revenue includes content syndication / sub-licensing of content.

A broadcaster is liable to service tax for the subscription charges recovered from MSOs and cable operators for providing the signals along with selling of times slots on television for advertising purposes. Content syndication business (i.e. acquisition and selling/transfer of content rights) undertaken by the broadcaster also attracts indirect taxes.

The broadcasting agency or organization may have office in India or outside India. In case the head office is situated outside India, such organization may operate in India through Indian branch or through subsidiary or through an agent. Thus for a foreign broadcaster, it is the Indian subsidiary or agent, who acts on behalf of such foreign broadcasting agency or organization, who is liable to pay service tax on the revenues earned by foreign principals.

Some of the key issues faced by broadcasting agency/ subsidiary or agent of foreign broadcasting agency or organization are as follows:

Value Added Tax ('VAT') issues

VAT liability on sale of advertisement slots

A broadcaster is liable to service tax for sale of time slots for advertisement. Given that it is a service at conceptual level, VAT should not be levied. However, in some jurisdictions, the revenue authorities have been disputing this position and levy VAT on sale of time slots for advertisement. The revenue authorities have contended that the sale of time slots is a sale of an intangible right and, accordingly, such sale should be treated as sale of goods. Revenue authorities in some states have also issued clarifications suggesting that this transaction could be liable to VAT.

In view of the settled position in law in BSNL and other cases, any transaction can either be subjected to goods tax or service tax. Based on the nature of this transaction, there do not appear to be any goods involved in this transaction. Hence, there is an urgent need of a clarification about non applicability of VAT on such transactions.

Grant of copyright liable to VAT and availability of issues pertaining to Input Tax Credit

In case the channel company grants/sells the copyright in the content to some other channel or distributors in India, the same is subject to VAT under the respective state's VAT legislations. Normally, the VAT charged by the channel company is available as Input Tax Credit ('ITC') to the purchasing channel company or distributors without any restriction. However, in the state of Maharashtra (which is the hub of Indian entertainment industry), there is a restriction that only if the acquired copyright is re-sold within a particular period (i.e. 12 months), then only ITC would be available to the purchaser.

Typically, the acquirer of the content exploits the content himself and may not necessarily re-sell it within 12 months. In such a situation, VAT paid at the time of content acquisition becomes ineligible for ITC.

The provisions in all other state VAT legislations do not have such restriction on availing ITC of the VAT paid. It is therefore suggested that the Maharashtra government may amend the VAT legislation to allow ITC on content acquisition without any restriction to be competitive with other states and also as a measure of relief to the industry in India.

Double Taxation on Copyright – Service Tax as well as VAT

The Finance Act, 2010 has introduced levy of service tax on temporary transfer of copyrights or the granting of permission to use or enjoy the copyright in programmes, i.e. cinematograph films. The introduction of this category leads to double taxation, as VAT is also chargeable on the same transaction.

Regulatory issues

- In the telecom sector, foreign direct investment (FDI) up to 74% is permitted, out of which 49% is permitted under the automatic route. However, in the broadcasting space, FDI ceiling varies between different segments of distribution – from 20% in Direct-to-Home (DTH) to 74% in Headend – in – the – Sky (HITS) with cable being limited to 49%. Due to growing convergence between telecom & broadcasting sector, and with telecom companies planning to get into broadcasting space, it is essential that FDI ceilings are streamlined to facilitate such convergence.
- As per the existing exchange control regulations, any drawing of foreign exchange towards hiring charges of transponders by TV Channels and internet service providers requires prior approval of the Ministry of Information & Broadcasting (MIB) irrespective of the amount involved. These restrictions are, however, not applicable to remittance out of Resident Foreign Currency Account (RFC) and Exchange Earner's Foreign Currency Account (EEFC). Continuing the trend over the last few years of liberalizing exchange control restrictions, the Government may consider putting an appropriate limit under the automatic route for such payments even in cases, where remitter does not have RFC/EEFC account.
- Telecom companies providing IPTV services are required to pay a licence fee based on their Adjusted Gross Revenues. However, there seems to be no such payment obligation on cable operators offering IPTV services. Thus, appropriate policy measures may be taken in order to bring telecom companies on par with the cable operators.
- In continuation to the consultation paper dealing with issues of regulation of tariff of DTH services on 6 March, 2009, the Telecom Regulatory Authority of India (TRAI) had issued a supplementary consultation paper dated 24 December, 2009 dealing with additional issues like 'add-on-packs' and other issues relating to DTH services. Appropriate policy measures should be taken to iron out issues relating to offering a-la-carte (individual rates for each channel on the DTH platform) channels to all DTH subscribers considering the limited spectrum bandwidth and shortage of transponder space available to DTH operators, unlike the cable network, while weighing in the impact on the industry and its consumers.
- On April 26, 2008, TRAI had given its recommendations on the proposed limits of foreign investment for the broadcasting sector and the calculation methodology. However, since the methodology to compute foreign investments had undergone a change vide introduction of Press Notes 2 and 4 of 2009 by DIPP (using ownership and control elements), the Ministry of Information and Broadcasting, in September 2009, made a reference to TRAI to revisit its earlier recommendations. With a need for a consistent policy of foreign investment in broadcasting and telecommunication sectors and to provide a level playing field to service providers in both the sectors, TRAI had issued a consultation paper on 15 January, 2010 on Foreign Investment in broadcasting sector. The consultation paper proposes to increase the FDI cap. In the mean time consolidated Foreign Direct Investment (FDI) policy

(Circular 1 of 2010) was issued vide dated 31 March, 2010 maintaining status quo on FDI limits in the broadcasting sector and remained silent on the FDI limits prescribed by consultation paper. TRAI, taking into consideration the comments received from various stakeholders through a consultation process, has issued its recommendations on June 30, 2010 on foreign investment limits for broadcasting sector.

