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India Entertainment and Media Outlook 2011

July 2011

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Message

Welcome to PwC's **India Entertainment and Media Outlook 2011**, analysing nine entertainment and media (E&M) industry segments. We have detailed key trends and challenges in each of the segments besides providing their future prospects. In addition, we have provided our views on tax and regulatory issues as well as the technology that is influencing the distribution of content in the industry.

The year 2010 saw the global economy begin to recover from a steep decline which in turn saw a rebound in consumer spend, advertising spend and most importantly E&M spend worldwide. Advertisement in particular staged a remarkable comeback in nearly all markets. The world in general continued its shift towards 'digital' though the magnitude of change was different in many markets.

India recorded one of the highest growth rates in the world at 11.2% in 2010. Yet, this was lower than projected, largely due to the negative growth in the film segment, with all the other segments growing as projected. E&M revenues in India continue to be largely non-digital with TV, print and film constituting almost 90% of the sector. While consumer preference continues to change, the shift to digital is hindered by poor infrastructure as well as affordability of broadband and mobile. Our forecast period does not show a dramatic change.

However, just because the change is not aggressive does not mean digital revenues will remain irrelevant. We continue to believe that this situation is temporary and once infrastructure is in place, change will be rapid. The industry needs to use this time to prepare for the digital world.

In this edition, we also present our views on the elements of the digital enterprise of the future.

At PwC, we continue to monitor trends and developments that may impact your business now as well as in future. We appreciate your feedback and request you to continue to tell us what can make the India E&M Outlook more useful to you. For additional clarification on matters included in the Outlook, please contact any of the PwC E&M professionals named in this publication.

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

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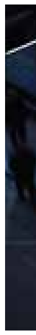


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Chapter 01

Industry overview

Introduction

We are pleased to present the 2011 edition of PwC's India 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.

2010: The economy on the mend

Worldwide, 2010 saw the global economy begin to recover from a steep decline in 2009. Improved economic conditions in 2010 played a major role in a rebound in consumer spend, advertising spend and most importantly in the E&M spend. While India and China were not critically impacted by the downturn in 2008 and 2009, they demonstrated one of the highest growth rates this year and continued to outperform their global peers.

Advertising, the most cyclically sensitive of the three E&M spending streams recorded the largest year-on-year swing, growing by 5.8% in 2010 from almost an 11% decline in 2009. Consumer spending grew 2.2% while E&M spending as a whole grew at 4.6% in 2010.

India recorded one of the highest growths in the world growing at 11.2% in 2010.

The E&M industry in 2010 stood at INR 646.0 billion as compared to INR 580.8 billion in 2009. This was lower than our projected growth rate of 15.1% for last year. The reason for lower growth rate was the decline witnessed in the film segment. The other two key industry segments--television (15.4% growth as compared to 15.6% projected) and print (10.7% as compared to 8.5% projected)--showed good growth.

The negative growth in the film segment for a second year in a row was largely due to the lack of quality content and the closing-down of single-screen theatres.

The E&M industry continues to be dominated by TV, print and film. Significant revenues continue to be from the non-digital segment though there continues to be good growth in digital spending too. Infrastructure is the biggest challenge in the growth of digital spends.

Table 1.1: Growth of the industry in 2006-10

INR billion	2006	2007	2008	2009	2010	CAGR
Television	191.2	223.9	244.7	265.5	306.5	12.5
% change		*17.1*	*9.3*	*8.5*	*15.4*	
Film	84.5	96.0	107.0	95.0	87.5	0.9
% change		*13.6*	*11.5*	*-11.2*	*-7.9*	
Print	128.0	149.0	162.0	161.5	178.7	8.7
% change		*16.4*	*8.7*	*-0.3*	*10.7*	
Radio	5.0	6.9	8.3	9.0	10.8	21.2
% change		*38.0*	*20.3*	*8.4*	*20.0*	
Internet	1.6	2.7	5.0	6.0	7.7	48.1
% change		*68.8*	*85.2*	*20.0*	*28.3*	
OOH	10.0	12.5	15.0	12.5	14.0	8.8
% change		*25.0*	*20.0*	*-16.7*	*12.0*	
Animation, gaming & VFX	12.6	15.7	19.6	23.8	31.3	25.6
% change		*24.6*	*24.6*	*21.8*	*31.4*	
Music	7.3	7.6	6.9	7.5	9.5	6.8
% change		*3.8*	*-8.2*	*8.5*	*25.7*	
Total	**440.2**	**514.3**	**568.5**	**580.8**	**646.0**	**10.1**
% change		*16.8*	*10.5*	*2.2*	*11.2*	

Source: PwC Analysis and Industry Estimates

New additions to the 2011–2015 Outlook

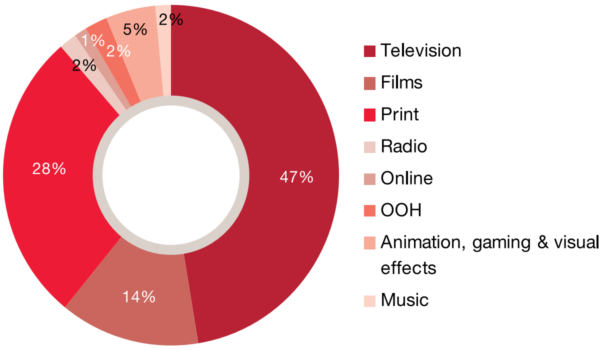
For the first time, this year, we have compared India's place with other countries for each of the industry segments.

Categories

- Television
- Print
- Film
- Radio
- Music
- Internet
- Out-of-home
- Animation, gaming and VFX

Apart from the above, this outlook also covers trends in sports entertainment, entertainment technology as well as the direct and indirect tax issues that impact the Indian E&M industry.

Chart 1.1: Segment-wise break-up of the industry (2010)



Source: PwC Analysis and Industry Estimates

India remains a smallish contributor to the Asia-Pacific E&M industry. Japan at USD 174 billion is by far the dominant country, accounting for 44% of the total spending in Asia Pacific in 2010 and the second largest country in the world behind the US. While advertising is growing at a rate higher than GDP growth, it is estimated that advertisement as a percentage of the GDP will remain low as compared to other developed countries like the US and Japan.

Table 1.2: E&M markets of key countries (USD millions)

	2006	2007	2008	2009	2010p
India	9,782	11,429	12,633	12,907	14,355
China	47,583	58,020	68,992	75,085	85,543
Germany	81,733	85,129	86,131	85,106	87,296
Japan	164,687	174,732	178,279	172,768	174,036
US	455,520	469,713	461,737	429,912	443,144

Source: PwC Global E&M Outlook 2011 -2015, PwC India E&M Outlook 2011

The Indian advertising industry

In 2010, the advertisement industry rebounded well on account of improved economic conditions and showed a healthy growth. After showing almost flat growth in 2009, these were positive signs for the E&M industry which depends heavily on this revenue stream. In 2010, the advertising industry witnessed a 14.3% growth and stood at INR 247.5 billion as compared to INR 216.5 billion in 2009. In the last four years, the industry recorded an overall growth at a CAGR of 11.4%.

All industry segments showed healthy growth in advertisement with print and OOH recovering well from the dip in 2009 to register a growth of 13.5% and 12% respectively. Internet advertising, with 28% growth, remained the fastest-growing segment as an increasing number of advertisers are looking to use the online platform to connect with the youth. Radio also showed a healthy growth of 20% and is fast catching up with OOH.

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

Table 1.3: Growth of the Indian advertising industry in 2006-10

INR billion	2006	2007	2008	2009	2010	CAGR%
Television advertising	66.2	78.0	84.2	89.0	101.5	11.3
% change		*17.8*	*7.9*	*5.7*	*14.0*	
Print advertising	78.0	94.0	103.5	100.0	113.5	9.8
% change		*20.5*	*10.1*	*-3.4*	*13.5*	
Radio advertising	5.0	6.9	8.3	9.0	10.8	21.2
% change		*38.0*	*20.3*	*8.4*	*20.0*	
Internet advertising	1.6	2.7	5.0	6.0	7.7	48.1
% change		*68.8*	*85.2*	*20.0*	*28.3*	
OOH	10.0	12.5	15	12.5	14	8.8
% change		*25.0*	*20.0*	*-16.7*	*12.0*	
Total	160.8	194.1	216.0	216.5	247.5	11.4
% change		*20.7*	*11.3*	*0.2*	*14.3*	

Source: PwC Analysis and Industry Estimates

Key issues and trends for each sector: 2010

Television

Trends

- Advertising revenue growth propels the television industry.
- DTH leads growth in distribution segment.
- Regional channels are increasing their share in TV advertising.
- Broadcasters are rebranding themselves to establish greater connect with younger audiences.
- Regional players are increasingly focusing on the kids channel market.
- Sports channels boosted by IPL 3 and other cricketing events, are clocking good advertising revenues.

Issues

- Completely addressable digitisation still a distant dream for stakeholders.
- High cost of content production.
- Low ARPUs to increase payback time.
- Need to improve measurement tools for measuring viewership.

Conclusions

- The industry was estimated to be INR 306.5 billion in 2010 showing a growth of 15.4% over 2009.
- Digitisation and addressable digitisation are emerging as key to success of the industry.
- The growth of advertisement volumes drives television advertising to double-digit growth.
- DTH was the major growth driver for the industry with the addition of 12 million subscribers.
- The cricket World Cup and IPL 4 in 2011 drove advertising and viewership to a new level.
- HDTV is gaining ground on the back of a successful World Cup and growing viewer interest for quality content.

Print

Trends

- Hindi dailies grab the top three spots and continue to strengthen their position.
- There is a growing trend of hyper localisation in the print media.
- Industry players are unbundling products to increase profitability.
- New entrants are expanding readership in respective markets.
- Niche and business magazines show robust growth.

Issues

- Fluctuating newsprint costs.
- Ad-edit ratio up on account of profitability pressures.
- Subscription schemes increasing dependence on advertising revenues.
- New media yet to pose a threat to print industry.

Conclusions

- The industry was estimated to be INR 178.7 billion in 2010 showing a growth of 10.7% over 2009 numbers.
- Hindi dailies continue to rule the roost with the highest growth in readership (AIR) as compared to 2009. It grew at the rate of nine per cent in 2010 as compared to three per cent in 2009.
- Magazines continue to suffer from lack of measurement tools.
- Regional players are expected to grow at a brisk pace, both in terms of advertising revenue as well as market expansion.
- Newsprint prices are a major concern for the industry and players will need to guard themselves against major price fluctuations.
- Newspaper publishers are expected to continue to increase their presence in the online format. However, print is likely to show steady growth for the next five years.

Film

Trends

- Multiplexes look at alternate sources of revenue.
- Single-screen theatres showed poor performance and many of them shut shop.
- Small-budget films with innovative content take on big-budget films.
- The pay-per-view market is set to grow.
- Social networks are becoming key to film marketing.
- The regional film industry produced the biggest hit of the year, *Endhiran (Robot)*.

Issues

- Shortage of infrastructure.
- Lack of quality content.
- Lack of new releases during the cricket season.
- Cannibalisation of theatrical revenues
- Piracy.

Conclusions

- The industry was estimated to be INR 87.5 billion in 2010 showing a decline of 7.9% over 2009.
- The industry's performance has dipped for the second year in a row due to lack of quality content and the closure of many single-screen theatres.
- Multiplex owners continue to grow, with big plans for the next five years. We expect multiplex screens to double in number in that time.
- The market for Hollywood content is on a growth path as Hollywood collections in India increase by 30%.
- 3D cinema is driving the growth of digital screens in the country. More 3D films are released in India on the back of the success of *Avatar.*

Radio

Trends

- Telecom players and handset manufacturers are increasing their spend on radio.
- Improvement in margins is expected with favourable legislation.
- Innovation will drive the industry as the competition is set to increase.
- Increasing FM-enabled mobile phones are driving radio growth in India.

Issues

- Lack of measurement and research.
- E-auction methodology for Phase III auction .
- Differentiation of content and channel offerings.
- Royalty payment between music companies and radio industry.

Conclusions

- The industry was estimated to be INR 10.8 billion in 2010 showing a growth of 20.0% over 2009.
- Phase III is expected to extend radio's reach to 294 towns and 839 stations. It will help boost the regional growth of radio stations.
- Content innovation is key for the success of radio post-Phase III.

Music

Trends

- Digital music on mobile continues to be the largest constituent of music industry revenue.
- Internet music segment is going nowhere.
- Mobile phones are becoming the primary means to access music.
- Players are exploring social media to promote music.

Issues

- Monetisation of music rights in digital medium.
- Unresolved copyright issue between radio and music industry.
- Piracy.

Conclusions

- The industry was estimated to be INR 9.5 billion in 2010 showing a growth of 25.7% over 2009.
- Mobile is expected to continue to be the major growth driver for the industry. Mobile VAS is expected to contribute around 75% in the total revenues in 2015.
- Successful resolution of the royalty issue with radio companies is a must for a successful Phase III radio auction as well as for the growth of music companies.
- Physical sales are expected to decline further in the coming years.
- Newer ways to monetise music content will be important for sustaining growth.

Internet advertising

Trends

- Cricket craze led to multifold growth in web traffic.
- Social media is showing promising signs for online advertising.
- 3G has arrived, but is yet to make an impact in mobile advertising and the internet market.
- Internet users in rural India have grown.
- Travel sites push e-commerce growth on the fast track.
- Online ad-sales have been outsourcing to specialised agencies.

Issues

- Indian wariness of online shopping.
- Need for effective means to monetise content.
- Lack of trust in online medium and effective measurement tools.

Conclusions

- The industry was estimated to be INR 7.7 billion in 2009 showing a growth of 28.3% over 2008.
- The Indian internet advertising market is one of the fastest-growing segments in the E&M industry.
- Increasing broadband penetration, successful BWA spectrum auction and the arrival of 3G will boost the means to access the internet and will in turn lead to growth in internet advertising.
- Social media will be an important form of online advertising.

Out-of-home

Trends

- Telecom, BFSI, E&M and FMCG were among the top advertisers for 2010.
- Focus is shifting from the number of screens to the quality and quantity of audience.
- Digital OOH is the next growth medium for the industry.
- OOH players are offering innovative and customised solutions to advertisers for specific target audiences.
- OOH players are focusing on ROI rather than on increasing the number of properties.

Issues

- Measurement mechanism
- Highly unorganised industry
- Lack of quality properties

Conclusions

- The industry was estimated to be INR 14 billion in 2010 showing a growth of 12.0% over 2009.
- Infrastructure growth led to growth in OOH media in 2010.
- Innovation and customisation are key to OOH growth in India.
- Measurement mechanism remains a challenge, holding back advertisers from increasing their spend in OOH.
- Digital OOH is expected to grow by leaps and bounds in the next few years.

Animation, gaming and VFX

Trends

- Licensing and merchandising of popular characters is on the rise.
- VFX outsourcing of Hollywood films is gaining ground in India.
- Indian films are starting to use VFX to good effect.
- TV channels are driving demand for animation content.
- The outsourcing industry for gaming is also growing.
- Social networking sites have given a boost to online gaming.
- 3D gaming is on the upswing.
- India-specific games are showing a good response.
- The focus for gaming console manufacturers is now on the user experience.

Issues

- Weak pre-production cycle.
- Lack of finances.
- Shortage of skilled manpower.
- Lack of original content for Indian animation films.
- Piracy in gaming.
- High taxes for console gaming.
- Infrastructure issues for the gaming industry.

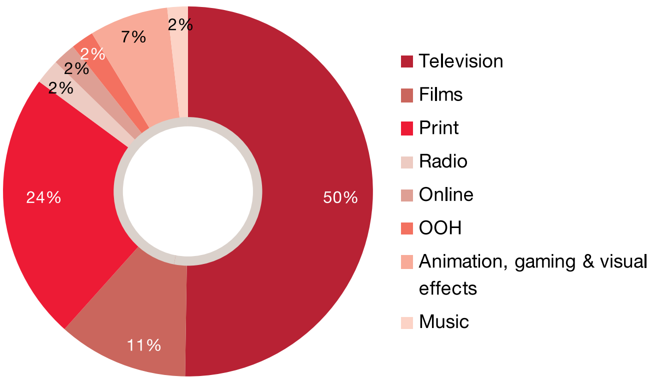
Conclusions

- The industry was estimated to be INR 31.3 billion in 2010 showing a growth of 31.4% over 2009.
- The government and private players are focusing on skill development for the industry.
- Local animation films are falling short of viewer expectations.
- Indian studios are evolving to net a greater share of outsourcing.
- TV channels are driving the demand for animation content.
- Social networking is giving a boost to game development, with more companies focusing on localised content.
- Players are evolving ways to handle micro-transaction for online and social network gaming.

Towards 2015: Collaboration and innovation

The industry will continue to be dominated by TV, print and films till 2015.

Chart 1.2: Segment-wise break-up of the industry (2015)



Source: PwC Analysis and Industry Estimates

The constituents of the industry are presently dominated by segments not impacted by rapid digitisation as has been the experience across the world. Our present view of the future is that the structure of the industry is not likely to witness a dramatic shift in a foreseeable period of time.

Digital vs. non-digital spend

The overall direction of travel in the global E&M industry has remained consistent since our last publication. It is clear now–as it was then–that the next five years will see digital technologies increase their influence across the industry and that rapid change in technologies and consumer behaviour will continue across all E&M segments.

However, we continue to hold that the pace of change will vary significantly across territories. India, in that respect is different. The pace of change here and its impact is very slow as well as different from some of the other developed parts of the world. The primary reason for slow proliferation of change is the lack of digital infrastructure. Consumer behaviour on the other hand has changed and is continuing to evolve like the rest of the world. Their likes, dislikes and preferences are not likely to be different from others across the world. However, such local variations aside, we believe the profound shift towards digital consumption now evident in digitally advanced markets will eventually go global.

What is the future?

Like the rest of the world, in India too, the industry will have to contend with rising demand for the digital experience. The digital experience goes beyond providing just good content and includes providing it on the device of choice as well as on demand. The industry will also have to contend with the monetisation across different platforms as well as devices, central to their existence. It is being increasingly recognised that the digital experience cannot be delivered or monetised without multi-party collaboration. As a result, there is an upsurge in collaborative partnering–heralding the transformation of the E&M industry over the next five years into a digital collaborative ecosystem.

Essentials for success

In our view, the route to success in this emerging collaborative digital environment lies in harnessing three industry-wide dynamics.

Digital: There is rapid and accelerated digitisation of elements including content, business process and product innovation. Social media and apps for mobiles have had profound impact on how the consumer interacts with his/her environment and this is set to grow further.

Demand: All interactions are being affected by rising consumer expectations. Consumers are empowered, connected and ready to play an increasingly collaborative role in developing new E&M products and services.

Data: Data is key to the interface between consumers, content, experience and brand, as well as to innovation. Therefore, the ability to mine and analyse detailed/contextual information is key.

What do we focus on?