Summarizing the key recommendations made by TRAI as under:

- TRAI issued a consultation paper on 25 March, 2010 dealing with tariff issues related to cable TV services in Non-Condition Access System ('CAS') areas based on the directions given by Supreme Court. The paper covered several major issues such as wholesale tariff of channels, retail tariff for cable TV, a-la-carte provision of channels, carriage & placement fee paid by broadcasters to MSOs/cable operators, tariff for commercial subscribers and

Sr. No.	Segment	Existing Limit * (Note 1)	Proposed Limit ** (Note 2)	Conditions, if any
1	Broadcast Carriage Services:			• Intimation of names and details of: – all persons, not being resident Indians, who are proposed to be inducted in the Board of Directors. – Foreigners/ NRIs to be employed/ engaged in the company either as Consultants (or in any other capacity) for more than 60 days in a year, or, as regular employees. • At least 3/4th of the Board of Directors of the company and all key Executives and Editorial staff shall be resident Indians. • Board representation shall as far as possible be proportionate to the shareholding. • CEO of the applicant company, known by any designation, and/ or Head of the channel, shall be a resident Indian. • Security Conditions to be worked out in consultation with the security agencies of the Government and incorporated in the permission/license.
(a)	DTH	49%	74%	
(b)	IPTV	74%	74%	
(c)	Mobile TV	No policy	74%	
(d)	HITS	74% (upto 49% automatic)	74%	
(e)	Teleport (Hub)	49%	74%	
2.	MSOs operating at the National or State level	49%	74%	• Provided they take up upgradation of networks digitalization with addressability • Conditions under (1) above also applicable
3	Other MSOs	49%	49%	• Conditions under (1) above also applicable
4	Local Cable operators	49%	26%	-
5	FM Radio	20%	26%	-
6	Downlinking	100%	100%	-
7	Uplinking – non-news & current affairs	100%	100%	-
8	Uplinking – news & current affairs	26%	26%	-

** Currently foreign investments in broadcasting sector require FIPB approval*

*** TRAI has recommended that all foreign investments in broadcasting sector below the level of 26% should be allowed on the automatic route. The foreign investment of 26% and above would require prior approval of FIPB.*

Notes:

1. Existing limits are as per consolidated FDI policy issued by DIPP dated 31 March, 2010

2. Proposed limits are as per TRAI's recommendations on Foreign Investments limits for Broadcasting sector dated 30 June, 2010 digitization with addressability. The new tariff regime is expected to bring in transparency among the stakeholders operating in the non-CAS areas.

- With an objective to review the tariff framework for cable TV services in CAS notified areas, TRAI issued a consultation paper on 25 April, 2010. The issues covered in the consultation paper were tariff for basic service tier, retail price for a pay channel, tariff options for supply of set-top-boxes and revenue share arrangement between service providers. The new tariff regime could provide a boost to CAS providers, which are in demand with the pacing digital technology in the pay-TV market. MIB had issued a notice to temporarily suspend receiving applications for permission to uplink/ downlink TV channels due to the Government's concern over finite resources such as limited spectrum and transponder capacities. MIB had approached TRAI to provide its recommendations. However, realizing that TRAI would take time to provide its recommendations and subsequent to various representations, MIB started accepting and processing fresh applications as well as the applications already received earlier w.e.f. from April 1 April, 2010 which has come as a relief to the industry.
- TRAI issued a consultation paper on 15 March, 2010 dealing with policy issues on uplinking/ downlinking television channels in India. The consultation paper deals with issues such as cap on number of satellite television channels, eligibility criteria for and process of granting permission, minimum period of operation, revocation of permission of TV channels, renewal of permission, policy for transfer of permission and guidelines to develop the country into a teleport/hub for uplinking/turnaround of TV channels which are not meant for viewing in India and so on. TRAI will consider the responses provided by various stake holders.
- The guidelines for providing HITS broadcasting service in India have been issued by the MIB on 26 November, 2009. HITS broadcasting service, refers to the multi-channel downlinking and distribution of TV programme in C-Band or Ku Band, wherein all the pay channels are downlinked at a central facility (HUB/ Teleport) and again uplinked to a satellite after encryption of channels. FDI limit in this segment has been prescribed at 74% with prior FIPB approval required if FDI exceeds 49%. In the wake of ambiguity in the HITS guidelines, relating to interconnection regulations and other issues, based on the request made by the MIB, TRAI subsequently issued a fresh consultation paper on 6 April, 2010 seeking comments of the stakeholders on amendments to interconnection regulations and tariff dispensation for HITS services in India. Many stake holders have provided their comments on this consultation paper. The revised guidelines when issued could provide an impetus to the entities proposing to opt for HITS broadcasting service.
- TRAI has submitted its recommendations on Mobile TV in April 2009. Apparently, some of these recommendations did not find favour which led to the MIB directing TRAI to review and resubmit its recommendations. The TRAI has submitted its reconsidered recommendations on Mobile TV on 14 April, 2010. It needs to be seen whether the Governments efforts on Mobile TV would prove too little too late.

Print Media Industry

Direct Tax Issues

Taxability of advertisement revenues earned by foreign publishers from India

- The business of publishing magazines is generally carried out from outside India by the foreign publishers. They appoint agents in India as their advertisement 'concessionaire'. The agent is entitled to commission on the value of invoice directly raised by the publishers on the advertisers. Generally, the agent acts as an advertisement concessionaire for several principals. The issue that arises is whether the advertisement revenues earned by the foreign publishers are taxable in India.
- In several cases, the Tax Authorities have normally been contending that the agent in India constitutes PE of the foreign publisher in India and, hence, income attributable to such PE is liable to tax in India. However, the Authority for Advance Rulings has, in the case of one of the advertisement concessionaires of a foreign publisher, held that in a scenario where an agent derives less than 90% of the revenues from a single principal, it cannot be construed as a dependent agent of that principal and, consequently, cannot construe to be a PE of the latter. Therefore, the advertisement revenues earned by the foreign publisher ought not to be liable to tax in India. In the light of the above, one hopes that the controversy surrounding the issue stands resolved.

Withholding tax on discounts given to advertising agencies

- Mostly, the advertising agencies buy space/ slots in bulk from the print media companies (i.e. newspapers and magazines) for which discounts are provided to the advertising agents.
- The CBDT is of the view that such discount is in the nature of commission or brokerage paid by newspapers to the advertising agencies and, accordingly, is liable to withholding tax under Section 194H of the IT Act. However, the tax payers are of the view that the newspapers provide discount on bulk purchase of space by the advertising agencies and, hence, the question of payment by newspapers to advertising agencies does not arise at all. Accordingly, there would be no scope of withholding tax from such non existent payments. Further, the relationship between the newspapers and the advertising agents is on principal-to-principal basis and not that of a principal-agent. Hence, it would not fall within the purview of Section 194H of the IT Act.

Regulatory issues

- MIB had issued guidelines for publication of 'Indian editions of foreign magazines dealing with news and current affairs'. The guidelines permit the Indian publisher to add local content and advertisements in the magazine. Further, the foreign investment limit in publishing Indian edition of foreign magazines in the Indian entity is restricted to 26% with prior approval of the Government.
- The Government has permitted FDI up to 100% under approval route for:
  - Publication of 'facsimile edition of foreign newspapers' provided the FDI is by the owner of the original foreign newspaper whose facsimile edition is proposed to be brought out in India.
  - Publication of scientific and technical magazines/ specialty journals/ periodicals.

  Both the above publications would be subject to the relevant MIB guidelines.
- MIB has invited comments from stakeholders on proposed amendments to the Press and Registration of Books Act, 1867. The key amendments proposes to include "publications" i.e. newspapers, magazines, journals and newsletters within the ambit of the said Act, including their electronic replicas.

Film Industry

Direct Tax Issues

Deduction of expenditure on film production & acquisition of distribution rights

Rule 9A/9B of the IT rules provides for the manner of claiming deduction in respect of the expenditure incurred in connection with the production of a film/ acquisition of distribution rights. These expenses are allowed as deduction based on release of film or when the distribution rights to the films are exploited. Based on the facts of the case, the expenditure is allowed as deduction either in first year or over a period of two years.

One of the principles of jurisprudence is that 'rules' under the 'Statute' cannot over-ride the 'Statute' itself. Accordingly, the debate is whether Rule 9A/9B over-rides all other provisions of the IT Act (for e.g. capital expenditure vs. revenue expenditure, cash system of accounting vs. accrual system of accounting, disallowance of statutory payments not made within the due date of filing of tax return and others) or the income needs to be computed based on the provisions of IT Act (without re-course to the Rule 9A/9B). The issue has generated significant debate, but the jury is still out on the subject.

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

The film financiers, typically, enter into film financing agreements or arrangements with different producers and directors of the films in order to provide financial assistance to them for making the film. These film financiers are not engaged either in producing the films or in hiring the services of producers and directors for making the film. The film financier is entitled to recover the money advanced by it from the distribution of the film. Recently, the Tax Tribunals has held that financing of the film projects does not amount to making any payment for carrying out any work which is a requirement for withholding tax under section 194C of the IT Act. The tax tribunal has also observed that a relationship of principal and contractor does not exist between the film financier and a film producer or director.

Joint production of films by Indian and foreign producer

In cases where the venture of producing film is undertaken jointly by an Indian and a foreign producer, care should be taken to ensure that the arrangement does not result into constitution of an Association of Persons ('AOP'), which is taxed as a separate independent legal entity apart from its members. If the venture is assessed as an AOP, complexity could arise, for e.g. availability of credit for taxes withheld eligibility to claim the tax treaty benefits and so on.

Taxability of Hollywood companies in India

Hollywood companies produce films outside India and distribute them throughout the world, including India. These companies generally import the prints of the movies into India through their Indian branch and grant exhibition/distribution rights for lump sum consideration or Royalty based on ticket sales. Determination of taxable income of the Hollywood companies has been a matter of interim controversy in view of the practical difficulties faced in computing net profit attributable to the Indian operations. In the past, the Motion Pictures Association of America (MPA), of which the Hollywood companies are members, had entered into an Agreement with the CBDT, whereby it was decided that the income of such companies would be determined at a presumptive rate of 25% of the gross film receipts earned out of the operations in India. While, the Agreement was effective only up to March 31, 1987, various Hollywood companies have continued to discharge their tax obligations on the aforesaid presumptive basis. However, the Tax Authorities have been taking a stand that since the Agreement was effective only up to March 31, 1987, it is no more valid and the taxable income for subsequent years should be computed as per the normal provisions of the IT Act. In one of the cases, the Tribunal has held that, in absence of any better method of assessment of the Hollywood companies, the principles laid down in the Agreement for determination of taxability cannot be overlooked.

In view of the above controversy, the CBDT may consider issuing appropriate clarification vis-à-vis taxability of Hollywood companies in India.

Indirect Tax Issues

Differential rate of VAT on sale of recorded DVDs/ CDs in different states

With the advancement of technology and availability of low cost DVDs /CDs in India, the home entertainment segment of the cinematographic film is growing at a staggering pace. The only path- breaker in this growth is piracy, i.e. unauthorized versions of the original DVDs/ CDs floating in the market.