Industry participants, we believe should focus on the following to harness the abovementioned drivers:

- The empowered consumer
- The involved advertiser
- The business organisation by transforming into collaborative digital enterprise

The empowered consumer

The consumer of today is looking to consume content which is not only engaging but available on the platform or device of his/her choice and at the time of his/her choice. The rules of engagement have changed. Further, with the explosion of digital content, consumers have choices and volumes of content several magnitudes greater than five years ago, much of it available free–or at no extra cost above cost of access.

Therefore an industry that must generate profits to invest in new content experiences, needs to know what the consumers will pay for. Last year, we highlighted that the consumer will pay for quality, convenience and experience. We now add two more--participation and privilege.

In terms of participation, consumers love playing an active role in shaping their content–and are happy to pay to do so. E.g. the popularity of voting for contestants on reality shows. Social media platforms are essential platforms for their participation. Meanwhile in terms of privilege, consumers would like unlimited access to content for free, but are happy to pay for services that provide additional value and the ability to 'jump the queue' such as special offers, advance information on discounts, etc. These five attributes are needed to engage into sustained profitable relationships with consumers.

The involved advertiser

As content providers have set about using creative and innovative thinking to drive digital revenues from consumers, advertisers and agencies too will need to follow suit, becoming increasingly sophisticated in identifying and exploiting new brand opportunities brought by digital content services and platforms. Advertisers will want more information and more verifiable return on investment from their ad spends.

So what will advertisers pay for? Advertisers will pay to appear where the right people are watching, especially if they can interact with people in a personalised way. The move to digital media has vastly increased opportunities to do that. Advertisers are also demanding transparent verifiable evidence that they are hitting the right segments with the right messaging via the right platform and thereby generating good return on their ad spends.

That demand is driving ongoing advances in audience measurement, with a shift in metrics away from volume and towards engagement.

TV advertising still remains key as one has seen the return on ad spend on TV during the economic recovery in a way that has not happened for the publishing media. One reason is that video content is by nature compelling and consumers are passionately attached to it. TV delivers an intensity of experience and an audience reach that other media struggle to match. The 2011 Cricket World Cup final was reportedly watched by one billion TV viewers worldwide.

Other areas likely to be used by advertisers for engaging with consumers will possibly fall in the following categories:

- Mobility and social networking to connect with consumers
- Branded digital entertainment. The consumer's rising receptiveness to branded entertainment is underlined by a number of studies that say that consumers are more likely to buy a brand that entertains them.
- Power of complementary cross-platform integration for driving deep content engagement. This is evident in video games, which have successfully tapped into every aspect of digital by incorporating compelling content, interactivity with social networks, exciting graphics and integration with mobile.

Collaborative digital enterprise

The forces affecting E&M companies we believe, will lead to a new operating model, the Collaborative Digital Enterprise or CDE. This operating model will enable companies to harness the three key drivers of digital, demand and data we highlighted earlier. The CDE will emerge in many sectors in the next few years, but the digitisation of content and surrounding experience–the core offerings made and delivered by the E&M industry–makes the model particularly effective for E&M companies.

While CDE is a clear possibility in more digitally advanced countries, it may not be immediately true for India. However, we have seen situations change when appropriate insfrastructure becomes available. The Indian industry should therefore perceive this opportunity as incremental as well as a hedge against the future. It may soon be time for action.

2015: Global outlook

Latin America will be the fastest-growing region, with a projected 10.5% compound annual increase to USD 109 billion in 2015 from USD 66 billion in 2010. In addition to broadband growth, high inflation rates will contribute to nominal growth in E&M spending. Asia Pacific will be next, at 6.5% compounded annually from USD 395 billion to USD 541 billion. EMEA will expand at a 5.2% compound annual rate to USD 614 billion in 2015 from USD 477 billion in 2010. EMEA will pass North America in 2013 to become the largest region. North America will be the slowest-growing region, increasing by 4.7% on a compound annual basis from USD 481 billion to USD 607 billion. Global E&M spending will increase from USD 1.4 trillion in 2010 to USD 1.9 trillion in 2015, a 5.7% compound annual advance.

In addition to the rebound in advertising, the ongoing shift to digital formats continued in 2010. Digital accounted for 25.9% of spending in 2010, up from 24.0% in 2009. Digital spending increased by 12.9% in 2010 compared with only a 2.0% increase in non-digital spending. We expect that pattern to continue projecting digital's share to rise to 33.9% by 2015. After declining in 2008 and 2009, non-digital spending rebounded in 2010, and we expect it will continue to grow as the economic environment strengthens. At the same time, with broadband penetration approaching saturation in a number of countries, the digital market is beginning to mature. Nevertheless, digital spending will continue to grow comfortably faster than non-digital spending. During the next five years, digital spending will increase at a projected 11.5% compound annual rate compared with 3.3% compound annual growth for non-digital spending. Although accounting for just over a quarter of the market, digital will generate 59.0% of total E&M spending growth during the next five years.

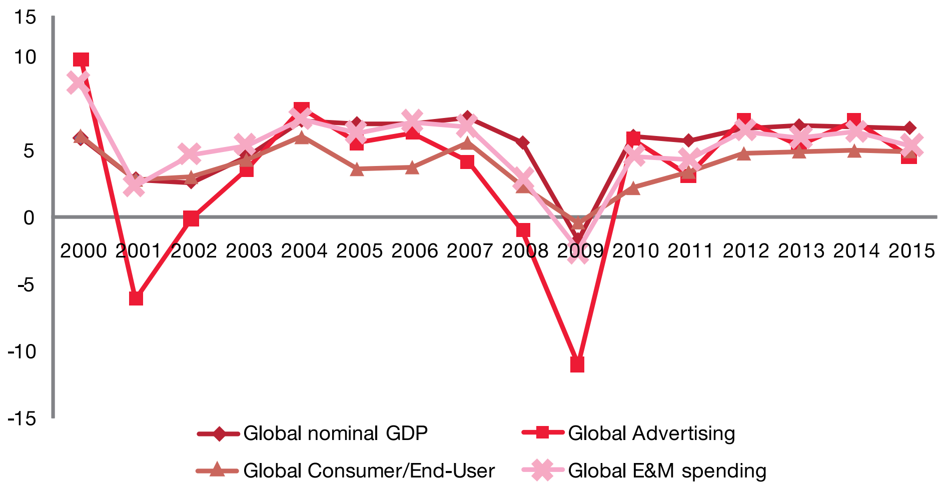
Table 1.4: Global entertainment and media market by region (USD millions)

Region	2006	2007	2008	2009	2010p	2011	2012	2013	2014	2015	2011–15 CAGR
North America	488,572	504,934	498,639	466,333	481,299	498,949	527,500	549,353	580,377	606,677	
% change	*4.9*	*3.3*	*-1.2*	*-6.5*	*3.2*	*3.7*	*5.7*	*4.1*	*5.6*	*4.5*	*4.7*
EMEA	422,303	454,104	470,444	460,569	477,141	497,445	524,006	553,880	584,149	613,943	
% change	*6.6*	*7.5*	*3.6*	*-2.1*	*3.6*	*4.3*	*5.3*	*5.7*	*5.5*	*5.1*	*5.2*
Asia Pacific	308,404	339,248	363,008	369,503	392,874	408,823	440,896	474,403	507,327	539,090	
% change	*10.5*	*10*	*7*	*1.8*	*6.3*	*4.1*	*7.8*	*7.6*	*6.9*	*6.3*	*6.5*
Latin America	45,165	51,535	57,145	59,093	66,309	73,754	82,005	90,435	102,162	109,139	
% change	*13.9*	*14.1*	*10.9*	*3.4*	*12.2*	*11.2*	*11.2*	*10.3*	*13*	*6.8*	*10.5*
Total	1,264,444	1,349,821	1,389,236	1,355,498	1,417,623	1,478,971	1,574,407	1,668,071	1,774,015	1,868,849	
% change	*7.1*	*6.8*	*2.9*	*-2.4*	*4.6*	*4.3*	*6.5*	*5.9*	*6.4*	*5.3*	*5.7*

Source: PwC Global Entertainment & Media Outlook 2011-2015

There were 12 countries in 2010 with E&M spending above USD 25 billion, led by the US at USD 443 billion and Japan at USD 172 billion. Germany, China and the UK were each above USD 70 billion. Of the leading countries, China and Brazil will be the fastest-growing, with projected compound annual increases of 11.6% and 11.4%, respectively. China will pass Germany in 2011 to become the third-largest market in the world. Brazil will pass Italy, Canada, and South Korea to become the seventh-largest market by 2014. Japan will experience a 2.8% decline in 2011, reflecting the impact of the earthquake and tsunami, and will be the slowest growing of the leading countries during the next five years, at 2.6% compounded annually.

Chart 1.3: Global E&M advertising, consumer/end-user spending and nominal GDP growth (%)



Source: Global Entertainment & Media Outlook 2011-2015

2015: India outlook

The Indian E&M industry is estimated to grow from INR 646.0 billion in 2010, at a CAGR of 13.2% for the next five years to reach INR 1198.9 billion in 2015. The 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 14.5% cumulatively over the next five years, from an estimated INR 306.5 billion in 2010 to reach INR 602.5 billion by 2015. In the television pie, television distribution is projected to garner a share of 62% in 2015 while television advertising is expected to have 33% share. The television content industry will have a five-per-cent share. Distribution share is expected to hold despite a robust growth in advertisement on the back of the hope that addressable digitisation will cover the entire country by 2015. Of the advertising industry pie, the television advertising industry is projected to command a share of 42.5% in 2015, from a present share of 41.0%.

The Indian film industry has had two consecutive bad years in 2009 and 2010 and has shown considerable decline. The industry depends heavily on big films and worthwhile content. With many big films slated to release in the next couple of years, we expect this industry to recover and grow at a CAGR of 9.3% over the next five years, reaching to INR 136.5 billion in 2015 from the present INR 87.5 billion in 2010. However, the growth is subject to the quality of content. 3D films and increasing digital screens are expected to help the film industry garner greater revenue.

The Indian print media industry is projected to grow by 9.6% over the period 2010-15, reaching INR 282.0 billion in 2015 from the present INR 178.7 billion in 2010. Newspapers in India are still holding their own and digitisation across the world does not seem to affect them. With 2010 having been a good year for print and more newspapers looking to expand their market reach, the newspaper industry is expected to perform well for the next five years growing at a CAGR of 10.1%. Magazines did not have it so good in 2010, and with increasing competition and decreasing cover prices, magazines can expect tough times ahead. However, niche magazines seem to be doing quite well and can be expected to push the industry. The magazine industry is projected to show a growth of 4.8% over the next five years.

The Indian radio industry is projected to show healthy growth at a CAGR of 19.2% over 2010-15, reaching INR 26 billion in 2015 from the present INR 10.8 billion in 2010. The primary reason is the impending launch of Phase III radio licences in 2011. In terms of the share of the advertisement pie, it is projected that the radio advertising industry will be able to increase its share from 4.4% to 6.3% in the next five years.

The animation, gaming and VFX industry will continue to maintain its growth pace and is projected to grow at a CAGR of 21.4% from its current size of INR 31.3 billion to INR 82.6 billion in 2015. Growth in international animation films, especially the 3D productions, and subsequent work for Indian production houses will help in the growth of this segment. The Indian gaming industry is projected to grow from an estimated size of INR 8.3 billion in 2010 to an estimated INR 25.3 billion by 2015, translating to a cumulative growth of 24.9% over the next five years. Mobile gaming will dominate the segment with around 70% share, driven by growth in the high-end segment of mobile users, new content by mobile operators and the availability of higher bandwidth with the arrival of 3G. Reduced prices of handsets have increased the penetration of smartphones which can run high-end games.

Given the trends of increased internet usage, internet advertising is projected to grow by 25.5% over the next five years and reach an estimated INR 24 billion in 2015 from the present INR 7.7 billion in 2010. The share of online advertising too is projected to grow from 3.1% in 2009 to 5.1% in 2015 of the overall advertising pie.

The estimated size of the OOH industry was INR 14 billion in 2010 and is projected to reach INR 24 billion in 2015. Its share in the total ad pie is expected to remain the same as 5.1% by 2015. The industry which showed a dip in 2009 rebounded well in 2010 and is expected to continue on the growth path, going forward. Greater proliferation of digital screens and newer tools to reach the OOH audience will help the industry further.

Mobile VAS will continue to be the key driver of growth for the music industry. The arrival of 3G will further help the music industry by providing seamless music streaming and subsequent paid digital downloads. Digital sales will be expected to be a key driver for the music industry with physical sales expected to dwindle, going forward. The music industry is estimated to be INR 21.4 billion in 2015 from the current size of INR 9.5 billion in 2010. Phase III radio licensing may also further help in increasing music revenues from radio, but that will depend on the successful resolution of issues between the radio and music industries.

Table 1.5: Projected growth of the Indian E&M industry in 2010-15

INR billion	2010	2011	2012	2013	2014	2015	CAGR
Television	306.5	353.0	404.0	465.0	532.5	602.5	14.5%
% change		*15.2*	*14.4*	*15.1*	*14.5*	*13.1*	
Film	87.5	96.5	104.5	115.3	125.0	136.5	9.3%
% change		*10.3*	*8.3*	*10.3*	*8.4*	*9.2*	
Print	178.7	196.2	214.4	235.6	256.5	282.0	9.6%
% change		*9.8*	*9.3*	*9.9*	*8.9*	*9.9*	
Radio	10.8	13.5	16.5	19.0	22.0	26.0	19.2%
% change		*25.0*	*22.2*	*15.2*	*15.8*	*18.2*	
Internet advertising	7.7	10.0	12.5	15.5	19.5	24.0	25.5%
% change		*29.9*	*25.0*	*24.0*	*25.8*	*23.1*	
OOH	14.0	15.5	17.0	19.0	21.5	24.0	11.4%
% change		*10.7*	*9.7*	*11.8*	*13.2*	*11.6*	
Animation, gaming & VFX	31.3	38.6	47.8	57.7	69.4	82.6	21.4%
% change		*23.4*	*23.8*	*20.6*	*20.3*	*19.0*	
Music	9.5	11.9	13.9	16.1	18.4	21.4	17.6%
% change		*25.0*	*17.5*	*15.6*	*14.2*	*16.0*	
Total	**646.0**	**735.2**	**830.7**	**943.2**	**1064.8**	**1198.9**	**13.2%**
% change		*13.8*	*13.0*	*13.5*	*12.9*	*12.6*	

Source: PwC Analysis and Industry Estimates

Chapter 02

Television

At a glance

	2010	2015	CAGR
Market size	INR 306.5 billion	INR 602.5 billion	14.5%
	USD 6.8 billion	USD 13.4 billion	
TV distribution	INR 192 billion	INR 376.5 billion	14.4%
	USD 4.3 billion	USD 8.4 billion	
TV advertising	INR 101.5 billion	INR200 billion	14.5%
	USD 2.3 billion	USD 4.4 billion	
Pay TV HH	100 million	153 million	
DTH HH	32 million	75 million	
Pay TV ARPU	INR 160	INR 205	

Market definition

Television industry refers to revenues from the following:

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

The television industry

The industry witnessed healthy growth in 2010, driven by increasing advertising spends, rise in the number of television households, robust growth in DTH and expanding regional markets.

Currently the industry is estimated at INR 306.5 billion in 2010 as compared to INR 265.5 billion in 2009, registering a growth of 15.4%.

Each of the segments in television registered robust growth in 2010:

- **The distribution industry** grew by 16.4% this year aided by high growth rates of the DTH industry and advances in digitisation. This sector is expected to maintain steady growth and keep adding to the overall television pie. The segment stood at an estimated INR 192 billion in 2010 up from INR 165 billion in 2009.
- **The advertising industry** has shown positive signs with strong recovery in advertising spend and growth in advertising volumes aided by the launch of many new channels in 2010. Sectors such as FMCG, telecom and financial services have led this growth. It stood at an estimated INR 101.5 billion in 2010, up from INR 89 billion in 2009 registering a growth of 14% this year.
- **The content industry** achieved a 13% growth rate, driven by the rise in non-fiction shows and growth in regional markets. Its share in the industry continued to stand at four per cent in 2010, as it reported nearly INR 13 billion of income as against INR 11.5 billion in 2009.

Table 2.1: Television market segmentation 2006-2010

INR billion	2006	2007	2008	2009	2010	CAGR
Television distribution	117.0	136.5	150.0	165.0	192.0	13.2%
% change	*20.6*	*16.7*	*9.9*	*10.0*	*16.4*	
Television advertising	66.2	78.0	84.2	89.0	101.5	11.3%
% change	*21.5*	*17.8*	*7.9*	*5.7*	*14.0*	
Television content	8.0	9.4	10.5	11.5	13	16.7%
% change	*14.3*	*17.5*	*11.7*	*9.5*	*13.0*	
Total	**191.2**	**223.9**	**244.7**	**265.5**	**306.5**	**12.5%**

Source: PwC Analysis and Industry Estimates

The industry is well poised to not only grow but also increase its dominance within the entertainment and media industry. The move towards digitisation as well as addressability if implemented will further enhance revenue generation opportunities and put more balance between subscription and advertisement revenues.

Television distribution

The distribution industry consists of subscription revenue obtained from pay TV households in the country. This industry is highly fragmented in India with about 50,000+ local cable operators (LCOs), 7,000+ multi system operators (MSOs) and six direct-to-home (DTH) operators. The top five MSOs account for less than 30% of the revenues of this industry. The industry is characterised by high under-reporting of as much as 85% of the subscribers and low average revenue per user (ARPUs).

Outlook in brief

- Digitisation and addressable digitisation are emerging as key to success for the television industry.
- Advertisement volumes are driving the television advertising industry to double digit growth.
- DTH was the major growth driver for the television industry with the addition of 12 million subscribers.
- The cricket World Cup and IPL in 2011 drive advertising and TV viewership to a new level.
- HDTV is gaining ground on the back of a successful World Cup and growing viewer interest for quality content.

Total subscription revenue, growth, projection

- The size of this industry was INR 192 billion in 2010, registering a growth of 16.4% over INR 165 billion in 2009.
- The distribution industry is the largest part of the television industry and contributes to about 63% of the television industry's revenue.

Table 2.2: Television distribution market 2006-2010

INR billion	2006	2007	2008	2009	2010	CAGR
Television distribution	117.0	136.5	150.0	165.0	192.0	13.2%
% change	*20.6*	*16.7*	*9.9*	*10.0*	*16.4*	
% of Total	**61%**	**61%**	**61%**	**62%**	**63%**	

Source: PwC Analysis and Industry Estimates

The distribution industry revenues are a function of pay TV households and ARPU generated for each pay TV household.

Television households

The total number of television households in India increased from 124 million in 2009 to 130 million in 2010, at a growth rate of five per cent. The penetration in India in terms of television households still remains low at 61% as compared to developed countries like the US and UK where the penetration is around 95% and 93% respectively. With changing economic conditions in India, we can expect the number of TV households to increase in India in the future.