Typically, in home entertainment segment, the content rights in the cinematographic films are exploited by way of recording the content in DVDs/CDs and selling them in retail market. The VAT rate applicable on sale of recorded DVDs/CDs in majority of states in India is 4% - 5%. However, in certain states such as Gujarat, Uttar Pradesh, Rajasthan, Madhya Pradesh and Assam, the rate of VAT on sale of recorded DVDs/CDs is 12.50% - 15%. There is direct nexus between the prices of recorded DVDs/CDs with the piracy in India. The increased cost of recorded DVDs/CDs (on account of increased rate of VAT i.e. 12.50% - 15%) results in non-affordability of the legitimate copy of the DVDs/CDs to the consumers. In such a scenario, the demand of the non-legitimate versions of the recorded DVDs/CDs increases and helps piracy to flourish in the market.

Such piracy results in loss to the state Government's VAT revenue, as the sale of such pirated / non-legitimate versions of DVDs/CDs go without levy of VAT. Moreover, since the central Government provides specific exemption from levy of excise duty on manufacture of recorded DVDs/CDs, it would be prudent on the state Government's part to either exempt the sale of DVDs / CDs from levy of VAT or reduce the rate of VAT on the same to 4% - 5%. .

Service Tax Issues

Vide Finance Act, 2010 service tax is levied on temporary transfer of copyrights in films.

Theatrical Revenue

Since the transactions between the producer and the distributor would involve transfer of right to use copyrights in the films, and copy rights are considered as intangible goods under VAT Laws, the same would be chargeable to VAT as deemed sale of such copyrights. In addition to VAT, the same transaction will also attract Service Tax under the newly introduced category of service, Copyright Services, leading to double taxation.

Similarly, the transactions between the distributor and the exhibitor, if executed on similar lines, would also be subject to double taxation, creating a major issue for the exhibitors as they have no output tax liability against which the set off of the VAT as well as the Service Tax can be availed.

Non-Theatrical Revenue

The introduction of the new category of service also impacts the transactions in relation to non-theatrical revenue, viz grant of satellite rights, Cable TV rights, Digital rights, besides others. Wherever the copyright in the films is temporarily transferred to other entities, the same would be chargeable to VAT as well as Service Tax, leading to double taxation.

Regulatory Issues

- The State Governments are empowered to levy tax on 'entertainment' under the Constitution of India. The entertainment tax levied on release of films in cinema halls is highly uneven across various States and is in excess of 30% – 40% in certain States. Further, single screen theatres are faced with levy of higher entertainment tax compared to multiplexes, resulting in disparity. The Central Government could consider acting as a coordinator in bringing parity in entertainment tax rates across India, thus bringing relief to the players and also the end-consumers.

- Currently, India has co-production treaties for films with Italy, Brazil, UK and Germany. India may consider entering into more co-production treaties with other countries especially with strong demand of entering an agreement with USA. This should help to increase the export potential of the local film industry as such films would get the status of national production in both countries. It will also smoothen the process of importing equipment needed for films and lead to sharing of technologies and talent. Formation of an Export Promotion Council in order to promote the development of export markets for Indian films has gathered momentum.

Radio Industry

Direct Tax Issues

Deduction of licence fees

The radio broadcasters are required to pay licence fees, viz. one time entry fee and recurring annual fees, to the Government as per the terms of the licence. The issue that arises is whether such fees are in the nature of revenue expenditure to be claimed as deduction in the year in which it is incurred or is in the nature of capital expenditure entitled to depreciation at specified rate. One view is that, since the annual licence fee is payable for each year of operation, the expenditure is a period cost necessary for conduct of business and hence should be allowed as revenue expenditure. Further, the one time entry fee should be allowable as deduction over the period of licence. However, another view is that the payment could be treated as incurred on capital asset, i.e. for acquiring of 'licence' specifically covered as intangible asset eligible for depreciation at specified rates. Characterization of expenditure as revenue or capital expenditure has always been a matter of intense controversy between the tax payers and Tax Authorities and is expected to be resolved only at higher appellate level.

Regulatory Issues

- At present, an annual license fee of 4% of gross revenues is payable by the entity having FM radio licence. A clarification may be provided by the Government to the effect that the licence fee would apply only to revenues from 'radio operations'. Further, boost may be granted to the radio sector by charging licence fee on the basis of 'net income', as this would ensure collection of annual licence fee only from those companies which are profit making and would provide much required relief to radio players making losses and also give an impetus to the radio industry in general.
- The FM radio licence is not renewable automatically at the end of initial 10 years of the licence period, which however, is provided in the telecom space. Government is in the process of finalizing the FM Radio phase-III policy soon, providing incentive for extending the reach to the North Eastern States, Jammu & Kashmir and island territories for making the operations viable in these areas. These include allowing the ownership of channels in these areas over and above the 15% limit on national ownership and payment of annual fees @ 50% for an initial period of 3 years. The phase-II policy will further liberalize the regulatory framework to provide for greater diversity of content and bring down operational costs. The FM Radio phase-III policy is also expected to address few issues like permission to broadcast news and current affairs with content sourced from Prasar Bharti, establish cross city network by broadcasters, multiple frequencies for an operator and so on.

Under the FM Radio phase-III policy there could be a provision for -

  - Extension of licence period from 10 to 15 years; or
  - Automatic renewal of licence after the initial period of 10 years, with a charge of a financial sum for extension.

- There is a 5 year lock-in condition for changing the ownership pattern of the FM radio company through transfer of shares of the major shareholders to any new shareholders. Such condition may be relaxed to enable easy exits for promoters incurring losses and facilitating introduction of investors with big pockets.