Table 2.3: TV households in India

Million	2006	2007	2008	2009	2010
Total households	190.0	195.0	197.0	207.0	213.0
% change	*7.0*	*3.0*	*3.0*	*5.0*	*3.0*
TV households	112.0	115.0	118.0	124.0	130.0
% change	*7.0*	*3.0*	*3.0*	*5.0*	*5.0*
% TV penetration	59.0%	59.0%	60.0%	60.0%	61.0%

Source: PwC Analysis and Industry Estimates

Pay TV households

The pay TV households in India are divided into three categories:

- **Cable:** Cable television provides television signals, transmitted via co-axial cables or optical fibres, to the consumer's premises. LCOs control the last mile in cable TV.
- **DTH:** DTH provides television signals to the consumer's home directly via satellite.
- **IPTV:** Internet protocol television (IPTV) provides live television over the internet. This segment is still nascent in India.

Pay TV households increased to an average of 100 million in 2010, from 86 million in 2009, with a growth of 16%. This growth was largely led by the growth witnessed in DTH households in 2010.

Table 2.4: Pay TV households in India

Million	2006	2007	2008	2009	2010
Cable TV households (yearly average)	68.0	70.0	71.0	72.0	74.0
% change	*11.0*	*3.0*	*1.0*	*1.0*	*2.8*
DTH households (yearly average)	2.0	3.5	9.0	14.0	26.0
% change	*100.0*	*75.0*	*157.0*	*56.0*	*86.0*
Total pay TV households	70.0	73.5	80.0	86.0	100.0
% change	*13.0*	*5.0*	*9.0*	*8.0*	*16.0*

Source: PwC Analysis and Industry Estimates

India's place in the world

Table 2.5: Global TV subscription market for top countries 2010

Country	Subscription TV households (million)	Subscription TV households penetration (%)	Subscription license fee market* (MillionUSD)
USA	101.20	88.3	75,366
Canada	11.50	88.5	8,029
UK	13.75	53.7	11,950
China	180.25	45.9	6,807
India	106.00	77.2	4,266

**license fee includes video-on-demand, pay-per-view, public TV licence fees, mobile TV*
Source: PwC Global Entertainment & Media Outlook 2011-2015

While India is the second largest cable and satellite (C&S) homes market in the world, surpassed only by China, the industry earns just INR 192 billion in subscription revenue. This is much below the revenue earned in other geographies. This can be explained by the fact that ARPU in India is about INR 160 per month as compared to USD 45 to 60 in the US and UK, and USD 3 to 20 in comparable Asian markets.

Average revenue per user (ARPU)

ARPU is the second determinant of total pay TV revenues, the other being pay TV subscribers. The current pay TV ARPU is INR 160 per month across pay TV homes (both DTH and cable). While cable has the problem of under-reporting both in the number of subscribers as well as the fees paid by each subscriber, DTH ARPU is limited by competition, subsidisation of set-top boxes (STBs) and lack of exclusive content. This has led pay TV ARPUs to be lower than the cost of a multiplex movie ticket, and among the lowest as compared to global counterparts.

Table 2.6: Global ARPU (per month) comparison

Country	ARPU - 2009 (USD)	ARPU - 2010 (USD)
US	55.73	56.86
UK	44.31	45.40
China	2.70	3.14

Source: PwC Global Entertainment & Media Outlook 2011-2015

The growth of pay TV ARPUs has not shown any growth over 2009 because of issues around addressable digitisation.

Table 2.7: TV households ARPU in India

INR	2006	2007	2008	2009	2010
Pay TV ARPU	139.0	155.0	156.0	160.0	160.0
% change	*6.9*	*11.5*	*1.0*	*3.0*	*0.0*

Source: PwC Analysis and Industry Estimates

Cable TV

Cable TV forms the backbone of the distribution industry. It is well-penetrated and boasts of almost 74 million subscribers. The industry comprises MSOs and LCOs. There are thousands of LCOs spread across the country and a number of MSOs with a few larger ones. The cable industry is still dominated by analogue distribution with pockets of digitisation which have not been a success. The cable TV household figures are as follows:

Table 2.8: Cable TV households in India

Million	2006	2007	2008	2009	2010
Cable TV households (yearly – average)	68.0	70.0	71.0	72.0	74.0
% change	*11.0*	*3.0*	*1.0*	*1.0*	*2.8*

Source: PwC Analysis and Industry Estimates

Key MSOs

Table 2.9: Major MSOs subscriber base

Player	Area of operation
Hathway	13 major cities
DEN	Over 50 cities across India
WWIL	54 cities
Digicable	46 cities

Source: Company websites

Riddled with rampant under-reporting and limitations of carriage under analogue distribution, the cable TV industry, though large, remains unprofitable. Most of the large MSOs are relying more on 'carriage fee' revenues than the regular subscription revenue. With more than 500 channels vying to be carried and a carriage capacity of only 100 channels, 'carriage fee' is becoming an attractive revenue stream. It is here to stay in the foreseeable future until the cable infrastructure shifts to digital format completely.

Breakdown of this revenue chain due to subscription and scarcity of carriage is possibly the factor hindering the growth of the pay TV industry. This in turn affects broadcasters and finally content-owners. The answer to this problem is 'digitisation' and 'addressable digitisation'. The whole industry is aware of this issue and it is believed that regulation to address this anomaly will soon be in place. This hopefully will enhance profitable growth and ensure investments.

Government action on digitisation

The government had mandated conditional access system (CAS) in Mumbai, Delhi and Kolkata and targeted to reach 55 cities and 20 million digital homes by 2010. However, only about 25% of the two million households in notified areas actually shifted to digital cable.

There were various reasons for this:

- Voluntary digitisation required heavy customer subsidies on STBs but the cable industry had capital constraints.
- Owing to the unorganised nature of the cable industry, big corporate houses traditionally did not enter this industry limiting funding options.
- The government placed a cap of INR 5 per pay channel per month in CAS areas thus restricting the returns of cable operators.

New deadline for cable digitisation

The Telecom Regulatory Authority of India (TRAI) has recommended a four-phase digitisation process for cable TV in India while setting a sunset date of 31 December 2013 for complete switchover to digital cable. However, the Ministry of Information and Broadcasting, after reflecting on the views of the industry, revised these timelines to set the sunset date as 31 December 2014. Implementation is to be carried out in four phases:

- Phase I: The four metros of Delhi, Mumbai, Kolkata and Chennai by 31 March 2012.
- Phase II: All cities with a population of over one million by 31 March 2013.
- Phase III: All other urban areas (municipal corporations/municipalities) across the country by 30 September 2014.
- Phase IV: The rest of India by 31 December 2014.

Source: Ministry of Information and Broadcasting

- Though MSOs received funding of the order of about USD 400 million till mid-2010, a majority of it went to new players such as DEN, Digicable, You Telecom, etc. For these players, customer acquisition was a priority over digitisation. For example, while DEN invested USD 75 million in the acquisition of about 67 MSOs, Digicable invested about USD 100 million to acquire a similar customer base.

However, the government has now set a new deadline for conversion to digitisation (see box).

HITS policy

Headend-in-the-sky (HITS) broadcasting service refers to the multi-channel downlinking and distribution of television programmes in C-Band or Ku-band. Here, all pay channels are downlinked at a central facility (hub/teleport) and again uplinked to a satellite after encryption of channels. This service was introduced in November 2009, but never really took off. Wire and Wireless (India) Ltd (WWIL) and Noida Software Technology Park Limited (NSTPL) were the only two operators to have received a HITS licence. Wire and Wireless (India) Ltd. was the only operator to have launched HITS services and had invested more than INR 1 billion in HITS operations. However, owing to lack of tariff, content guidelines and non-allowance to use the DTH transponder and satellite to transmit HITS signals, WWIL exited from this sector on 31 March, 2010. Several MSOs have also applied for a HITS license but are not particularly enthused as they await a more comprehensive policy.

Doordarshan going digital

The government decided to spend around INR 15 billion over the next three years to turn Doordarshan and All India Radio (AIR) digital. The infrastructure of Doordarshan and AIR in all major metros and important state capitals is expected to go digital. This will reduce the number of terrestrial transmitters by half (from 1400 to 700) and increase the channel-carrying capacity of transmitters. While INR 6.2 billion has been budgeted for Doordarshan, the remaining INR 8 billion will be spent on digitising All India Radio (AIR). This exercise will be carried out in four phases.

In the initial two stages, the digital infrastructure of Doordarshan in Delhi and other metros will be upgraded at an estimated cost of INR 3.2 billion. In the next two phases, AIR's existing medium-wave transmitter will be replaced by digital transmitters at an estimated cost of INR 2.9 billion. Many countries in the developed world have adopted Digital Terrestrial Transmission (DTT) to maximise the use of spectrum for better broadcasting.

DTH industry

The Indian DTH market is rapidly becoming a key player in the distribution marketplace. It grew at 75% in 2010 over 2009, a growth which is the highest in the world. With present prediction, it is likely to overtake the US in terms of the largest DTH market in the world, by 2012. The figures of DTH growth are as follows:

Table 2.10: DTH households in India

Period	DTH subscribers (million)
Oct-Dec 10	32.05
Jul- Sep 10	26.44
Apr-Jun 10	23.77
Jan- Mar 10	21.30

Source: TRAI

Our survey reveals an average of 26 million DTH households in 2010. These estimates are gross connectivity numbers not considering churn.

Presently, there are six DTH players, apart from the state-run DD Direct by Doordarshan, up from a single player in 2003. While the growth in DTH numbers has attracted new players in the industry, it is also well-recognised that most of the players including the larger ones are unprofitable and it is likely to be a while before the cash flows turn positive.

Positives of the DTH market

There are many positives that DTH has brought to the TV distribution marketplace. Its growth pattern in the Indian scenario has been a little different than seen in the rest of world. Its development here is seen as a rival to the dominant cable industry, while elsewhere it is a niche platform with higher ARPUs and exclusive content. Here, the definition has changed somewhat, due to regulation as well as difficulties of reporting of subscribers in the cable industry. Some of the positives are as follows:

- It is digital and addressable unlike the analogue cable industry.
- Though it is presently only 15 to 20% of the total pay TV market, it contributes 50% of the broadcaster's subscription revenues.
- It is capable of carrying additional channels than the present capability of analogue cable.
- Most of the larger players have invested heavily in marketing and advertising to gain higher customer recall. In many cases, they have a separate brand.
- DTH remains the premier way to access rural audiences vis-à-vis cable due to the reach of the satellite. In fact, a growth of 64% in the rural sector came primarily through DTH (see box).
- DTH is capable of and is providing interactive and HD content like 'pay-per-view' leading to differential revenue streams.

Concerns of the DTH market

- While there are many positives, there are areas of concerns for the future of the DTH business. Some of these are as follows:
- Carriage of channels though higher than analogue, is roughly limited to 200 to 220 channels due to limited transponder capacity. This is likely to be a disadvantage in the future vis-à-vis digital cable which will be able to carry 500 channels or more.
- Interactivity is limited to one way while digital cable can and will have two-way interactivity leading to better customer experience.
- It is widely believed that there is a churn of an average 20 to 25% of the subscriber base in the form of inactive customers. This churn can be to cable operators or to other DTH operators.
- STB costs continue to be subsidised even though present costs have reduced to INR 2500 to 3000.
- Cable with its low ARPUs continues to set a benchmark for DTH ARPUs. With no exclusive content and the additional burden of STB boxes and increased marketing costs, the ARPU continues to be limited by cable as buyers do not see a differentiation.
- Transponder space has limitations in terms of availability, costs and direction. It is now being recognised as a very critical input for the survival of DTH businesses in the future.

Digital TV growth in India driven by rural market

The digital TV service in India involves reception of TV signals through STB either via DTH or cable. The growth in India in digital TV has been boosted by the growth in the rural segment which has almost doubled the share of pay-DTH. The growth of the digital segment in the rural sector was 34% in 2008, 49% in 2009 and 64% in 2010. This growth has primarily come from the growth in the DTH segment, while cable STB has remained stable. This growth is reasonable considering the fact that rural towns in India face 10 to 12 hours of power outage. Moreover, due to increased fragmentation and a large number of channels available for consumers and the limitations of cable service providers, customers are moving towards DTH and cable TV services.

Carriage fees in DTH

A small pie of carriage fees goes to DTH players. Though it was widely expected that DTH would be a cure for carriage fees, a shortage in transponders is driving up the carriage fees. Some new channels with limited budgets or doing trial runs have started to launch only on DTH. For example, Discovery launched 'Discovery Turbo' on Tata Sky.

While some industry experts believe that the carriage fees market will go down, it does not seem to be happening anytime soon. With delays in digitisation and shortage of transponders, carriage fees are here to stay.

IPTV

IPTV is facing the same issues as last year. Though broadband connectivity has improved and the number of broadband users has also increased, the connection speed is still not up to the level desired for seamless viewing. IPTV connections provided by government-run organisations such as BSNL and MTNL seem to be growing. However, industry estimates suggest that there will be less than one million IPTV users across India, which is negligible when compared with the reach of television.

Mobile TV

Mobile TV is defined as television content viewed on handheld mobile devices. Now, with the arrival of 3G, some mobile players have started to offer mobile TV on 3G. Reliance and Idea are offering mobile TV on their respective networks. Though the tariff plans seem attractive, bandwidth remains an issue. Television content requires larger bandwidth than normal data service. If mobile TV is successful, it can substantially increase the reach of television. However, Indian viewers are used to watching TV on a bigger screen. It therefore remains to be seen how telecom players change this mindset.

TRAI recommendations on mobile TV

- In the first phase of mobile TV licensing, every applicant and its related entities should be allowed to bid for only one licence per service area, in order to prevent monopolies.
- As the number of licences per licence area will be limited, no entity can hold more than 25% of the total number of permissions given in the country, to prevent monopolisation at the national level, for the first phase.
- Wherever a mobile television service provider has installed its own infrastructure, it should be made available for sharing with other such service providers.
- Including FDI, the composite foreign investment limit recommended for mobile television service is 74%.
- The regulator has also proposed that the licence fee be decided between four per cent of the gross revenue or five per cent of one-time entry fee (OTEF).

Key regulatory updates for distribution

FDI regulations

In its recommendations sent to the Information and Broadcasting Ministry today, the TRAI has recommended the following foreign investment limits:

- Foreign investment limit for the broadcast carriage services i.e. DTH, IPTV, mobile TV, HITS, teleport and MSOs who are upgrading to digital and addressable environments will be 74%;
- Foreign investment limit for LCOs will be 26%;
- There will be no restriction on foreign investment for uplinking and downlinking of TV channels other than news and current affairs;
- All foreign investment less than 26% will be through an automatic route. Investments of 26% and above will require prior approval of the government.

A-la-carte channel offerings

TRAI also regulated the tariff of all addressable TV systems. Accordingly, service providers have been mandated to provide pay channels on an a-la-carte basis to subscribers and publish the channel rates every three months. In case the service provider fixes any minimum monthly subscription amount, the same could not exceed INR 150. Broadcasters have been mandated to make available TV channels to distributors with addressable system (DTH, HITS, IPTV and digital addressable cable TV) on an a-la-carte and bouquet basis at a maximum of 35% of the corresponding rates for non-addressable systems (Cable operators with analogue systems). However, the Telecom Disputes Settlement Appellate Tribunal (TDSAT) set aside this July tariff order of TRAI.

Future trends for cable and DTH industry

Issues of voluntary digitisation

- While voluntary digitisation is welcome, it needs to be addressable.
- Some broadcasters are unwilling to shift to digitised cable provided by LCOs due to the lack of addressability and transparency from LCOs.
- With funding to the tune of INR 13 billion, MSOs are in a position to pull customers by providing subsidised STBs.
- Compulsory digitisation seems to be the way forward. However it needs to be seen how far the government will be successful in adhering to the timelines.

Table 2.11: Funding recieved by MSOs

Company	INR billion	Details
Hathway	4.8	IPO
DEN	3.6	IPO
Digicable	Undisclosed	Acquisition by Reliance
WWIL	5	Rights issue
You Telecom	3.6	Filed DRHP

Source: Industry Research

Newer ways to enhance revenues

- Most DTH players offer pay-per-view (PPV) on their DTH boxes to add to their subscription revenues.
- Distribution revenues get enhanced with newer streams of revenue like STB rental, broadband, VAS, etc.
- LCOs are utilising the last mile fibre to provide internet solutions to their customers to add to existing revenue streams.
- New technologies have made inroads. Bharti Airtel has launched Airtel Broadband TV, enabling customers to watch live TV on their computers and laptops. The price has been kept attractive with monthly subscription packs starting from INR 49. The service offers 28 live TV channels. This service will also work on wi-fi, giving customers the freedom to watch TV anywhere in their homes.
- Offerings such as Tata Sky's education platform on DTH are bringing in additional revenues.

Growth path for HDTV

- High-definition television is showing a surge in the market. This year, India won the cricket World Cup after 28 years. The last time India won, in 1983, there was a boom in the colour TV market. It remains to be seen if HDTV will follow the same growth path as colour TVs.
- Already, broadcasters are increasing the number of HD channels on offer. To give users a better experience, channels such as ESPN Star broadcasted cricket matches live in HD.
- HDTV, though bandwidth-heavy, is clearly seen as the distinctive feature in broadcast as well as distribution. With digitalisation looking to becoming a reality, there will be a big push for high definition content. However it remains to be seen whether it will improve ARPU.

3D television

- 3D technology seems to have been accepted in the filmed entertainment genre. However, in the TV space, it does have some distance to go. Though 3D TVs are now easily available, their cost is still too prohibitive to allow them to become a norm like HDTV. While global majors like Disney are likely to bring in content in 3D, it will be a while before it becomes a norm in distribution as well as home viewing.

Consequences of Zee + Star deal

In May 2011, Star Den Media Services Pvt Ltd and Zee Turner Ltd formed Media Pro Enterprise India Pvt Ltd, a joint venture to distribute their pay channels. This joint venture will deal in 69 pay channels and some more free-to-air (FTA) channels. This move can have huge implications on the broadcasting space with analogue cable's limitation in the number of channels it can carry.

- **Carriage fees:** This joint venture carries the top two broadcasters of the country and has serious negotiation power to lower or even eliminate the carriage fees for DTH and cable operators.
- **Revenues:** The subscription revenues of these players are pre-negotiated. With this alliance, the joint venture can negotiate for a higher share of revenues. It is evident that without the channels in their bouquet, it would be almost impossible for cable operators to hold on to their customer base.
- **'Must carry clause':** This joint venture of 69 channels can make it mandatory for cable operators to carry all of its channels, and can hence effectively push out some other channels if the cable operator has limited channel-carrying capacity.

However, industry sources reveal that this deal has come under the review of the Competition Commission of India to understand its impact. It would interesting to watch the outcome of this duel.