- Foreign investment limit (FDI and FII) in radio continues to be at 20%, the lowest compared to print and television media (although, the consultation paper on investments in broadcasting sector proposed an increase in foreign investments in radio to 49%). The view that FM radio is a sensitive sector and hence there should be greater restrictions on foreign investment needs re-consideration to ensure faster growth of the FM radio industry.
- The existing limit of maximum 15% of total FM Radio channels in the country for a licence holder seems to be far-stretched, especially considering the additional restriction of one channel-per-city for such licence holder.

Music Industry

Direct Tax Issues

Taxability of Royalty income

The major sources of revenue for a music company are sales from recorded music, i.e. cassettes and CDs and Royalties from licensing of rights to other music companies. While the taxability of revenues arising from sale of cassettes and CDs is fairly simple, issues could evolve vis-à-vis taxability of income from licensing of rights. Income from licensing of rights could be either in the form of lump sum Royalty or Royalty based on turnover of the licensee or combination of both. Royalty based on turnover of the licensee is generally taxable in the respective years of turnover. However, as regard to lump sum Royalty, issues could arise as to whether such Royalty is taxable in the first year, i.e. on grant of licence or is taxable over the period of licence or is taxable only on completion of the transaction. Based on the judicial pronouncements, a view could be taken that such Royalty is taxable over the period of licence. Nonetheless, the Tax Authorities are of a different view and take the matter up to appellate levels, at which one may see an end to the controversy.

Deductibility of expenditure for acquisition of music rights

Cost of acquisition of licence/copyright in music forms a significant part of a music company's cost. The issue that arises is whether such cost would be entitled to depreciation at a specified rate or is in the nature of revenue expenditure deductible in the first year or is to be treated as amortisable over the period of licence. The Tax Authorities have been following different approaches in different cases. This has led to considerable uncertainty and litigation in the matter.

Indirect Tax Issues

As per provisions of VAT Act in Maharashtra State (which is the hub of entertainment industry), copyrights are treated as intangible goods and the transfer of copyrights, temporarily or permanently, attracts levy of VAT. However, no input tax credit of VAT paid on such transfer of copyrights is available if the copyrights are not resold within 12 months of purchasing the same.

At the time of sale of music rights by the film producer to the music company, VAT is applicable since the transaction is treated as one for transfer of copyrights in the music of the film. However, since the music company does not resell the copyright and only sell the CDs containing the music, it is not in a position to claim the input tax credit of the VAT levied by the producer and such VAT becomes cost of the music company.

Gaming Industry

Indirect Tax Issues

For gaming consoles imported in India, the customs duty rate is significantly higher as compared to the customs duty rates for similar products like computers, laptops, software and other entertainment products such as PDA mobile phones and MP3 players, which are also used to play games. With the advancement in technology and developing market for gaming consoles in India, the Government should consider reducing the rate of customs duty (equivalent to other forms of gaming devices) on gaming consoles imported in India by issuing clarification/notification.

Sports Entertainment Industry

Direct Tax Issues

Payments for acquiring broadcasting rights of live events

The issue that arises is whether the payment made to foreign company for acquiring right to telecast live feed of an event is taxable in India. The broadcasters are of the view that there is no 'Copyright' in the live feed. Accordingly, such payments should not be regarded as 'Royalties' and should not attract any withholding tax in India. However, in certain cases, the Tax Authorities have not accepted this position and the matter is pending before the Appellate Authorities.

Taxability of clubs/governing bodies conducting league events

The league events could give rise to the tax issues for the clubs/governing bodies, especially in light of the amendments made by the Finance Act 2008 to the definition of the term ‘charitable purpose’. The budget has amended the definition of ‘charitable purpose’ by excluding exemption in respect of the activities or services in the nature of trade, commerce or business. In light of the above amendment, the exemption claimed by the clubs/governing bodies, if any, needs to be re-looked if the league event is considered as a commercial activity.

Reconsidered recommendations of TRAI on Mobile Television (Mobile TV) (dated 14 April, 2010)

Key recommendations are as follows:

- Mobile TV technology would be a convergence of both the broadcasting and telecommunication sectors. The TRAI has recommended that either of the technologies should be permitted for delivering Mobile TV in India.
- Both broadcasters and telecom operators would be able to take part in the bidding process.
- TRAI has clubbed smaller states with larger ones and formed 20 circles for Mobile TV licence.
- Roll out obligations, post the allocation of spectrum for Mobile TV, has been structured across three phases:
  - Phase 1: within 12 months launch services in all cities with a population of more than one million and the State capitals and union territories within the licence area.
  - Phase 2: within 24 months, launch services in all cities /towns with population of 100,000 or more.
  - Phase 3: within 36 months, launch services in district headquarters.
- Any delay to meet the roll out obligations would attract liquidated damages for six months and subsequent defaults would result in cancellation of licenses and withdrawal of spectrum.
- Transfer of Mobile TV licence would be allowed only after the completion of the above roll out obligations.
- Mobile TV will be allocated 8 MHz spectrum after joint discussions between MIB, Department of Space and Wireless Planning Commission.
- FDI would be allowed up to 74% (at par with existing norms for FDI in telecom sector).
- No single entity can hold more than 25% of the total number of permissions given in the country and no single company be given more than one licence per circle.
- The licence fees would be higher of:
  - An annual licence at the rate of 4% of the Gross Revenue; or
  - A One Time Entry Fee (OTEF) of 5% of the reserve (TRAI has earlier recommended OTEF of 10%)

Guidelines by MIB for providing “Headend In The Sky” (HITS) broadcasting services in India (dated 26 November, 2009)

The key features of the guidelines are as follows:

- HITS operator can either contract with different broadcasters for buying the content, aggregating the same and then uplink with its own encryption to a satellite hired by him or it can merely provide passive infrastructure facility to consortium of cable operators/MSOs.
- HITS services are allowed in both ‘C-Band’ and ‘Ku-Band’.
- HITS operators can uplink from Indian soil only and will have to install Subscriber Management System (SMS) and encryption system.
- HITS operators are not permitted to provide signals directly to the subscribers. However, if HITS operator is also MSO/Cable Operator, he can do so through his distribution network.
- Total direct and indirect foreign investment including FDI is allowed upto 74%. Prior FIPB approval will be required if the FDI in beyond 49%.
- No restriction on the total number of HITS permissions to be applied for licence for a company fulfilling the eligibility criteria and necessary terms and conditions.

- Eligibility criteria and other terms and conditions for a company to opt for HITS Broadcasting service are as follows:
  - Minimum net worth of Rs. 10 crores.
  - Non-refundable entry fee of Rs.10 crores.
  - Bank guarantee for Rs. 40 crores for a period of three years.
  - A cross media holding restriction of 20% of total paid up equity for various segment of broadcasting services.
- Existing permission holders of HITS will have to comply and migrate to new policy regime within three months, failing which, their permission shall stand cancelled.
- Sufficient provisions exist under the guidelines for monitoring of content, inspection and national security related issues.

The policy guidelines provide for a framework within which the HITS service providers have to provide services in the country. However, the policy does not mandate for either the cable operators or subscribers to necessarily obtain signals from a HITS platform/network i.e. the subscribers and cable operators can continue with the existing system. Hence, the cable operators have liberty to switch over to HITS provider network, if so desired. Thus, it has the basic difference from the areas notified for CAS (Conditional Access System) which is mandatory.

In the wake of ambiguity in the HITS guidelines relating to interconnection regulations, etc, based on the request made by the MIB, TRAI subsequently issued a fresh consultation paper on 6 April, 2010 seeking comments of the stakeholders on amendments to interconnection regulations and tariff dispensation for HITS services in India. Many stake holders have provided their comments on this consultation paper. The revised guidelines when issued could provide an impetus to the entities proposing to opt for HITS broadcasting service.


WORK IN A W

Technology and E&M industry

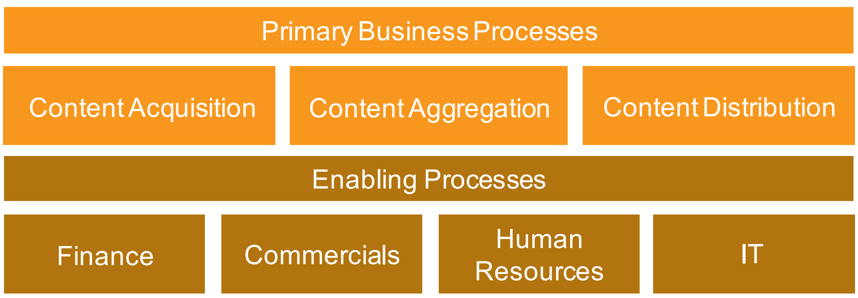
Media and Outlook Report 2010 – IT Enablers

Success of media business today primarily revolves around the content. Depending on what part of the value chain one belongs to, the content and its packaging plays a predominant role in driving audiences and revenues to the table.

Hence,effectively maximizing the content and the Intellectual Property (IP) that revolves around it will help firms define their position in the market and capitalize on their assets while amplifying profits.

Taking a look at the media process value chain, following are the trends that we believe would help the media firms of today become the 'Media Enterprises' of tomorrow.

Media: Process Value Chain



Content Acquisition

Content forms the core of the Entertainment & Media industry. Organizations, generally, either create content or buy them from other entities. Hence, content sourcing is a key business decision that affects –

- Profitability
- Pricing of end product(s)
- Internal capability development

Managing the complexity of digital contents (be it streaming videos, sound bites, images, logos, animations, documents, web pages and so on) and maintaining a central storage of digital content for access across enterprise applications can be most effectively managed by an IT enabled solution.

Moreover, the shift to enterprise digital content is delivering a central 'Content On-Demand', in any form and format required through multiple channels. It will encompass all aspects of the M&E business processes, including development, production, scheduling, management, distribution and storage of content.

An enterprise content solution also manages unstructured digital contents of various types –

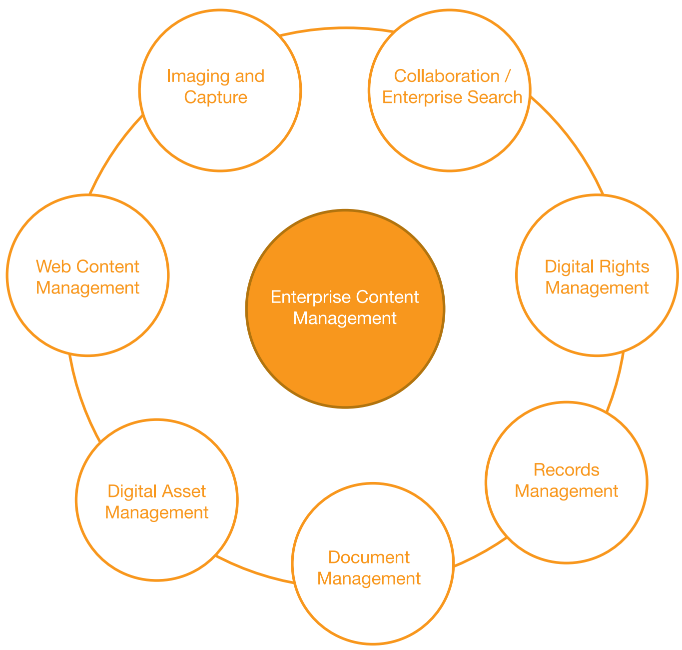
- Document – Text documents, spreadsheets, presentations, notes and reports.
- Web – HTML, XML and WML.
- Rich Media – Images, audio, video and flash.
- Fixed – Paper, faxed images and scanned images.
- Message & Collaborative – Emails, IM, chats, discussions and more.