Television advertising

Television advertising is one of the largest segments in the total advertising pie in India. With the economic turnaround, it bounced back to double-digit growth in line with the growth of the total advertisement market. Television advertisement consists of revenue from advertisers spending on terrestrial, satellite as well as mobile TV. Mobile TV advertising though is still nascent in India. In 2010, the TV advertisement industry grew to INR 101.5 billion registering a growth of 14% over INR 89 billion in 2009. The comparative past growth figures are as follows:

Table 2.12: Television advertising growth for 2006-10

INR billion	2006	2007	2008	2009	2010	CAGR
Television advertising	66.2	78.0	84.2	89.0	101.5	11.3%
% change	*21.5*	*17.8*	*7.9*	*5.7*	*14.0*	
% of total television industry	35	35	34	34	33	
% of total advertising industry	41	40	39	41	41	

Source: PwC Analysis and Industry Estimates

The television advertising industry is a third of total television industry revenue and 41% of the total advertising industry. With buoyant revenues expected in future, it is likely to consolidate its position going forward.

India's place in the world

Television advertising market in different countries is as follows:

Table 2.13: Global television advertisement market 2010

Country	Television advertising market (USD million)
USA	70,693
Canada	3558
UK	5541
China	9115
India	2255

Source: PwC Global Entertainment & Media Outlook 2011-2015, PwC Estimates

India, at USD 2.2 billion was the fourth-largest television advertising market in Asia. Globally, the share of television in total advertising spends has remained around 35% as compared to 41% in India.

Key developments

Advertisers on television in 2010

With the economic recovery in 2010, advertisers were back on television. While the top three categories remained the same, i.e. toilet soaps, cellular phone services and social advertisements, the notable inclusion among the top 10 was cellular phones. With the cellular phones market heating up in India with the entry of a number of new players, the effect was visible in the advertising spend. Since many companies are also looking to raise money from the market, cellular phones are likely to remain among the top categories in 2011.

Table 2.14: Top sectors advertising on television

2009	% share	2010	% share
Toilet soaps	4	Toilet soaps	4
Cellular phone service	4	Cellular phone service	3
Social advertisement	3	Social advertisement	3
Aerated soft drinks	2	Shampoo	3
Shampoo	2	Cellular phones	2
DTH service providers	2	Aerated soft drinks	2
Two-wheelers	2	Toothpastes	2
Toothpastes	2	Corporate/brand image	2
Cars/jeeps	2	Fairness creams	2
Life insurance	2	DTH service roviders	2

Source: TAM

Food and beverages was the top advertiser sector on television followed by personal care & hygiene and services. Advertisement spending, apart from the top two sectors, was well-distributed across the other sectors. Key highlights of top three sectors are as below:

- Food and beverages
  - TV advertising of the food and beverages sector went up by 27% during H1 2010, as compared to H1 2009.
  - The aerated soft drinks category had the maximum share of the food and beverages sector.
  - Coco Cola India Ltd was the top advertiser under the food and beverages sector.
- Personal care/personal hygiene
  - This sector saw a 55% rise in TV advertisement volumes during H1 2010 as compared to H1 2009.
  - The toilet soaps category led the advertising of the personal care/personal hygiene sector.
  - Hindustan Unilever Limited had the highest share among all advertisers of the personal care/personal hygine sector.

- Services
  - TV advertisement volumes of the services sector went up by 48% during H1 2010 as compared to H1 2009.
  - DTH service providers was the top category under the services sector on TV.
  - Sun Direct TV Pvt Ltd was the number one advertiser.

Table 2.15: Top categories advertised on television

Top categories	% Share
Food and beverages	14
Personal care/personal hygiene	13
Services	6
Hair care	5
Personal accessories	4
Telecom/internet service providers	4
Auto	4
Banking/finance/investment	3
Household products	3
Personal healthcare	3

Source: TAM AdEx

A two percent increase in personal care/hygiene was quite visible in the list of the top 10 brands on television in 2010 with a number of new soap and cream brands. Also evident was the reduction in spending by auto as no new auto brands were launched this year as compared to few new ones last year.

Table 2.16: Top new brands on television during 2010

Rank	New brands
1	Colgate Total Clean Mint
2	Airtel 3G
3	Cadbury Perk Glucose
4	L'Oreal Total Repair 5
5	Nokia 5233
6	Knorr Soupy Noodles
7	Lux Purple Lotus and Cream
8	Sure Dry Shield Deodorants
9	Superia Lemon Fresh Soap
10	Minute Maid Nimbu Fresh

Source: AdEx India

FMCG players Hindustan Unilever Ltd, Reckitt Benckiser (India) Ltd and Cadbury India Ltd were the top three advertisers on TV in 2010 as the list was dominated by the FMCG sector. The top three accounted for 13% of the overall advertisement spend share.

Table 2.17: Top 10 advertisers on television on the basis of spends

Top advertiser	Rank 2010	Rank 2009
Hindustan Lever Ltd	1	1
Reckitt Benkiser (India) Ltd	2	2
Cadbury India Ltd	3	-
ITC Ltd	4	4
Procter & Gamble	5	3
Coca Cola India Ltd	6	5
Colgate Palmolive Ltd	7	10
Ponds India	8	-
Glaxo Smithkline	9	6
L'Oreal India Pvt Ltd	10	9

Source: TAM AdEx

Towards integrated media planning

As the media environment was fragmenting and consumers had access to a variety of media, advertisers looked at seamlessly moving between different media types. Agencies accordingly provided campaigns that integrated media and gave more value. The year 2010 saw a 10% increase in the number of brands that took an integrated media approach. For example, the media campaigns for cricket tournaments were typically a combination of TVCs, on-ground activities and other related media. Lenovo also launched its 360-degree campaign as a follow-up to its 'Please Daddy Please' TVC last year. The campaign includes three TVCs and a digital collaboration with MTV.

Advertising on digital media and social marketing has become an integral part of media plans for most advertisers. About 65% of media agencies had digital and social marketing at the crux of their organisational restructuring and most agencies are striving to integrate digital platforms with traditional channels in their communication solutions. However, ESPN missed out on an opportunity and offered an advertisement-clean feed on its high-definition service for the cricket World Cup.

Regional channels, increased advertisement rates

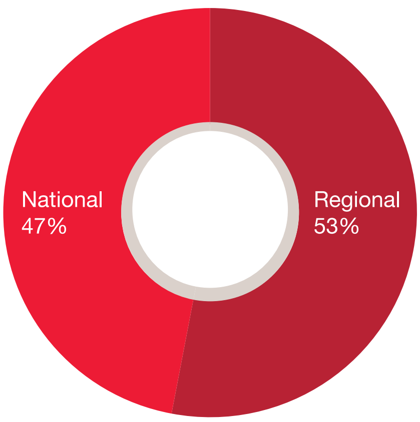
Some regional channels like Sun TV Network increased their advertisement rates for their Malayalam and Kannada language channels. For the Malayalam market channels, Sun TV Network increased the rates from six to 33%. The advertisement rates for the Kannada channels, meanwhile, were increased from five to 13%. Earlier, Sun TV had announced a hike in advertisement rates for its Tamil and Telugu channels. The overall effective advertisement rate hike across the four markets will be in the region of 13 to 15%.

Sun enjoys near-supremacy in the south India market. This has helped it increase its advertisement rates. However, new channels, regional as well as national, could not command the same advertising rates leading to the averaging-out of advertising rates over the year. Since the economy has improved, leading channels in their segments and regions may be expected to hike advertising rates in the near future.

During 2010, regional channels exceeded national channels in terms of advertisement volume. National and regional channels shared TV advertisement volumes in the ratio of 47:53.

The key motivators for advertisers towards regional markets are the relatively low media penetration and rise in incomes in smaller towns. Also, the cost of reaching the audience is much lower compared to national media due to lower advertising rates.

Chart 2.1: Television advertisement break-up



Source: TAM AdEx

Future trends in TV advertising

- New channels to drive growth
  - With over 250 licences pending for approval and the government lifting the ban on the application for new channel licences, we expect to see a spurt in new TV channels. This also means larger advertising slots leading to an increase in advertising volumes. However this would also mean that average advertising rates may take a hit and reduce. Larger players will continue to command a premium but new channels may charge lower rates to fill up their inventory.
  - What would also determine the increase in volumes, is the extent of digitisation and the ability of the distribution platform to carry new channels.
- Second TV set in a household
  - Increasingly, there is a growing trend in urban India of having two TV sets in a household to cater to different viewing preferences. This is an interesting trend as it allows increasing viewership even while the number of TV households may show marginal growth.

Television content

Television content is the smallest part of the industry accounting for 4.2% of the total industry revenues. However, these figures largely represent content sold by independent producers to channels and does not contain the content produced by broadcasters. This is usually shown as a cost, while advertising and subscription are recognised as revenue.

The revenue from content grew by 13% from INR 11.5 billion in 2009 to INR 13 billion in 2010. The figures are as follows:

Table 2.18: Television content market for 2006-10

INR billion	2006	2007	2008	2009	2010	CAGR
Television content	8.0	9.4	10.5	11.5	13.0	13.2%
% change	*14.3*	*17.5*	*11.7*	*9.5*	*13.0*	
% of total television industry	4.2	4.2	4.3	4.3	4.2	

Source: PwC Analysis and Industry Estimates

The growth was basically led by a significant growth in new channels, demand for niche content and the ability to showcase it on different platforms.

TV channels

The television space in India saw much activity in 2010. There were approximately 42 new channels launched in the year, and along with an increase in advertisement (both volume and rates), the demand for content was positively impacted. Categories of channels, existing and launched, is as follows:

Table 2.19: Total channels on television in 2010

	Active channels in 2010	New channels in 2010	Total channels in 2010
Regional	225	25	269
Hindi	88	2	104
English	65	11	76
Others	39	4	123
Total	**417**	**42**	**572**

Source: TAM

The year started with Discovery launching two out of its proposed three channels in the form of Discovery Science and Discovery Turbo. Next, ADAG group tied up with global media house CBS Studios and launched three new channels in the English GEC space - Big-CBS Prime for upwardly mobile customers, Spark targeted towards the youth, and Love catering to women, thus entering niche content space. Al Jazeera also got a nod from the Information and Broadcasting Ministry for its news channel. Also, Zee launched a first-of-its-kind 24-hour food channel Zee Khana Khazana.

A number of new regional channels were also launched with 9X Media launching two new bengali and south-based music channels and applying for many more licences. The year ended with the launch of Movies NOW from the Times Group trying to find a gap in the existing English film offerings to the Indian audience. It was launched in the HD format to capture the growing need for better experience.

Regional GECs, for the second year running, showed the biggest increase in the number of new channels with 25 more active channels being added in 2010. There are in all more than 264 new TV channels' licences pending with the Ministry and with TRAI recommending no upper cap on the number of new TV channels, this number is bound to increase. However, with distribution anomalies not being addressed, many of the new offerings will find it difficult to attract revenues. This will further increase carriage fees.

Table 2.20: Some new channels launched in 2010

Sr No.	Channel owner	Channel name	Category
1	Astro Group	Food Food	Food and lifestyle
2	Zee	Khana Khazana	Food and lifestyle
3	BIG-CBS	Prime	English GEC
4	BIG-CBS	Spark	Youth channel
5	BIG-CBS	Love	Female-centric channel
6	FOX	FX, FOX Crime, Nat Geo Music, Nat Geo Adventure, Nat Geo Wild, Nat Geo HD and Baby TV	-
7	Discovery	Discovery Science, Discovery Turbo	-
8	Times Group	Movies NOW	Films

Source: PwC Research

Television genre

The television broadcasting market comprises over nine different genres. Hindi GEC is the largest. Regional GEC which was running neck-to-neck with the Hindi GEC in 2009, has now fallen behind, with Hindi GEC increasing the gap between the two.

Table 2.21: Viewership share across genres 2010 and 2009 (%)

Channel Category	2010	2009
Hindi GEC	31.7	26.2
Regional GEC	22.9	24.2
Hindi films	12.0	11.7
Cable	6.5	7.9
Kids	6.0	5.5
Regional films	3.4	4.0
Regional news	3.6	3.7
Hindi news	3.8	3.4
Sports	2.8	2.8
Regional music	1.9	2.4
Music	2.5	1.7
Others	2.9	6.5

Source: TAM CS 4+ YRS All India

Key observations

Hindi GEC

- **An interesting race**
  The entry of Colors in 2009 rattled the Hindi GEC market and especially the top three players. Till then, they had taken their position for granted, but Colors showed that quality content can push one up the ladder. The reasons behind its popularity were innovative programming, differentiated content and a well-thought-out distribution process. In 2010, sensing the threat from new players, incumbents like Star, Zee and Sony reworked their strategies. Star underwent a rebranding exercise to connect with the younger audience, while Sony invested in newer and fresher content. The results were quick to see with Star regaining its numero uno position and Sony moving ahead of Zee at number three, owing to its popular reality shows such as *KBC,* and *Jhalak Dikhla Jaa.* Also helping Sony was the success of its new fiction properties *Saas Bina Sasural* and *Krishnaben Khakhrawala*.

Table 2.22: Number of weeks a channel remained No. 1

Channel	Weeks
Star Plus	42.0
Colors	10.0

Source: TAM CS 4+ Yrs All India 2010

- **Reality stretching imagination**
  The year 2010 saw the non-fiction genre rise in popularity and break into the stronghold of fiction. Many high-profile reality shows yielded good results for broadcasters. However, reality TV in India is still in a nascent stage and most of the shows are adaptations of existing international shows. The term 'reality' has expanded and includes different kinds of programmes, as illustrated below:

Table 2.23: Various reality shows on TV channels

Genre	Shows	Channel
Celeb reality	*Rakhi Ka Insaaf*	Imagine
Game shows	*Kaun Banega Crorepati, Zor Ka Jhatka*	Sony, Imagine
Talent hunts	*Jhalak Dikhla Ja, Indian Idol, Master Chef India, Dance India Dance, India's Got Talent, Sa Re Ga Ma Pa, The Great Indian Laughter Challenge, Boogie Woogie*	Sony, Star Plus, Zee, Colors, Zee, Star One
Matchmaking	*Rahul Dulhaniya Le Jayega*	Imagine
Social experiments	*Bigg Boss, Emotional Atyachar*	Colors, UTV Bindass
Adventure-based shows	*Khatron Ke Khiladi, MTV Roadies*	Colors, MTV

Source: PwC Research

- **Fiction key to TRPs?**
  Fiction remains the most-watched segment among the top programmes in 2010. However, *Jhalak Dikhla Jaa* and *DID Lil Masters* have made their entry among the top five watched shows. For the first time, a reality programme has featured at the top. This may be an indication towards consumer preference or just the impact of celebrities pulling the show through. It remains to be seen if this trend continues or fiction comes back on top. However, it is clear that a reality show is now an essential part of the Hindi GEC offering. The top shows for 2010 are as follows:

Table 2.24: Top rated television programmes

Show	Channel	Average prime time rating (%)
Pavitra Rishta	Zee TV	5.36
Yeh Rishta Kya Kehlata Hai	Star Plus	5.00
Uttaran	Colors	4.90
Bidayi	Star Plus	4.55
Jhalak Dikhhla Jaa-VI	Sony	4.43
Pratigya	Star Plus	4.42
Balika Vadhu	Colors	4.33
Na Aana Is Des Laado	Colors	4.09
DID Lil Masters	Zee TV	3.92

Source: TAM CS4+ Yrs All India

- **Remake strategy**
  Many Hindi GECs are remaking successful regional shows in Hindi. The core idea of the show is retained and set into a new context, keeping in mind the social and cultural differences. For example, the popular Hindi soap on Zee, *Pavitra Rishta* is a remake of the Tamil daily *Thirumathi Selvam. Sasural Genda Phool* on Star Plus' prime-time slot is again a remake of Star Jalsha's top-rated *Ogo Bondhu Sundori*. Even Imagine's *Rakt Sambandh* is a remake of UTV's Telugu show *Raktha Sambandham*. The reverse trend is also seen. e.g., *Dance Bangla Dance* was first remade in its Marathi avatar as *Eka Peksha Ek* and later in its national version, *Dance India Dance*.

- **Hindi GECs now global**
  All Hindi GECs are now being made available across the globe, and are increasing the share of international revenue in their overall revenue pie.
  - Zee Entertainment Enterprises Ltd launched its fifth channel in the UK.
  - Times Group has launched two of its channels-Times Now and Zoom-in Australia and New Zealand. From 1 July 2010, both channels were made available on Vision Asia, the independent multi-channel pay television platform catering to the South Asian community in Australia and New Zealand.
  - Zee Café started beaming in UK from 15 July 2010 on the Sky platform.
  - Sony Entertainment Network (SEN) also launched its Bengali movie channel Aath in North America. The channel is available on Dish Network.
- **Hindi films to garner eyeballs**
  Another form of 'impact properties' for GECs are the latest Hindi film releases. They not only attract large viewership but also high advertising revenue. Hence, channels race towards acquiring new releases that have the potential to be monetised. Even film award functions rake in good ratings. The Filmfare Awards gave Sony Entertainment Television (SET) a decent 26 gross rating points (GRPs). With this growth in demand, acquisition costs for films are rising and film deals are getting bigger. Hindi GEC Colors did a 30-film deal with Reliance Big Pictures for over INR 500 million. Viacom18 acquired first airing rights of Kites, Raavan and Mirch. The deal also includes three animation and 23 library films including Rock On and Luck By Chance. The interest in films as a key content-filler has put a premium on satellite rights and it seems to stay so in the future.

Regional GECs

There are a total of 70 regional GECs in India as compared to 16 hindi GECs. They have significant viewership across the country. But still, in terms of advertising revenues, regional GECs fall behind the Hindi GECs.

- **National players going regional**
  This trend has caught up with the English infotainment channels as well. National Geographic, which had started a feed in Telugu earlier, has now moved beyond the south and launched its Bengali feed in November 2010. Arch rival Discovery already has feeds in Tamil and Telugu. Various factors contribute towards advances in regional media:
  - Higher disposable incomes in smaller towns and cities leading to increasing advertiser interest and increasing media penetration. The markets of south India, Bengal and Maharashtra together constitute a significant portion of the total C&S subscribers in the country.
  - Expansion of market with a number of players entering these markets.

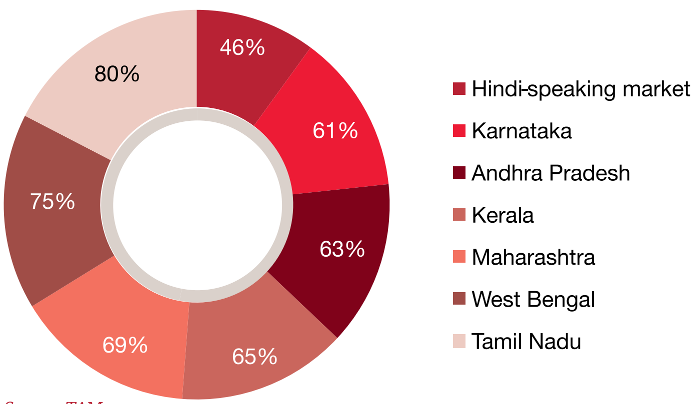
Table 2.25: National players opening new regional channels

Network	Regional presence
Zee	5 channels in 4 languages
Star	22 channels in 6 languages
Sun	20 channels in 4 languages

Source: PwC Research

- **Significant cost advantages**
  - **Advertisers:** The cost of reaching a target audience through a regional channel is much lower than through a Hindi GEC. For instance, an advertiser will spend about 60 per cent less to reach a thousand people through a prime time show on a Telugu GEC than on a Hindi GEC. The advertising rates for a 10-second spot on a top-rated prime-time show on a Hindi GEC could range between INR 0.25 million to 0.30 million, while a similar spot on a Telugu GEC will cost between INR 24,000 and 28,000.
  - **Broadcasters:** The cost of launching a GEC in the regional market is much lower due to significantly lower content costs than in Hindi speaking market as well as lower carriage costs. It would take INR 400 million to 500 million to launch a regional GEC as against INR 1,700 million to 2,000 million for a Hindi GEC. A regular soap in these markets could be made for INR 70,000 to 300,000 as compared to budgets of INR 0.5 million to 1 million for Hindi content.
- **Opportunity galore**
  Viewership share in regional markets is generally skewed towards a couple of top players, with other channels lagging considerably behind. This provides an opportunity for new players to enter the market and carve out a share for themselves.