Content Aggregation

An IT-enabled enterprise digital content solution captures content from enterprise applications like CRM, ERP solution and content authoring systems. This adds intelligence and value to the digital content captured by creating classification / categorization schema, metadata, taxonomy, tags to enable faster and efficient search & retrieval of contents.

It manages – Review -> Revision -> Approval

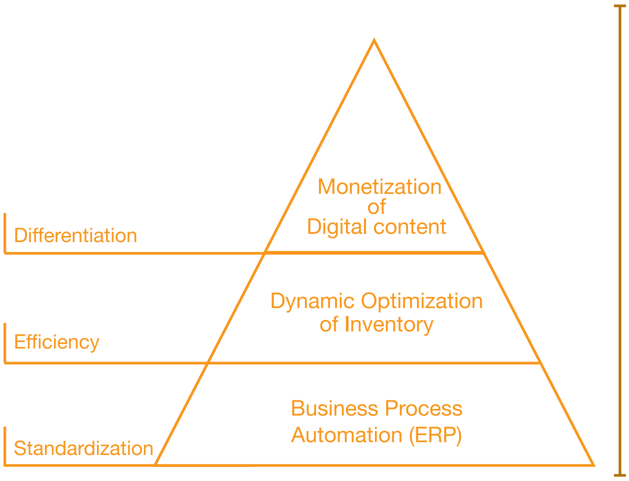
processes of digital contents as per pre-defined rules allowing a single content to have multiple identities based on context supporting renditions and repurposing.



Monetizing content, which is the next phase of the value chain, requires excellent conversion and monitoring tools that can help package the content in accordance with the audiences' desires to see it and dploying tracking technology that ensures that all revenue leakage is plugged.

The ideal landscape for content aggregation would look like this:

Moving to a tapeless environment will give media companies the infrastructure required to meet future challenges for digital based production (digitization of video/movie libraries). This will also help them with new distribution channels like IPTV, VOD and others. Significant cost savings can also be realized as IT storage is cheaper than traditional tape based storage.



Increase

Digitization of content

Management of all rights through a decision support system

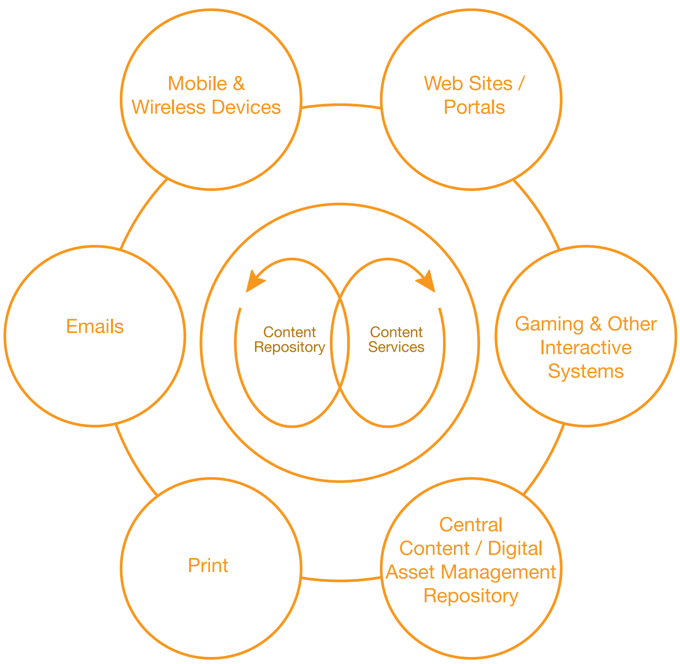
Decrease

Legal hassles around rights management

Revenue loss on accountt of content not being managed properly

Increase revenue per content monetization channel (television, mobile, new media)

Increase integration with existing ERP and inventory management system



Content Distribution

Adopting an IT enabled enterprise digital content solution will provide a unified, central content management platform, with enhanced content delivery services, that supports multi-channel publishing including web, print, mobile and other wireless devices, besides fax, emails, web-based messages, SMS, social media, video content publishing, gaming and other interactive systems.

Plugging revenue loss during distribution

For a typical Television Broadcasting Media (TBM) company, distribution would involve the transmission of signal from the programming department to the set-top box at the customer's house. Consumption is the process through which consumers' access, purchase or rent products.

The TBM industry relies heavily on the measurement of customer consumption to be able to quantify advertising audiences, revenue share arrangements, talent participation agreements and financial reporting. Several parties are involved with the measurement process; the processes and accuracy vary depending on the nature of the technologies deployed. For both broadcast and

cable television and the advertising associated with them, consumption is measured by viewers' experience. This type of measurement is an estimate based on a statistical sample prepared by a third party.

Some of the major challenges most TBMs are facing today include –

- An increased need of timely, accurate, updated and complete information on the commercial traffic signaling so as to be more effective in the management of their sales.
- Plugging of revenue losses arising due to inconsistent and redundant information.

Additionally, industry-standard traffic signaling systems which help address the client's current and future needs, like booking of inventory and managing release orders (ROs), are fast gaining importance.

Digital Rights Management (DRM)

DRM has been a point of conflict, fundamentally, because of the nature of the existing distribution channels, the open nature of the internet and social sharing of media. Given that the conventional channels are also going digital in the near future, the critical success factors would primarily revolve around –

1. Innovative distribution and monetizing models.
2. An integrated and collaborative environment which would require players from across the value chain to work together with transparency.

And, finally, by looking at enabling processes and other operations within the firm as Managed Services, media firms can focus on their core business - content.