Chart 2.2: Viewership share of top two players in regional markets



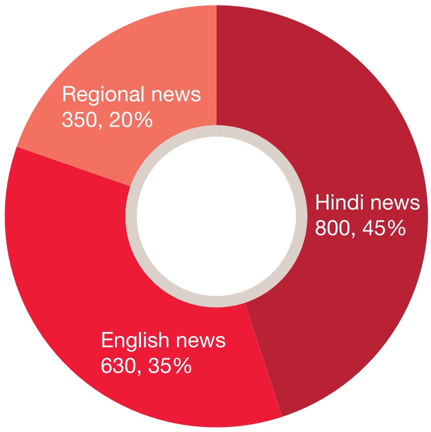
Source: TAM

Music genre

- The music genre has traditionally been highly fragmented and characterised by low viewership. To hold viewer interest and differentiate themselves, channels keep innovating their programming and content. Continuing from last year, music is no longer the mainstay of music channels.
- This year, there were two distinct categories of music channels, the ones that focused more on reality content than music (like MTV and Channel [V]) and the ones that focused on pure play music content (9XM and Mastii).
- Channels have also started expanding overseas to increment their revenue. For example, B4U Music, the Hindi film music channel has launched in Africa on the digital satellite television (DSTV) platform. B4U Music is available across all packages on DSTV, and is the only Asian music channel available on the platform in Africa.
- In July 2010, Sri Adhikari Brothers Ltd (SAB) launched its music and comedy channel Mastiii. The channel plays Hindi film music and comedy acts. This FTA channel has 75% music and 25% comedy content

broadcasting features that evidently take sides or beam content with profit intent. There is also evidence of politically partisan news. Since TRPs are the primary tool for attracting advertisements, many channels with subpar content have still managed to stay afloat.

Chart 2.3: News advertisement market size (INR crore)



Source: PwC estimates

Table 2.26: Monthly GRPs of Music channels in India

Sr.No.	Channel	1	2	3	4	5	6	7	8	9	10	11	12
1	9X M	74	63	66	55	61	66	55	52	52	62	72	77
2	B4U Music	50	47	52	54	49	50	54	46	42	45	45	47
3	Channel V	35	24	26	31	38	41	43	42	46	37	39	41
4	Mastiii	-	-	-	-	-	-	36	50	59	60	62	50
5	MTV	66	57	71	69	77	72	63	56	52	58	66	66
6	Music India	30	23	24	34	43	41	33	30	28	21	19	25
7	Zing	13	10	9	9	12	13	9	7	5	6	7	7

Source: TAM CS4+, All India, 2010

News genre

- India is home to more than 100 dedicated news channels, unrivalled by any other country, and more than the whole of western Europe. Moreover, these channels are available in multiple languages, representing the diversity and linguistic complexity of India.
- Consuming news is a habit and has a loyalty factor attached to it? News channels therefore try every trick in the trade to attract more consumers. Intense competition and the fight for TRPs has resulted in the promotion of 'masala news' and 'paid news'-
- Another interesting development has been the growing interest of women in the news genre. Analysis has revealed an evident shift in the interest of women towards news. The gender disparity in news viewership is slowly but surely eroding.
- Hindi news continues to be the biggest in terms of market size followed by English news and regional news.

- Kids
  - Kids' channels have also donned the regionalisation cap like most other genres. The driving force behind this move is the fact that the south accounts for more than one-fourth of the total Indian kids' TV viewership. After gaining a firm hold on the Hindi-speaking market, Viacom18's kids channel Nick is southward-bound and is airing in Tamil and Telugu in Tamil Nadu and Andhra Pradesh respectively. While Kerala airs shows in English, Nick features a mix of Hindi, English and Tamil feeds in Karnataka.
  - Apart from the national channels going local, regional channels also launched new kids' channels. While Kalaignar TV launched Chithiram TV, Sun already has three channels in the form of Chintu TV, Khushi TV and Adithya TV.

- Sports
  - Cricket is the main fodder of all sports channels. With the cricket World Cup and the IPL scheduled back-to-back, 2011 was a bonanza year for sports channels. In the 2007 World Cup, India had played three matches out of 20 and clocked a TVR of 8.85 against Bangladesh, 10.10 against Bermuda and 12.06 against Sri Lanka.
  - In 2011, with India winning the World Cup, the TVRs for the matches involving India were quite high. It had its effect on IPL Season 4 with the league not measuring up to the same performance as that in IPL Season 3. The average TVR for IPL Season 4 was 3.91, much lower than 5.51 for IPL Season 3. However, advertising inventory-wise, both tournaments and the channels-owners managed to reap huge benefits in 2010 as well as 2011.

Table 2.27: Monthly GRPs of some kids channels

Sr. No	Channel	1	2	3	4	5	6	7	8	9	10	11	12
1	Cartoon Network	273	229	261	275	292	255	229	223	206	229	232	215
2	POGO	177	165	192	190	239	197	165	154	161	180	189	184
3	Nickelodeon	190	162	181	188	195	201	181	179	188	194	190	177

Source: TAM CS4+, All India, 2010

- English films
  - The biggest development in this space last year was the launch of Movies NOW. The key USP for the channel was that it was presented in HD. The channel performed especially well in the metros.
  - However, the channel is a free channel presently with major MSOs and its performance in the coming years needs to be observed. A lot will depend on how the channel performs once it is a subscribed channel and when the current content is exhausted and fresh content needs to be procured.

Table 2.28: Viewership ratings of top english film channels

Channel	Monthly avg GRP (2009)	Monthly avg GRP (2010)
HBO	35.8	27.0
PIX	13.1	13.4
Star Movies	44.0	41.1

Source: TAM CS4+

Table 2.29: Effect of IPL Season 3 on various channels GRPs

Genre	Pre IPL-Season 3	IPL Season-3	Difference
English business news	39	33	-14%
English GEC	31	31	0%
English films	153	142	-7%
English news	83	73	-12%
Hindi business news	33	28	-16%
Hindi GEC	6916	6394	-8%
Hindi films except SET Max	1755	1615	-8%
Hindi news	797	655	-18%
Infotainment	271	257	-5%
Kids	1264	1437	14%
Max	617	2504	306%
Music	367	388	6%

Source: TAM CS4+

Key regulatory updates

- **Review of TAM ratings methodology:** Doordarshan's repeated complaint has been that its reach and viewership in rural areas is not adequately captured on TAM as the methodology is primarily urban-centric. Hence, its programmes have been losing out on ratings and on advertising revenue. Addressing this, the Information and Broadcasting Ministry set up a committee chaired by Dr. Amit Mitra to review TAM's TV ratings methodology.
- **Self regulatory guidelines:** The Indian Broadcasting Foundation has approved a Self Regulatory Guidelines and Complaints Redressal Mechanism for all non-news channels. This will include general entertainment, children and special interest channels. The News Broadcasters Association (NBA) has already implemented a similar code relating to news channels and also has an appellate authority.
- **New television channels allowed:** The government has decided to revise its earlier ban on new channels subject to receiving the TRAI report on the availability of spectrum for new channels. The decision of the government to revise its earlier ban of 18 January 2011 was taken after TRAI informed the Ministry that it was unlikely to finalise its report before June or July 2010. The government decided to accept fresh applications from 1 April 2010 and process the fresh applications as well as the applications already received under the Uplinking and Downlinking Guidelines of 2005.

Future trends

- Using new platform to showcase content
  Content providers will have to use their content on different platforms to derive maximum value. Owing to India's diversity and the growing popularity of media such as mobile TV, content owners will have to customise content for different platforms and make it available to viewers.
- Reality TV to garner more eye-balls
  Reality TV will slowly catch up with fiction and will command a higher share of advertisement revenue. Newer and more innovative formats of reality TV will be brought in to attract viewer attention.
- Gender-neutral news
  With the growing interest of women in news, broadcasters will start tailoring their content to cater to women viewers.
- Cross-regional content-sharing
  As has been the trend this year, much regional content will be brought to the national stage and much national content will be taken to the regional audience after customisation. To save on cost, many regional players may also air dubbed versions of national reality shows.

Deal watch

Television distribution

- ChrysCapital, a PE firm, exited Hathway and offloaded its entire 6.36% stake in Hathway Cable and Datacom. The Delhi-based private equity firm owned its stake in Hathway Cable through a separate entity, Monet Ltd. The company sold around 9 million shares in open market bulk deals in BSE and NSE. The PE firm had partially exited at the time of Hathway's IPO, earning INR 1.73 billion.
- Bharti Airtel has increased its stake in Bharti Telemedia, the subsidiary company that holds the DTH, broadband, wireline and IPTV businesses. Bharti Airtel, which earlier held 40% in Telemedia, has now upped its stake to 95%. Bharti Airtel has bought back the stake from Bharti Enterprises for INR 74 million.

Television advertising

- Dentsu Inc purchased the respective 26% equity stakes held by Mogae Consultants Pvt Ltd in Dentsu Communications Pvt Ltd, Dentsu Marcom Pvt Ltd and Dentsu Creative Impact Pvt Ltd, three full-service advertising agencies established as joint ventures between Dentsu and Mogae in Janurary 2011.

Television broadcasting

- In April 2010, Zee Entertainment Enterprises Ltd (ZEE) acquired the general entertainment business of media house 9X Media for around INR 640 million. The transaction was a stock-cum-debt assumption and did not involve any upfront cash payment by ZEE.
- In July 2010, Alva Brothers Entertainment Pvt. Ltd (ABE), the India-based company engaged in television production, film production, and distribution, acquired 29%, 34% and 50% in Miditech Pvt. Ltd, Match Box Films Private Limited and Real Global Broadcasting Pvt Ltd, respectively, from Turner International India Pvt Ltd, for an undisclosed consideration. Post acquisition, ABE holds 100% stake in all three companies.
- In August 2010, Reliance Broadcast Network (RBNL), part of the Reliance Anil Dhirubhai Ambani group, and CBS Studios International, a division of CBS Corporation, entered into an equally-owned joint venture that brings together two of the world's most eminent media and entertainment companies. CBS and RBNL will each have a 50% equity interest in the joint venture company.

Key challenges

- Slow pace of digitisation
  - **Unfavourable regulation:** TRAI is suggesting a cap of INR 250 on monthly cable charges. With digitisation requiring investments to the tune of INR 400 billion, capping the monthly cable charges to an upper limit will only lengthen the recovery of the investments made by the industry. This will in turn make them want to continue on the existing analogue cable as far as possible and may delay the digitisation process.
  - **Shortage of STBs:** It is estimated that 65 million STBs will be required in the next three years to complete the proposed process of digitisation. At the customer's end, there are presently delays of installation. Any delay at the procurement end will result in user inconvenience.
- Content production costs
  - Talent cost which slipped in 2009 due to the recession is back on the rise. In the race to procure content, content producers have driven the cost upwards, which makes recovery lengthy. Moreover, reality shows are even more expensive to produce due to set-up and celebrity costs. Managing the fine balance between the cost of production and recovery will be a challenge in 2011.
- ARPUs to reduce payback time
  - In an industry where ARPUs are as low as INR 100 for certain markets, driving it up in this competitive phase is a challenge. Though there are DTH players like Tata Sky whose ARPUs are in the range of INR 190 to 200, these are still lower than countries like the US and UK where ARPUs are in the range of INR 2100 and 2500 Higher ARPUs will also help industry players recover their investments fast and encourage them to make new investments.
- Need to improve measurement tools
  - The need to improve measurement tools is important, both for advertisers as well as the industry. Employing better technology, more contact points will help direct the inflow of revenue to quality programming.
  - Digital video recorders were a fad in 2009. There were concerns on how they would affect viewership and ratings. However, there is a need to include these in ratings for popular shows as broadcasters benefit greatly by this incremental viewing. Moreover, playback to be included in the ratings should not be limited to only three to five days but should be there for at least two weeks. There is a need to develop methodology to include the same.

Global outlook

TV subscription and licence fees

We project that the global television subscription and licence fee market will increase from USD 203.1 billion in 2010 to USD 285.2 billion in 2015, a compound annual growth rate of seven percent. Latin America will be the fastest-growing region, with a 12.5% compound annual increase, Asia Pacific will grow by 10.3% compounded annually, North America will expand at a 5.8% compound annual rate, and EMEA will grow by a projected 5.6% compounded annually. North America will rise from USD 83.4 billion in 2010 to USD 110.7 billion in 2015. EMEA will reach USD 95.4 billion in 2015 from USD 72.6 billion in 2010. Asia Pacific will total an estimated USD 55.9 billion in 2015 from USD 34.2 billion in 2010. Latin America will rise from USD 12.9 billion to USD 23.3 billion.

Approaching saturation in North America and competition from free digital terrestrial television (DTT) in EMEA will limit subscription-spending growth in those regions, while continued expansion in the subscription household universe in Asia Pacific and Latin America will drive subscription spending in those regions. Over-the-top services in North America will attract users who have relatively little interest in a wide range of channels and are looking to save money. TV providers are countering competition from over-the-top services with TV Everywhere packages that provide content for subscribers on all platforms.

Nevertheless, we expect competition from the emerging over-the-top market to cut into subscription-spending growth in North America. The migration to digital will drive the Video on Demand (VOD) market, with early release windows, thereby providing an additional boost in North America. Wireless network upgrades will lead to increased availability of mobile TV, principally through hybrid models combining free service for standard programmes and subscriptions for premium content.

Table 2.30: Global TV subscription and licence fee market by component (USD millions)

Component	2006	2007	2008	2009	2010p	2011	2012	2013	2014	2015	2011–15 CAGR
Subscriptions	120,968	132,400	142,660	153,107	163,394	176,701	191,249	205,568	220,489	235,764	
% change	8.4	9.5	7.7	7.3	6.7	8.1	8.2	7.5	7.3	6.9	7.6
Over-the-top	NA	NA	48	119	244	420	641	961	1,399	1,954	
% change	—	—	—	147.9	105.0	72.1	52.6	49.9	45.6	39.7	51.6
Pay-per-view	3,880	4,211	4,533	4,381	4,273	4,239	4,227	4,199	4,200	4,224	
% change	11.5	8.5	7.6	-3.4	-2.5	-0.8	-0.3	-0.7	0.0	0.6	-0.2
Video-on-demand	2,384	3,250	4,061	4,382	4,870	5,734	6,731	7,578	8,409	9,215	
% change	36.8	36.3	25.0	7.9	11.1	17.7	17.4	12.6	11.0	9.6	13.6
Public TV licence fees	26,684	27,474	27,622	28,708	29,205	29,350	29,751	30,233	30,474	30,697	
% change	1.5	3.0	0.5	3.9	1.7	0.5	1.4	1.6	0.8	0.7	1.0
Mobile TV	267	608	914	1,002	1,097	1,256	1,610	2,035	2,681	3,365	
% change	—	127.7	50.3	9.6	9.5	14.5	28.2	26.4	31.7	25.5	25.1
Total	154,183	167,943	179,838	191,699	203,083	217,700	234,209	250,574	267,652	285,219	
% change	7.7	8.9	7.1	6.6	5.9	7.2	7.6	7.0	6.8	6.6	7.0

Source: PwC Global Entertainment & Media Outlook 2011-2015

TV advertising

The global television advertising market rose by 10.2% in 2010, more than offsetting the 7.3% decrease in 2009. Latin America will be the fastest-growing market over the next five years, with a compound annual increase of 9.6% through 2015. Asia Pacific is next, with a projected 8.3% compound annual gain, which will be 11.8% compounded annually excluding Japan. We expect EMEA to expand at a 6.3% compound annual rate, and North America by 4.9% compounded annually. North America will remain the largest market in 2015, at USD 94.3 billion. Asia Pacific, the second-largest region, will reach USD 61.5 billion in 2015, followed by EMEA at USD 55.4 billion. Latin America will total USD 21.4 billion. The market as a whole will increase at a 6.5% compound annual rate, rising to USD 232.6 billion in 2015 from USD 169.8 billion in 2010.

A recovering economy and increased usage of television to drive sales and market share will stimulate the overall television advertising market. Broadcast advertising will also benefit from more channels coming from new or expanded multichannel platforms—including DTT launches—and from rising levels of viewing generated by growing HD penetration. Television is one of the few media that is experiencing audience growth globally. Increased streaming in all regions, the availability of web-connected TV sets in North America and EMEA, and rising levels of viewing of online TV on computers in Asia Pacific will fuel online television advertising. Mobile TV roll-outs, the launch of apps for mobile TV on tablets and smartphones, and the growing penetration by smartphones and tablets will expand mobile television usage and advertising.

Table 2.31: Global television advertising market by component (USD millions)

Component	2006	2007	2008	2009	2010p	2011	2012	2013	2014	2015	2011–15 CAGR
Broadcast television advertising											
Terrestrial television advertising	112,066	113,463	113,661	102,944	112,844	114,185	125,226	128,493	142,274	144,156	*5.0*
% change	*2.8*	*1.2*	*0.2*	*-9.4*	*9.6*	*1.2*	*9.7*	*2.6*	*10.7*	*1.3*	
Multichannel television advertising	36,072	39,085	41,260	40,674	45,064	48,182	53,112	57,582	63,361	67,627	*8.5*
% change	*7.0*	*8.4*	*5.6*	*-1.4*	*10.8*	*6.9*	*10.2*	*8.4*	*10.0*	*6.7*	
Total broadcast television advertising†	157,414	162,214	163,991	151,343	166,237	170,952	187,288	195,362	215,419	221,905	*5.9*
% change	*6.4*	*3.0*	*1.1*	*-7.7*	*9.8*	*2.8*	*9.6*	*4.3*	*10.3*	*3.0*	
Online and mobile television advertising											
Online television advertising	774	1,316	1,896	2,199	2,843	3,489	4,348	5,439	6,677	7,870	*22.6*
% change	*121.1*	*70.0*	*44.1*	*16.0*	*29.3*	*22.7*	*24.6*	*25.1*	*22.8*	*17.9*	
Mobile television advertising	20	88	354	539	690	939	1,315	1,809	2,338	2,873	*33.0*
% change	*—*	*340.0*	*302.3*	*52.3*	*28.0*	*36.1*	*40.0*	*37.6*	*29.2*	*22.9*	
Total online and mobile television advertising	794	1,404	2,250	2,738	3,533	4,428	5,663	7,248	9,015	10,743	*24.9*
% change	*126.9*	*76.8*	*60.3*	*21.7*	*29.0*	*25.3*	*27.9*	*28.0*	*24.4*	*19.2*	
Total television advertising	158,208	163,618	166,241	154,081	169,770	175,380	192,951	202,610	224,434	232,648	*6.5*
% change	*6.7*	*3.4*	*1.6*	*-7.3*	*10.2*	*3.3*	*10.0*	*5.0*	*10.8*	*3.7*	

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

Source: PwC Global Entertainment & Media Outlook 2011-2015

Outlook for the Indian television industry

The Indian television industry is projected to grow by 14.5% over the period 2010-15 and is estimated to reach about INR 602.5 billion in 2015 from the present estimate of INR 306.5 billion in 2010.