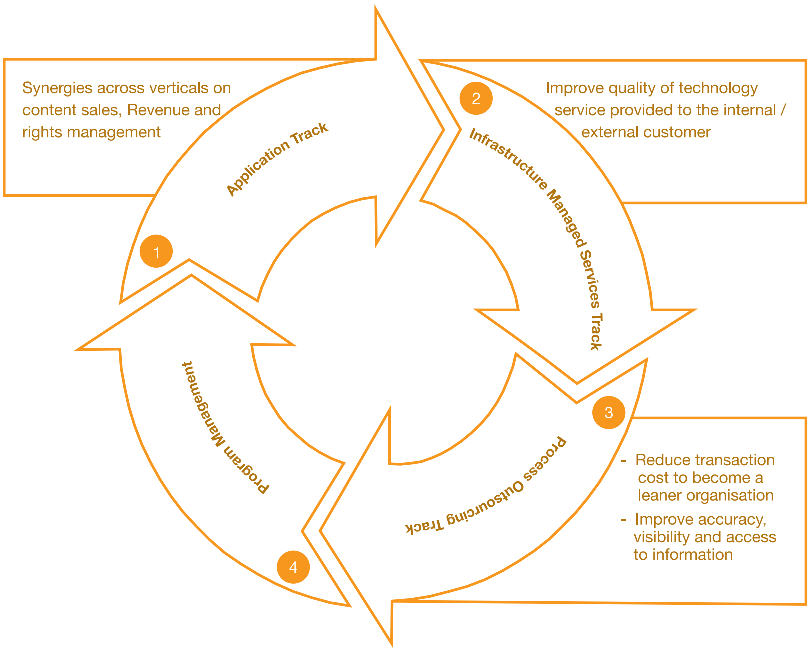
With such a strong focus on content generation and management, media companies in India are embarking on a journey to transform their enabling functions to the Managed Services scenario, thereby freeing management time to focus on building content that can be amortized through various delivery channels. A strong technology infrastructure supported by a robust process framework can help firms enable this business strategy.

The basis for this transformation would be streamlining of operations through an enterprise solution, bring in best-in-class applications for content and broadcast management, a managed services scenario for technology infrastructure management and process out-sourcing.

The objectives of such a transformation exercise would involve:

- Enabling core operations and support functions with the ‘Right’ technologies.
- Maximizing synergies across the business verticals.
- Streamlining IT and accounts function throughout the organization.
- Transitioning to a hybrid model of outsourced technology and processes with investments spread over a period of time.
- Driving towards a leaner organization through focus on core business areas only.
- Ensuring seamless deliverables across disparate solutions and services.

The 3 tracks constituting such a transformation exercise would include:



PricewaterhouseCoopers Entertainment and Media Practice

Every day, around the world, PricewaterhouseCoopers (PwC) plays a strong supporting role in entertainment and media businesses – a role that doesn't end when the curtains go down. We're here to share the insight, knowledge and practical skills we've acquired in our 150 year history to help you navigate difficult times. With a global outlook and local knowledge of culture, laws and business needs, PwC has been able to help clients in India make

the most of the changing market scenario.

The entertainment and media (E&M) practice of PricewaterhouseCoopers has depth and breadth of experience across sectors. We understand how changes in the broader E&M industry are affecting our clients and work with them as a trusted advisor providing solutions to help improve organisational effectiveness and long term success.

We offer insights gained from years of experience working with a broad range of industry clients, a tightly woven global network, and an extraordinary breadth of advisory , tax and regulatory services.

Our industry professionals offer industry-tailored performance improvement and transactional services as well as crisis support. Our combination of top-flight qualifications and industry expertise, global reach, thought leadership and ability to deliver comprehensive, industry focused services make PricewaterhouseCoopers one of the leading advisers to the entertainment and media industry. We are proud to have been recognised by industry experts as a leader in our field:

In February 2009, Kennedy Information identified PwC as a "Vanguard" services provider in the Entertainment & Media sector. Kennedy Information is a well regarded industry analyst organization for the Management Consulting market.

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Abbreviations

3G Third Generation
AIPL Advance India Projects Limited
AIR All India Radio
AROI Association of Radio Operators for India
ARPU Average Revenue Per User
BARC Bhabha Atomic Research Centre
BCCI Board of Control for Cricket in India
BFSI Banking Financial Services, Insurance
CAS Condition Access System
CPA Cost Per Acquisition
CPC Cost Per Click
CPI Cost Per Impression
CPM Cost Per 1000 Impressions
CPRPs Cost Per Rating Points
DD Door Darshan
DTH Direct-to-Home
EEFC Exchange Earner's Foreign Currency Account
EMEA Europe, Middle East, Africa
ERP Enterprise Resource Planning
ESD Entertainment & Sports Direct
FDI foreign direct investment
FII Foreign Institutional Investment
FIPB Foreign Investment Promotion Board
FMCG Fast Moving Consumer Goods
GOPA Grant of Permission Agreements
GRPs Gross Rating Points
HDTV High-Definition Television
HITS Headend – in – the – Sky
ICL Indian Cricket League
IMAI Internet and Mobile Association of India
IPL Indian Premier League
IPO Initial Public Offering
IPRS Indian Performing Right Society
IPTV Internet protocol television
IRS Indian Readership Survey
LCOs Local Cable Operators
MIB Ministry of Information and Broadcasting
MPDA Maharashtra Prevention of Dangerous Activities
MPDAI Motion Picture Distributors Association
MSOs Multi System Operators
OTEF One Time Entry Fee
PPL Phonographic Performance Limited
RFC Resident Foreign Currency Account
SAC Subscriber Acquisition Cost
SACFA Standing Committee Clearance for Frequency Allocation
SMS Subscriber Management System
TDSAT Telecom Disputes Settlement & Appellate Tribunal
TRAI Telecom Regulatory Authority of India
TRPs Television Rating Points
VAS Value Added Services
WSB World Series of Boxing

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