PwC expects new channels to be available for customers and advertisers thereby increasing the advertising inventory and volume, giving a boost to the advertising industry. We expect that the industry will continue to rely on advertising revenue for some time, at least till digitisation achieves momentum.

Table 2.32: Growth of Indian television industry 2010-2015

INR billion	2010	2011F	2012F	2013F	2014F	2015F	CAGR
Television distribution	192.0	222.0	254.0	293.0	334.5	376.5	14.4%
% change		*15.6*	*14.4*	*15.4*	*14.2*	*12.6*	
Television advertising	101.5	116.0	133.0	152.0	175.0	200.0	14.5%
% change		*14.3*	*14.7*	*14.3*	*15.1*	*14.3*	
Television content	13.0	15.0	17.0	20.0	23.0	26.0	14.9%
% change		*15.4*	*13.3*	*17.6*	*15.0*	*13.0*	
Total	**306.5**	**353.0**	**404.0**	**465.5**	**532.5**	**602.5**	**14.5%**

Source: PwC Analysis and Industry Estimates

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 projected to increase from 106 million at the end of 2010 to 161 million by the end of 2015.

With the government renewing its focus on digitisation, it will be the main force behind the industry's growth. It is estimated that DTH will be the major growth avenue for digitisation. While it seems that DTH will eventually start cannibalising digital and analogue cable subscribers, we do not see it happening in the near future. It is estimated that DTH will have 75 million households by 2015 from the current 32 million at the end of 2010.

Table 2.33: Growth of television households in India 2010-2015

Million (year-end)**	2010	2011F	2012F	2013F	2014F	2015F
TV households	130.0	135.0	142.0	149.0	157.0	168.0
% change		*4.0*	*5.0*	*5.0*	*5.0*	*7.0*
Pay TV households	106.0	117.0	127.0	138.0	149.0	161.0
% change		*10.0*	*9.0*	*9.0*	*8.0*	*8.0*
Cable TV households	74.0	75.0	77.0	80.0	83.0	86.0
% change		*1.4*	*2.7*	*3.9*	*3.8*	*3.6*
DTH households	32.0	42.0	50.0	58.0	66.0	75.0
% change		*31.3*	*19.0*	*16.0*	*13.8*	*13.6*
Pay TV ARPU	160.0	165.0	175.0	185.0	195.0	205.0
% change		*3.0*	*6.0*	*6.0*	*5.0*	*5.0*

*** We have restated the numbers to reflect year-end numbers. Our methodology for subscription revenue uses year-average numbers.*

Source: PwC Analysis and Industry Estimates

Print media

At a glance

	2010	2015	CAGR
Market size	INR 178.7 billion	INR 282.0 billion	9.6%
	USD 3.97 billion	USD 6.27 billion	
Newspaper publishing	INR 159.5 billion	INR 257.7 billion	10.1%
	USD 3.54 billion	USD 5.73 billion	
Magazine publishing	INR 19.2 billion	INR 24.3 billion	4.8%
	USD 0.43 billion	USD 0.54 billion	
Advertising revenues	INR 113.5 billion	INR 197 billion	11.7%
	USD 2.52 billion	USD 4.38 billion	
Subscription revenues	INR 65.2 billion	INR 85.0 billion	5.4%
	USD 1.45 billion	USD 1.89 billion	

Market definition

The 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 segments.

The print media industry

Unlike the global print industry, which is moving towards digitisation and showing a negative growth year on year, the Indian print media industry is going strong and is expected to continue similarly. The print industry in India, with over 90 million copies in circulation daily, is one of the largest in the world, second only to China (130 million copies). It is not to say that there has been no effort towards digitisation and conversion to online readership, but there has not been much progress. Most newspapers have an online presence and a growing view count on their portals, but hard copy still remains the preferred mode to access news. We do not expect any significant change in this trend over the next five years.

The print industry saw good growth last year, on the back of a recovering advertising market and reduction in the gap between a 'can read' and 'currently reading' population. Increase in print penetration in Tier 2 and Tier 3 cities, supported by growth in literacy and purchasing power, aided growth in revenues. Circulation revenues showed marginal growth as many newspapers expanded in newer geographies but lowered cover price to gain readership. The newspaper industry, which had remained largely flat in 2009, was back on the growth track with 11.7% growth taking this industry segment to INR 159.5 billion in 2010 and increasing its share in the print industry to 89.3%.

It was a poor year for the magazine industry with marginal growth in advertising and almost no change in circulation. The size of the magazine publishing industry was estimated at INR 19.2 billion in 2010 as compared to INR 18.6 billion in 2009, registering a growth of 3.1%. The marginal growth was attributed to the consumer magazine segment.

While the growth estimates for the magazines look modest, some titles and publishers have experienced double-digit growth while others have lagged behind.

Overall, the size of this industry was INR 178.7 billion in 2010, registering a growth of 10.7% over INR 161.5 billion in 2009.

Table 3.1: Growth of the print media industry in 2006-10

INR billion	2006	2007	2008	2009	2010	CAGR
Newspaper	112.1	131.5	140.7	142.8	159.5	9.2%
% change		*17.3*	*7.0*	*1.5*	*11.7*	
Magazine	16.5	19.0	21.0	18.6	19.2	3.8%
% change		*14.9*	*10.6*	*-11.5*	*3.1*	
Total	128.0	149.0	162.0	161.5	178.7	
% change		*16.4*	*8.7*	*-0.3*	*10.7*	*8.6%*

Source: PwC Analysis and Industry Estimates

The print advertising, which constitutes 63% of revenue for the segment, registered a growth of 13.5% in 2010 over 2009 and stood at an estimated INR 113.5 billion in 2010. Circulation revenues for print grew by 6.2% in 2010 over 2009 and stood at an estimated INR 65.2 billion in 2010. The growth in circulation was largely contributed by players expanding into newer geographies.

Table 3.2: Growth of the print media industry in 2006-10

INR billon	2006	2007	2008	2009	2010	CAGR
Advertisement	78.0	94.0	103.5	100.0	113.5	9.8%
% change		*20.5*	*10.1*	*-3.0*	*13.5*	
Circulation	50.7	56.5	58.3	61.5	65.2	6.5%
% change		*12.0*	*3.0*	*5.0*	*6.2*	
Total	128.0	149.0	162.0	161.5	178.7	
% change		*16.4*	*8.7*	*-0.3*	*10.7*	*9.6%*

Source: PwC Analysis and Industry Estimates

Outlook in brief

- Hindi dailies continue to rule the roost with the highest growth in readership (AIR) as compared to 2009. They grew at the rate of nine per cent in 2010 as compared to three per cent in 2009.
- Magazine circulation figures continue to suffer from the lack of proper measurement tools and most top magazines in India lost readership share. However, special interest magazines like business magazines showed positive signs and all the top five magazines in this category showed growth.
- Regional players are expected to grow at a brisk pace, both in terms of advertising revenue as well as market expansion.
- Increase in newsprint prices are a concern for the industry and are likely to hit profitability in the current year. Increases in salaries recommended by the Wage Board can also affect profitability of smaller publishers.
- Newspaper publishers are expected to continue to increase presence in the online format. However, print is not only here to stay for the next five years it is expected to show steady growth too.

India's place in the world

India is the second largest newspaper market in the world, after China. While globally the print industry is on a decline, the Indian print media is showing steady growth. The global newspaper market fell by 0.3% in 2010 as declines in North America offset gains in other regions. Global print advertising fell by 1.3% in 2010 and is expected to decline further by an additional 0.5% in 2011.

Table 3.3: Newspaper publishing market						
USD million	**2006**	**2007**	**2008**	**2009**	**2010**	**CAGR**
United States	59,897	55,740	48,045	37,771	35,570	-12%
UK	10,402	11,340	10,695	9,333	9,592	-2%
China	9,892	10,347	11,020	11,318	12,105	5%
India	2,491	2,922	3,126	3,173	3,544	9%

Source: PwC Global Entertainment and media outlook 2011 -2015

Table 3.4: Daily newspaper print unit circulation						
Thousands	**2006**	**2007**	**2008**	**2009**	**2010**	**CAGR**
United States	54,829	53,492	51,497	48,025	44,800	-5%
UK	16,650	16,074	15,500	14,900	14,340	-4%
China	98,700	102,500	107,000	117,815	134,190	8%
India	79,000	83,000	85,000	88,000	91,000	4%

Source: PwC Global Entertainment and media outlook 2011-2015

Key developments

Print advertising

Growth in advertising but with more dilution in sectors
With an economic revival, India's advertising industry too revived. On the back of favourable macro-economic factors, print advertising bounced back and grew by 13.5% in 2010. Print volumes grew by 31%[1] over 2009.

While education was the top advertiser last year, this year it shifted to third position and services moved to the top position. The education sector was the top performer in the first half of 2010 but other sectors caught up in the second half. The top five sectors contributed 45% to the total pie as compared to 49% in 2009 leading to other sectors contributing more to the growth of print advertising. BFSI also increased its share in 2010 as compared to 2009.

Table 3.5: Print advertisement revenues 2006-2010						
INR billion	**2006**	**2007**	**2008**	**2009**	**2010**	**CAGR**
Advertisement	78.0	94.0	103.5	100.0	113.5	9.8%
% change		*20.5*	*10.1*	*-3.0*	*13.5*	

Source: PwC Analysis and Industry Estimates

- Print ad volumes of the services sector grew by 43% during 2010 as compared to 2009.
- Print ad volumes of the BFSI sector grew by 50% during 2010 compared to 2009.
- Print ad volumes of the education sector grew by six per cent during 2010 compared to 2009.

Table 3.6: Sector-wise share in print advertising during 2010	
Top sectors	**Share %**
Services	12
Banking / Finance / Investment	11
Education	10
Auto	7
Retail	5
Personal Accessories	4
Durables	4
Personal Healthcare	3
Corporate / Brand Image	3
Media	2

Source: Adex

Educational institutions, social advertisements and properties/real estate were the top three categories in print advertising during 2010. The top 10 categories constituted 39% share of overall print ad pie during 2010, indicating that there was a wider distribution of advertising spends across categories.

Table 3.7: Share of top categories in print advertising during 2010	
Top categories	**Share %**
Educational Institutions	9
Social Advertisements	7
Properties / Real Estates	4
Independent Retailers	4
Cars / Jeeps	3
Corporate / Brand Image	3
Hospital / Clinics	2
Events	2
Cellular Phones	2
Coaching Centre / Competitive Exam	2

Source: Adex

1 Adex

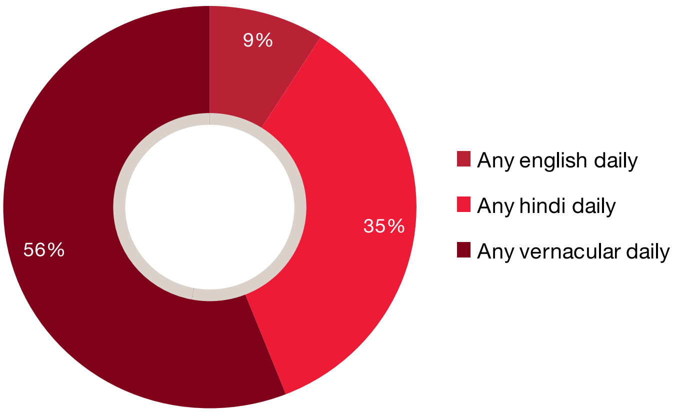
Naaptol.com, operating in the internet service domain, broke into the top advertisers' category and was the largest advertiser in print, followed by Tata Motors Ltd, and Maruti Udyog Ltd. SBI remained the top advertiser in the BFSI domain.

Table 3.8: Key advertisers in print during 2010

Rank	Top advertisers
1	Naaptol.com
2	Tata Motors Ltd
3	Maruti Udyog Ltd
4	Pantaloons Retail India Ltd
5	LG Electronics India Ltd
6	Dell Computer Corporation
7	SBI (State Bank of India)
8	General Motors India Ltd
9	Torque Pharmaceuticals
10	Videocon Industries Ltd

Source: Adex

Chart 3.1: AIR share of different dailies (English, Hindi and vernacular)

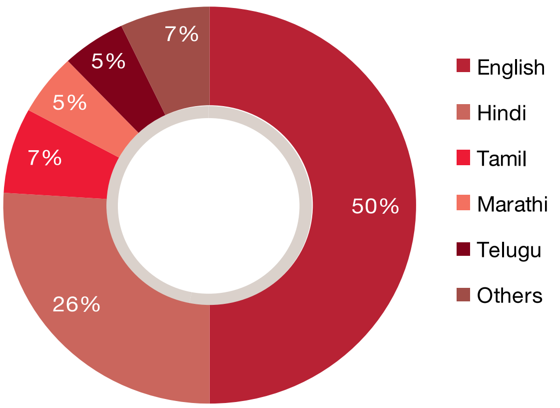


Source: IRS

Since recovering from the economic downturn and successful expansion in new geographical areas, many players increased their advertisement rates. DAVP advertising continues to account for 10 to 15% in terms of volume of the print players. We expect that in 2011, owing to assembly elections in many states, DAVP advertising should show good growth. English dailies were the primary beneficiaries of DAVP advertising, garnering around 40% share followed by Hindi which got 33% share.

In the readership scenario across India, English dailies account for only nine per cent of the average issue readership (AIR) in the country but command over 40% of the advertising revenues. Hindi dailies on the other hand, have 35% of the AIR but command around 30% of the advertising revenues. The scenario is even more skewed for other language dailies. However, as national advertisers look to target populations in smaller towns and local retail ad spending in Tier 2 cities increases, we expect this disparity to reduce. English dailies will, however, continue to command a premium over regional dailies in the foreseeable future.

Chart 3.2: Break-up of advertisement revenues of various newspapers by language in 2010



Source: PwC estimates, Industry research

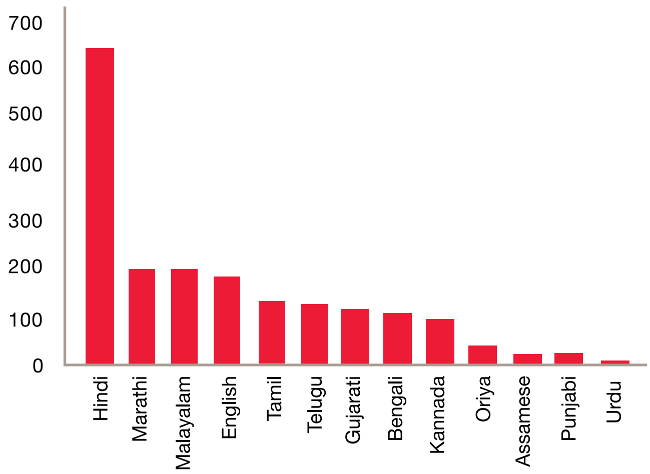
Print circulation revenues

Cover price accounts for 15 to 25% of the revenues of newspaper players. Magazines look to earn more from the cover price and the price of niche magazines can go up to as much as INR 250. In 2010, there was a growth of six per cent in circulation revenues. While many newspapers expanded geographically to increase their reach and readership, many others also reduced their cover price to tackle competition. Players expanding geographically launched a number of subscription schemes thus limiting the increase in circulation revenues. In the next two to three years, as these schemes are withdrawn, we may see even better circulation revenues.

Newspaper publishing

The newspaper publishing industry boasts of more than 180 million readers (AIR) in 2010 as compared to 173 million (AIR) in 2009, registering a growth of five per cent. Hindi dailies alone have 57 million readers followed by Marathi and Malayalam dailies at 18.3 and 17.2 million readers, respectively.

Chart 3.3: Any language daily readership of newspapers (AIR)



Source: IRS 2010 R4 and Average Issue Readership

Hindi dailies continue to lead

The top three slots have been occupied by Hindi dailies, with *The Times of India*, being the only English daily to make it in the top 10 list. *Dainik Jagran* and *Dainik Bhaskar* remained the most-read newspapers in India. While the top five remained the same, there was some change in the bottom five, with *Rajasthan Patrika* gaining readership numbers due to its expansion in Madhya Pradesh and registering a growth of 14% in readership. *Hindustan* too gained good numbers in 2010, with its expansion in UP going at full pace and was the fastest-growing daily in India registering a growth of 16%. It is fast catching up with the leaders and it won't be too long before *Hindustan* vies for the top position.

Table 3.9: Average issue readership for top 10 dailies in India (2010)					
Position	**Language**	**Name**	**AIR (Million) IRS 2010 R1**	**AIR (Million) IRS 2010 R4**	**Growth %**
1	Hindi	*Dainik Jagran*	16.3	16.1	-1%
2	Hindi	*Dainik Bhaskar*	13.3	14	5%
3	Hindi	*Hindustan*	9.9	11.5	16%
4	Malayalam	*Malayala Manorama*	9.6	9.9	3%
5	Hindi	*Amar Ujala*	8.5	8.6	1%
6	Hindi	*Rajasthan Patrika + Patrika (MP)*	7.2	8.2	14%
7	Marathi	*Lokmat*	7.4	7.7	4%
8	English	*The Times of India*	7	7.4	6%
9	Tamil	*Daily Thanthi*	7.4	7	-5%
10	Malayalam	*Mathrubhumi*	6.7	6.6	-1%

Source: PwC Analysis and IRS 2010

Leaders strengthen hold in key markets

In most Hindi-speaking markets, the leaders strengthened their position while in some, they also reduced their grip. While the overall readership numbers of the leaders have not reduced, competitors have gained share by capturing the slot of the second newspaper in the household. *Hindustan* gained share in UP and strengthened its position in Jharkhand. *Rajasthan Patrika*, which goes by the name of *Patrika* in Madhya Pradesh, also gained on the back of sustained efforts to expand. It also strengthened its position in Rajasthan further.

Table 3.10: Penetration of newspapers in Hindi belt					
State	**AHD readership (lakhs)**	**Player 1**	**Player 2**	**Player 3**	**Player 4**
UP	175.48	*Dainik Jagran (51%)*	*Amar Ujala (39%)*	*Hindustan (20%)*	*Aj (4%)*
Rajasthan	111.03	*Rajasthan Patrika (63%)*	*Dainik Bhaskar (57%)*	*Dainik Navjyoti (4%)*	
Bihar	61.35	*Hindustan (75%)*	*Dainik Jagran (40%)*	*Prabhat Khabar (5%)*	*Aj (4%)*
Delhi	49.79	*Navbharat Times (40%)*	*Hindustan (27%)*	*Dainik Jagran (22%)*	*Punjab Kesari (17%)*
Madhya Pradesh	60.92	*Dainik Bhaskar (58%)*	*Nai Dunia (20%)*	*Rajasthan Patrika (18%)*	*Raj Express (9%)*
Haryana	34.70	*Dainik Bhaskar (40%)*	*Punjab Kesari (30%)*	*Dainik Jagran (29%)*	
Jharkhand	31.28	*Hindustan (56%)*	*Prabhat Khabar (41%)*	*Dainik Jagran (28%)*	

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

Regional newspapers

Advertisers have tended to focus on urban geographies with English-speaking populations. Advertising spends are therefore concentrated on English newspapers that cater primarily to SEC A/B[2] households. As a result, historically, while vernacular language papers command higher readership than English dailies, advertising revenues have always been skewed towards English dailies. This trend was no different in 2010. Gradually, as the purchasing power of consumers in Tier 2 and Tier 3 cities increases, advertisers will begin to see greater value in these markets and ad spend on vernacular newspapers will increase. Recent changes in the socio-economic classification (SEC) system used by the IRS, now focusing more on product ownership/usage, are likely to benefit leading non-English dailies. We expect the gap between the ad spends of English and vernacular language newspapers to gradually reduce.

English dailies

The *Times of India* (TOI) leads the list of English dailies in India with a readership of over seven million, followed by *Hindustan Times*. Interestingly, TOI is the only English daily in the top 10 dailies in India and is gaining ground on some of the regional dailies. *Hindustan Times* (HT) is also fighting hard to reduce the gap with TOI and it is aggressively trying to expand in Mumbai by wooing subscribers with attractive subscription schemes and gift offers. HT has continued with its subscription scheme of INR 199 for the second year running in 2011 to gain market share in Mumbai.

Kannada dailies saw the maximum growth over 2010, while Tamil dailies declined the most

Table 3.12: Growth of dailies from Q1 to Q4

Publication	IRS Q4	IRS Q1	Growth
Any English daily	17402	16875	3.1%
Any Hindi daily	62694	58698	6.8%
Any Bengali daily	10165	10479	-3.0%
Any Gujarati daily	11036	10827	1.9%
Any Kannada daily	9024	7680	17.5%
Any Malayalam daily	18935	17730	6.8%
Any Marathi daily	18940	18579	1.9%
Any Tamil daily	12294	13056	-5.8%
Any Telugu daily	11814	11898	-0.7%

Source: IRS

Table 3.13: Top five English newspapers

Million readers	IRS 2009 R2	IRS 2010 R4
The Times of India	7.1	7.4
Hindustan Times	3.3	3.6
The Hindu	2.2	2.1
The Telegraph	1.2	1.2
Deccan Chronicle	1.2	1.1

Source: IRS

Table 3.11: Advertisement rates in English and Non-English newspapers

Publication	Edition	Readership (000s)	BW card rate (Rs per sq cm)	Rs cost per thousand	CPT index
The Times of India	Mah+Delhi	3,803	6,765	1.78	100
Hindustan Times	Mah+Delhi	2,540	3,700	1.46	82
The Times of India	All editions	7,088	7,749	1.09	61
Dainik Bhaskar	All editions	13,303	4,456	0.33	19
Eenadu	Andhra Pradesh	6,087	1,915	0.31	18
Dainik Jagran	All editions	15,925	3,825	0.24	14
Gujarat Samachar	Gujarat	4,506	825	0.18	10
Malayala Manorama	Kerala	9,728	990	0.1	6

Source: Industry Report – PINC Research
Kannada dailies saw the maximum growth over 2010, while Tamil dailies declined the most.

2 2 SEC (Socio Economic Classification) is the division of a total potential market into smaller groups based on sociological or cultural variables, such as social class, income, occupation, religion, material possessions, etc. SEC range from A1, A2, B1, B2, C, D, E1 and E2 with A1 being the highest classification.

Key developments in the newspaper publishing market

Growing trend of hyper localisation

Regional papers give advertisers access to localised population and their niche target audience, difficult to do via national broadcast media. Newspapers are now realising value in going a step further and launching area-specific editions of newspapers. These cater to local population and are mostly launched in metros with SEC A consumers, to derive maximum advertising spends. For example, TOI has launched South Mumbai and Navi Mumbai editions.

Unbundling of products to increase profitability

During the recession of 2008-09, several national newspapers bundled their offerings for consumers as well as advertisers to pre-sell inventory in bulk. They offered heavy discounts on bundled products. While newspapers such as TOI still offer bundled products to consumers to increase cover prices and push their less-popular publications, they along with other national players such as HT have unbundled their rate cards for advertisers. This is done to increase profit margins and take advantage of the local reach of each of the publications.

Increasing consumption of imported newsprint

As pointed out in the PwC Entertainment and Media Outlook 2010, many regional newspapers are moving towards coloured editions (in part or full) to hold on to their customer base and thwart competition. However, this also means that these publications are moving from domestic newsprint, considered of lower quality, to imported newsprint generally used by English newspapers. While the move towards coloured newspapers is good news for customers, it also exposes newspaper publishers to price and currency fluctuations associated with imported newsprint.

New entrants expanding the market

As we saw in 2009 and 2010, newspaper publishers continue to enter newer geographies and expand into the adjoining region. While this increases the competition in the region, it also benefits customers. Also, it was observed that competition in a region actually increases overall readership there. Madhya Pradesh's Hindi daily readership increased by 27% in 2010 with the expansion of *Rajasthan Patrika* and *Nai Dunia*.

Table 3.14: Any Hindi daily region-wise readership

Position	Name	AIR IRS 2009 R2 (lakhs)	AIR IRS 2010 Q4 (lakhs)	Growth %	Remarks
1	Uttar Pradesh	160.3	175.48	9.5	Expansion by *Hindustan* in various regions
2	Madhya Pradesh	47.7	60.92	27.7	Expansion by *Nai Duniya* and *Patrika* (Rajasthan Patrika)
3	Jharkhand	24.1	31.28	29.8	Entry of *Dainik Bhaskar* in Jharkhand

Source: PwC Analysis, IRS

Expansions to continue as most of IPO money still to be utilised

Dainik Bhaskar (DB) and Hindustan Media Venture have been on an expansion path in 2010, and the analysis of the statement of utilisation of their IPO proceeds makes it clear that this trend is bound to continue in the future. Both papers have much of its IPO proceeds demarcated to be utilised for entering new markets unspent.

Table 3.15: Statement of IPO proceed utilisation of DB Corp

Particulars	Amount to be Utilization as per Prospectus	Actual uitilized till March 31, 2010	Balance to be utilized as on March 31, 2010
Setting up new publishing units	600,000,000	26,174,950	573,825,050
Upgrading existing plant & machinery	305,000,000	11,850,000	293,150,000
Sales and marketing	501,000,000	-	501,000,000
Reducing working capital loans	41,460,000	41,460,000	-
Prepaying existing term loans	1,100,000,000	1,100,000,000	-
Issue Expenses paid out of IPO Proceeds	142,605,000	96,576,072	46,028,928
Total	**2,690,065,000**	**1,276,061,022**	**1,414,003,978**

Source: DB Corp Annual Report 2009-10

Table 3.16: Statement of IPO proceed utilisation of Hindustan Media Venture Ltd			
Utilization	Amount to be utilized as per Prospectus	Amount utilized bill 31-12-2010	Balance to be utilized # (Rs. In lacs)
Setting up new publishing units	6,600.00	532.96	6,067.04
Upgrading existing plant and machinery	5,500	3,516.24	1,983.76
Prepayments of loans	13,500.00	13,500.00	-
Total	**25,600.00**	**17,549.20**	**8,050.80**

Source: HMVL results update Q3 FY 10

Magazines publishing

The magazine industry continued to lose readership for the second consecutive year. The readership of the top 10 magazines (by AIR) dipped by around nine per cent losing almost 1.5 million readers. Non-English magazines made the top order in magazine readership. While Malayalam magazine *Vanitha* emerged as the clear winner, *Pratiyogita Darpan* was the only magazine which showed growth in 2010 replacing *Saras Salil* to take the second spot on the back of its growing young audience.

Key developments in the magazine industry

Business magazines show growth

Though readership of most magazines declined in 2010, the average issue readership of most business magazines showed healthy growth. *Business Today* is the most-read business magazine in the country showing maximum growth over the previous year's figures.

Table 3.17: Top 10 India magazines by readership (AIR)						
Position	Name	Language	Type	AIR IRS 2009 R2 (lakhs)	AIR IRS 2010 Q4 (lakhs)	Growth %
1	*Vanitha*	Malayalam	Fortnightly	29.00	27.10	-7
2	*Pratiyogita Darpan*	Hindi	Monthly	16.76	19.50	16
3	*Saras Salil*	Hindi	Fortnightly	21.67	19.40	-10
4	*India Today*	English	Weekly	18.78	17.50	-7
5	*Malayala Manorama*	Malayalam	Weekly	16.09	13.80	-14
6	*India Today*	Hindi	Weekly	13.98	11.60	-17
7	*Kumudam*	Tamil	Weekly	14.43	11.40	-21
8	*Meri Saheli*	Hindi	Monthly	12.31	11.30	-8
9	*Grih Shobha*	Hindi	Fortnightly	13.20	10.90	-17
10	*Cricket Samrat*	Hindi	Monthly	11.46	10.51	-8

Source: PwC Analysis, IRS

Table 3.18: Readership (AIR) of top five business magazines				
Sr. No.	Magazine	AIR IRS 2009 R2 (lakhs)	AIR IRS 2010 Q4 (lakhs)	Growth
1	*Business Today*	2.7	3.7	37.04%
2	*Business India*	2.16	2.16	0.00%
3	*Outlook Business*	1.81	1.95	7.73%
4	*Business World*	1.59	1.83	15.09%
5	*Outlook Money*	1.05	1.14	8.57%

Source: IRS

Mushrooming niche and special interest magazine category

A number of new international magazines were launched in 2010. Worldwide Media launched *Lonely Planet* in the first half in 2010 and BBC Knowledge and *Home Trends* in the second half. Network 18 launched *ForbesLife* and *Conde Nast Traveler.* All these magazines are priced in the range of INR 100 to 250 focussing on the upper middle-class and relying less on advertising as compared to other Indian magazines. Some of these magazines have shown good growth albeit from small numbers.

Niche magazines

Niche magazines have made their presence felt in India and will continue to grow. While segments such as travel, auto, lifestyle and education are already established, we expect new segments to emerge and grow this space. In the past year as well, a few niche magazines have shown very healthy growth. For example, *Autocar, India Today Travel Plus and Outlook Traveler.*

Table 3.19: Growth of niche magazines

	IRS Q4 (000)	*IRS* Q1 (000)	Growth
Autocar	283	238	18.9%
Good Housekeeping	95	89	6.7%
India Today Travel Plus	151	113	33.6%
Outlook Traveller	173	135	28.1%
P C Quest	130	129	0.8%

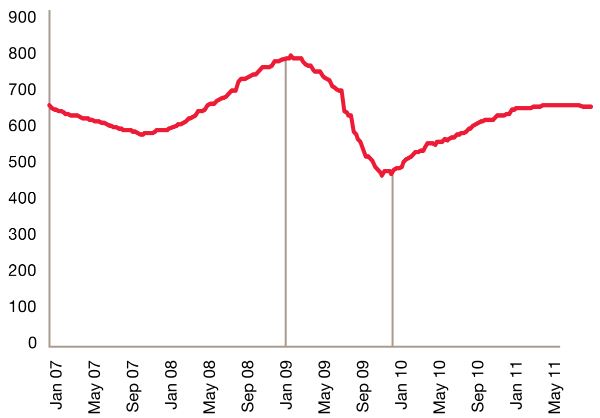
Source: IRS

Key risks and challenges

- Increasing newsprint cost a worry for newspaper industry

  International prices for newsprint had started to increase from the third quarter of 2010. However, since newspapers had existing inventory of newsprint procured at lower prices, this did not impact profitability last year. The impact of increased prices will be seen in 2011. High newsprint prices continue to threaten profitability, particularly for English language and larger vernacular language newspapers, which consume larger quantities of imported newsprint. Newsprint forms a major component of the cost of publishing a newspaper (40 to 45% of total cost). Foreign currency fluctuations also affect prices and impact margins.

Chart 3.4: Newsprint prices in USD/MT



Source: Bloomberg

Deal watch

- Jagran Prakashan acquired Mid-Day Multimedia's print business (in the form of 2:7 share swap deal of INR1.75 billion, resulting in share dilution of five per cent for JPL). This deal gave JPL access to markets such as Mumbai, Delhi, Bangalore and Pune and got them access to English print market.
- Blackstone, the US-based PE group, acquired 12.75% of Jagran Media Network for INR 2.25 billion.
- In March 2010, Jupiter Media and Entertainment Ventures (JMEV) picked up 26% stake in Express Publications (Madurai) Ltd's (EPML) regional daily, *Kannada Prabha.*

- Domestic newsprint prices also affect regional newspapers, many of whom traditionally source up to 80% of their newsprint requirements from Indian manufacturers. There has been substantial upward movement in domestic newsprint prices. They have increased by around 20 to 25% in recent months. This will affect the publishing bottom-lines. However, since many players have forward contracts with newsprint suppliers as well as hold inventory positions, there is a two-quarter lag between the increase in newsprint prices and the impact on profitability. Going forward, though, higher newsprint costs will hit profitability in 2011 and the first half of 2012.

- Pressure on profitability drives ad-edit ratio upwards

  The increase in newsprint costs, reduction in cover prices and increased circulation by national and regional players have exerted immense pressure to maintain and show growth in bottom-lines. The pressure is to increase advertising while maintaining page count. While there can be limited increase in advertising rates, given the intense competition, it has resulted in pressure on the ad-edit ratio of publications. *Dainik Bhaskar's* ad-edit ratio, around 27% in 2009, has moved to 31% in 2010 going upto 35% for some editions.[3] However, increase in the ad-edit ratio is limited. How companies manage this conflict in the future will be a challenge.

- Subscription schemes creating dependence on advertising revenues

  Entries into newer geographies reduced cover prices drastically in some cases. When *Dainik Bhaskar* entered Ranchi, *Hindustan, Dainik Jagran* and *Prabhat Khabar* reduced their cover price to INR 2 from INR 3 and 4. Moreover, the new entrant enticed consumers by offering subscription schemes and gifts. Subscription schemes can be as low as INR 199 for HT in Mumbai for one year, effectively meaning that the cost to subscriber is INR 0.50 for a copy with the printed price of INR 3. For newspaper owners, it means increasing dependence on advertising revenues leaving them more exposed to economic downturns.

  - The challenge for the industry will be to bring back circulation revenues after gaining market share. Editorial content will play a big role in this endeavour.

- Other potential threats to profitability in the near future

  - A recent ruling by the Wage Board has mandated significant pay increases across levels. If implemented, this can negatively impact profitability, particularly of the smaller players. Large national newspapers are less likely to be affected as a significant proportion of their staff is on contract at higher compensation levels.
  - While the first half of 2010 has shown continued advertising growth for the print media industry, any uncertainty in the economy in the second half of 2011 can have a negative impact on profitability.

- Threat from new media unlikely to materialise in the medium term

  - The rising popularity of new media technologies like the internet and mobile is a threat to traditional print media. However, due to low penetration of broadband internet in India, browsing online for news has not become a widespread consumer habit even in leading metros. In smaller towns, low PC penetration and erratic electric supply continue to hinder the growth of new media. Going forward however, if technologies like 3G and reducing handset prices begin to drive data and internet traffic to mobile handsets, this scenario can change.
  - Most print media companies have made online forays with varying success. Online revenues have accrued to transaction- and commerce-led models (online shopping, etc.) and certain types of classified advertising (particularly jobs and matrimonials) have started moving online. However, these online businesses have struggled to earn subscription revenues for content from Indian audiences.

Global outlook

Newspaper publishing

The global newspaper market was virtually flat in 2010 as declines in North America were offset by gains in other regions. We expect the global market to remain relatively flat in 2011 and then begin to expand in 2012, rising to USD 175.6 billion in 2015 from USD 159.7 billion in 2010, a 1.9 % compound annual increase. Spending in North America will decline at a 0.3 % compound annual rate from USD 38.4 billion in 2010 to USD 37.9 billion in 2015. North America will be the only region where spending will be lower in 2015 than in 2010. Spending in EMEA (Europe, Middle East, Africa), the largest newspaper market, at USD 58.9 billion in 2010, will increase at a 1.6 % compound annual rate to USD 63.7 billion in 2015. Asia Pacific will expand at a 3.3 % compound annual rate to USD 64.7 billion in 2015 from USD 55.0 billion in 2010, overtaking EMEA in 2015 to become the largest region. Latin America will be the fastest-growing region, with a projected 4.7 % compound annual increase from USD 7.3 billion in 2010 to USD 9.2 billion in 2015.

Improving economic conditions will have a positive impact on both advertising and circulation spending, although migration of readers to the Internet and ongoing unit circulation declines in many countries will cut into advertising and print circulation growth even once the economy improves. At the same time, most countries that experience rising print unit circulation will see above-average growth in print advertising. Favorable demographic trends will have a positive impact on paid unit circulation, either leading to faster growth or moderating declines. Rising print circulation prices will lead to growth in circulation spending in many countries even as unit circulation continues to fall. Rising Web site traffic fueled by growing broadband penetration will boost digital advertising. Distribution of newspapers to tablets on a paid basis will generate a paid digital circulation market as consumers appear to be more willing to pay for content delivered to a tablet than for content available online. People are used to paying to access content on their mobile devices, and it seems that they view the convenience of a mobile download as having value separate from the content that is downloaded.

Table 3.20: Global Newspaper Publishing Market by Component (USD millions)

Component	2006	2007	2008	2009	2010p	2011	2012	2013	2014	2015	2011–15 CAGR
Print Advertising	111,962	109,732	100,341	81,525	80,885	79,942	81,104	82,888	84,781	87,244	
% Change	*1.4*	*-2.0*	*-8.6*	*-18.8*	*-0.8*	*-1.2*	*1.5*	*2.2*	*2.3*	*2.9*	*1.5*
Digital Advertising	4,115	5,348	5,808	5,599	6,362	7,056	7,909	8,696	9,495	10,354	
% Change	*41.8*	*30.0*	*8.6*	*-3.6*	*13.6*	*10.9*	*12.1*	*10.0*	*9.2*	*9.0*	*10.2*
Total Advertising	116,077	115,080	106,149	87,124	87,247	86,998	89,013	91,584	94,276	97,598	
% Change	*2.4*	*-0.9*	*-7.8*	*-17.9*	*0.1*	*-0.3*	*2.3*	*2.9*	*2.9*	*3.5*	*2.3*
Print Circulation	69,441	71,686	73,027	72,394	72,262	72,276	73,216	74,084	75,027	76,003	
% Change	*-0.4*	*3.2*	*1.9*	*-0.9*	*-0.2*	*0.0*	*1.3*	*1.2*	*1.3*	*1.3*	*1.0*
Digital Circulation	62	70	110	140	195	290	461	770	1,316	1,957	
% Change	*17.0*	*12.9*	*57.1*	*27.3*	*39.3*	*48.7*	*59.0*	*67.0*	*70.9*	*48.7*	*58.6*
Total Circulation	69,503	71,756	73,137	72,534	72,457	72,566	73,677	74,854	76,343	77,960	
% Change	*-0.4*	*3.2*	*1.9*	*-0.8*	*-0.1*	*0.2*	*1.5*	*1.6*	*2.0*	*2.1*	*1.5*
Total	**185,580**	**186,836**	**179,286**	**159,658**	**159,704**	**159,564**	**162,690**	**166,438**	**170,619**	**175,558**	
% Change	*1.4*	*0.7*	*-4.0*	*-10.9*	*0.0*	*-0.1*	*2.0*	*2.3*	*2.5*	*2.9*	*1.9*

Source: PwC Global Entertainment and media outlook 2011-2015

Consumer magazines

Overall spending in North America, EMEA (Europe, Middle East, Africa), Asia Pacific, and Latin America rose by 0.1 % in 2010, a modest turnaround following the 11.2 % decrease in 2009. We project spending to begin to grow at a 2.4 % com-pound annual rate to USD 81.6 billion in 2015 from USD 72.6 billion in 2010. Latin America will be the fastest-growing region, with a 6.7 % compound annual increase to USD 5.0 billion from USD 3.6 billion in 2010. North America will increase at a 3.5 % compound annual rate to USD 25.1 billion from USD 21.2 billion in 2010. EMEA, the largest region, at USD 31.4 billion in 2010, will be the slowest growing, with a projected 1.2 % compound annual increase to USD 33.4 billion in 2015. The Asia Pacific market will increase by 1.9 % compounded annually to USD 18.0 billion in 2015 from USD 16.4 billion in 2010.

Improved economic conditions will lead to modest growth in print advertising during the next five years. Growth will be muted by declining readership as consumers shift to online and digital sources and reduce their use of print magazines. News and gossip titles will be the most vulnerable to migration to the Internet as information available online reduces demand for print. Special interest titles will be less vulnerable to online competition. Despite steady growth in print advertising, spending in 2015 will remain lower than the levels achieved during 2006–08. A portion of the shift in readers to digital outlets will be captured by digital magazine publishers through their online and digital versions. Growing digital readership will fuel digital advertising. Print circulation will benefit from a stronger economy and rising discretionary income but will be hurt by the shift from print to digital. Growing penetration by tablets and the launch of paid mobile apps will lead to an emerging digital circulation spending market.

Table 3.21: Global Consumer Magazine Publishing Market by Component (USD millions)

Component	2006	2007	2008	2009	2010p	2011	2012	2013	2014	2015	2011–15 CAGR
Print Advertising	34,351	35,385	33,926	27,087	27,512	27,853	28,846	29,830	30,757	31,749	
% Change	*2.7*	*3.0*	*-4.1*	*-20.2*	*1.6*	*1.2*	*3.6*	*3.4*	*3.1*	*3.2*	*2.9*
Digital Advertising	453	783	1,436	1,436	1,721	2,128	2,680	3,261	3,866	4,740	
% Change	*253.9*	*72.8*	*83.4*	*0.0*	*19.8*	*23.6*	*25.9*	*21.7*	*18.6*	*22.6*	*22.5*
Total Advertising	34,804	36,168	35,362	28,523	29,233	29,981	31,526	33,091	34,623	36,489	
% Change	*3.6*	*3.9*	*-2.2*	*-19.3*	*2.5*	*2.6*	*5.2*	*5.0*	*4.6*	*5.4*	*4.5*
Print Circulation	46,677	47,153	46,394	44,052	43,352	42,968	43,192	43,308	43,289	43,143	
% Change	*0.0*	*1.0*	*-1.6*	*-5.0*	*-1.6*	*-0.9*	*0.5*	*0.3*	*0.0*	*-0.3*	*-0.1*
Digital Circulation	—	—	—	—	33	111	231	509	1,065	1,933	
% Change	—	—	—	—	—	*231.4*	*108.5*	*120.7*	*109.0*	*81.5*	*125.2*
Total Circulation	46,677	47,153	46,394	44,052	43,385	43,079	43,423	43,817	44,354	45,076	
% Change	*0.0*	*1.0*	*-1.6*	*-5.0*	*-1.5*	*-0.7*	*0.8*	*0.9*	*1.2*	*1.6*	*0.8*
Total	81,481	83,321	81,756	72,575	72,618	73,060	74,949	76,908	78,977	81,565	
% Change	*1.6*	*2.3*	*-1.9*	*-11.2*	*0.1*	*0.6*	*2.6*	*2.6*	*2.7*	*3.3*	*2.4*

Source: PwC Global Entertainment and media outlook 2011-2015

Outlook for the print media industry

The Indian print industry is projected to grow by 9.6% over the period 2010-15 and is projected to reach an estimated INR 282.0 billion in 2015 from the present estimate of INR 178.7 billion in 2010. Newspaper will continue to have a major share in the print market.

Regional print remains the driving force behind the growth. The Hindi print market showed a growth of nine per cent over the last year and PwC expects this trend to continue owing to large expansion plans charted out by regional players. Magazines are expected to show marginal growth on the back of growth in special interest magazines and niche content.

We do not foresee a major shift towards digitisation. The newspaper market in India is expected to continue to grow at a steady pace.

Table 3.22: Projected growth of the Indian print media industry in 2010-15

INR billion	2010	2011	2012	2013	2014	2015	CAGR
Newspaper	159.5	176.2	193.7	213.5	233.6	257.7	10.1%
% change		*10.4*	*9.9*	*10.3*	*9.4*	*10.3*	
Magazine	19.2	20	20.7	22.1	22.9	24.3	4.8%
% change		*4.0*	*4.0*	*6.4*	*3.8*	*5.9*	
Total	**178.7**	**196.2**	**214.4**	**235.6**	**256.5**	**282.0**	
% change		*9.8*	*9.3*	*9.9*	*8.9*	*9.9*	*9.6%*

Source: PwC Analysis and Industry Estimates

Local news is expected to be the flavour over the next year as publishers try to create content closer to the reader's heart. Publishers may also revert to cost rationalisation to manage rising newsprint costs to avoid passing it on to either readers or advertisers.

Advertising will remain the key revenue generator for the print segment commanding 70% share of revenue as compared to 30% by circulation. However, the overall share of print advertising will reduce in the total advertising pie. Regional advertising is set to grow at a brisk pace with advertisers now focusing on Tier 2 and Tier 3 towns.

Table 3.23: Projected growth of the print media industry in 2010-15

INR billion	2010	2011	2012	2013	2014	2015	CAGR
Advertisement	113.5	127.0	140.5	157.5	176.0	197.0	11.7%
% change		*11.9*	*10.6*	*12.1*	*11.7*	*11.9*	
Circulation	65.2	69.2	73.9	78.1	80.5	85.0	5.4%
% change		*6.0*	*6.8*	*5.7*	*3.0*	*5.5*	
Total	**178.7**	**196.2**	**214.4**	**235.6**	**256.5**	**282.0**	
% change		*9.8*	*9.3*	*9.9*	*8.9*	*9.9*	*9.6%*

Source: PwC Analysis and Industry Estimates

Chapter 04

Film

At a glance

	2010	2015	CAGR
Market size	INR 87.5 billion	INR136.5 billion	9.3%
	USD 1.94 billion	USD 3.0 billion	
Domestic box office	INR 61 billion	INR 98.7 billion	10.1%
	USD 1.36 billion	USD 2.2 billion	
Overseas box office	INR 7.7 billion	INR12.5 billion	10.2%
	USD 0.17 billion	USD 0.28 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.

The film industry

After a tough year in 2009, the industry faced with another difficult year in 2010. Despite the economy rebounding and consumers starting to throng the theatres again, the industry did not quite perform to expected levels. An industry which thrives on content and the support of its players such as exhibitors and distributors did not show the expected revival, after the industry picked pace in the second half of 2009 with several good films.

There were 215 Hindi releases in 2010 as compared to 235 in 2009 and 1059 regional releases (Tamil, Telugu, Kannada, etc) in 2010 as compared to 1053 in 2009, ensuring a reasonably constant flow of films in both years.

Overview

The industry showed negative growth for the second consecutive year. The size of INR 87.5 billion in 2010 registered a negative growth of 7.9% over INR 95 billion in 2009. It is now expected to grow to INR 136.5 billion by 2015 at a CAGR of 9.3%.

Table 4.1: The growth of the industry in 2006-10

INR billion	2006	2007	2008	2009	2010	CAGR
Box office - domestic	64.0	71.5	81.3	70.0	61.1	-1.2%
% change		*11.7*	*13.6*	*-13.8*	*-12.7*	
Box office - overseas	7.0	8.5	10.0	8.0	7.7	2.4%
% change		*21.4*	*17.6*	*-20.0*	*-3.8*	
Home video	6.4	7.4	5.9	6.5	5.2	-5.3%
% change		*15.3*	*-20.9*	*11.3*	*-16.1*	
Ancillary rights	7.0	8.5	10.0	10.5	13.5	17.8%
% change		*21.4*	*17.6*	*5.0*	*28.6*	
Total	**84.4**	**95.9**	**107.1**	**95.0**	**87.5**	**0.9%**

Source: PwC Analysis and Industry Estimates

It was a mixed bag for the different segments in the industry. While all major segments showed negative growth, ancillary revenues driven by cable and satellite rights showed an upward trend.

India's place in the world

As the table below illustrates, India has the highest number of admissions as compared to most other countries. However, the average ticket price (ATP) is less than a dollar. This reduces the overall size of the market. There is therefore a need to extract more value from film-goers.

Table 4.2: Average ticket price and admissions across the world

Country (million)	Average ticket price (USD)	Admissions
US	7.89	1345
Canada	8.19	120
UK	8.96	166
China	4.34	345
India	0.69	2000

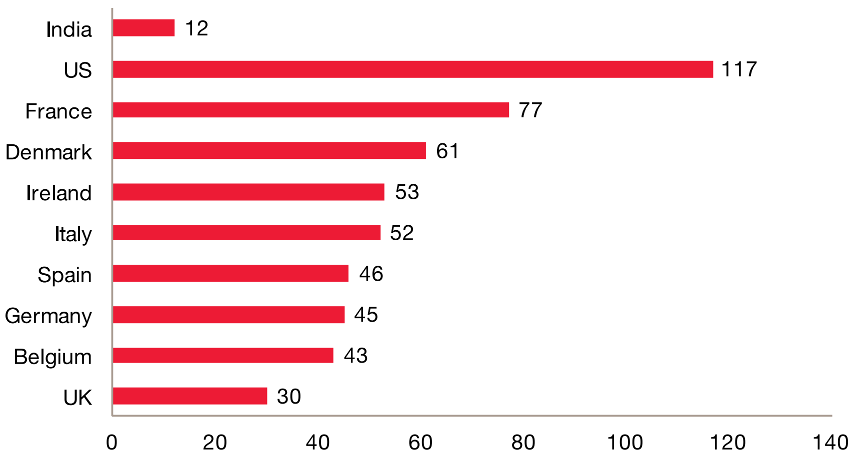
Source: PwC Global Entertainment & Media Outlook 2011-2015, PwC Research

Moreover, research shows that the Indian consumer is highly underserved with only 12 screens per million as compared to 77 screens per million in France and 117 screens per million in the US. According to a United Nation's research study, a country with India's population should have at least 100,000 screens as compared to around 10,000 currently present.

Outlook in brief

- The Indian film industry has dipped for the second year in a row due to a lack of quality content and the closure of many single-screen theatres.
- Multiplex owners continue to grow with big plans for the next five years. We expect multiplex screens to double in that time.
- The regional film industry produced the biggest hit of the year in form of *Endhiran (Robot)* which broke box office records surpassing the collections of *3 Idiots*.
- Market for Hollywood content on a growth path as the Hollywood collections in India increase by 30%.
- 3D cinema is driving the growth of digital screens in the country. More 3D films are released in India on the back of the success of *Avatar*.

Chart 4.1: Screens per million population



Source: ResearchonIndia

Key revenue streams

The industry is slowly moving from being only star cast-dependent to content-dependent. In 2010, although there were a number of films with a big star cast, not all of them were successful in recouping their costs or in making any kind of mark in the box office.

There are four key revenue streams for the industry:

- Box office collection: Domestic
- Box office collection: Overseas
- Home video: Domestic and overseas
- Ancillary revenues

Box office collection: Domestic

Domestic box office revenues comprise theatrical revenues from multiplexes and single-screen theatres. As of 2010, there are approximately 9000 single-screen theatres along with 200 to 250 multiplexes having around 950 to 1000 screens across India[1] .

Domestic box office revenues dipped by 12.7% this year. This was largely due to lack of engaging content, though the closure of many single-screen theatres, smaller release windows and the IPL season did play their part. The IPL season 3 in particular was visibly more successful over the previous editions, thus impacting exhibitors during the two-month period. The segment stood at an estimated INR 61.1 billion in 2010 down from INR 70.0 billion in 2009.

Table 4.3: Domestic box office revenues for 2006-10

INR billion	2006	2007	2008	2009	2010	CAGR
Box office (domestic)	64.0	71.5	81.3	70.0	61.1	-1.2%
% change		*11.7*	*13.6*	*-13.8*	*-12.7*	

Source: PwC Analysis and Industry Estimates

However, what helped the domestic box office and is also likely to do so in the future is the digital distribution of films. With satellite distribution, it was easier to reach larger audiences cost-effectively with the short release window. UFO is the largest company in this segment and now has 2,500 screens to its credit with other competitors like Real Image as well as Big Movies some way behind.

The domestic box office constitutes on an average 70% of the total film revenues across languages with Hindi drawing an average of 50 to 55% and regional films showing a higher percentage due to market differences. The de-growth in this sector seems to be largely due to the paucity of quality content and other structural issues. The future however continues to look much better than the past few years.

1 Industry discussions

Multiplex growth drives box office revenues

Multiplexes have flourished in India. In 2010, despite the lack of good quality content in films, multiplexes registered double-digit growth partly because of new properties across the country.

Table 4.4: Snapshot of key multiplex players

Player	Total number of screens in 2009	Total number of screens in 2010	Proposed addition in screens in 2011
Cinemax	94	114	~30
Big Cinema	253	260	NA
Fame	95	97	~10
Inox	119	144	~40
PVR	148	~175	~50

Source: PwC Analysis and Industry Discussions

Multiplexes are also trying to increase their occupancy rates while adding new properties. It is estimated that occupancy in multiplexes has taken a slight dip from 30% in 2009 to 28% in 2010. This reduction may be attributed to the addition of new properties. Multiplexes are expected to increase their capacity over the next five years to form contribute significant revenues to the industry. Newer players are also entering the market such a Cinepolis, a Mexican multiplex chain which announced its entry in 2009 and has expansion plans in India.

Multiplexes are also experimenting with offers and schemes to increase footfall and occupancy. Those that charge INR 200 to 250 for a prime time ticket have introduced early morning shows at INR 80 to 100 a ticket. They have also tied up with credit card companies to provide attractive discounts and offers. Despite these offers, not many players have been able to increase their average ticket prices significantly over the last year, as shown below.

Table 4.5: ATP comparison for multiplexes

Player	2009	2010	Growth %
PVR	146	179	22.6
Cinemax	125	134	7.2
Inox	134	150	11.9

Source: Industry Research

All factors combined have led to significant growth in multiplex revenues and this is expected to continue for the next five years.

Single-screen theatres: Light at the end of the tunnel?

Single-screen theatres in India had a tumultuous year. More than 1000 single-screen theatres downed their shutters on account of compounding losses. Lack of good content in the industry just expedited the process. In Maharashtra alone, the number of single-screen theatres has reduced to around 650 from around 1080.

There are few key reasons for this:

- Competition from multiplexes
- High entertainment tax
- High costs in conversion from single-screen to multiplexes
- High cost of operations

Unlike single screens, multiplexes earn their revenues not only from ticket sales but also from other sources such as parking, food and beverages, etc. Moreover, ATP for a multiplex is much higher than that of a single screen.

Table 4.6: Comparison of single-screen theatres and multiplexes

	Single screen	Multiplex
ATP (INR)	25-30	125-130
Occupancy	15-20%	25-30%
Seating capacity (per screen)	700-800	200-250

Source: Industry Research

The average occupancy rate for a single-screen theatre is less because of larger singular capacity. In a year like 2010, when the market suffered from a lack of quality content, occupancy dropped even further. For a single-screen theatre to remain profitable, it needs an occupancy rate of around 40% [2] assuming the costs of running a theatre remain constant.

Single-screen theatres also face a high tax regime, paying as much as 45% in entertainment tax in states like Maharashtra. Single-screen theatres in Maharashtra went on a one-week strike on March 25, 2010 to protest against the high tax. States such as Rajasthan and Punjab do not have entertainment tax on single-screen showings. As compared globally, the tax on ticket sales is quite high in India.

Multiplexes on the other hand, enjoy tax exemption for the first three years, helping them compete well with single-screen theatres.

So the existing theatres who want to take advantage of exemptions must convert to four or more screens. However, the costs for that are also quite high. An estimated INR 20 million per screen and around INR 80 million in all is required to convert a single-screen theatre to a four-screener, for a 1250-seat multiplex.

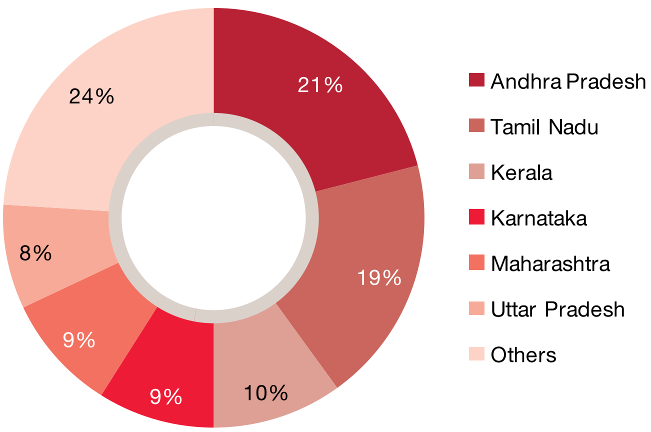
1 Industry discussions
2 Industry discussions

However, while some single screens bear this cost and convert to multiplexes, some are trying their hand at alternate revenue sources such as showcasing the IPL matches. It needs to be seen if these avenues work or if the government provides incentives for single screens to carry on as they are. Presently, all is not well for single-screen theatres.

Biggest single-screen hub in India

The south Indian film industry receives a few incentives from the government to boost single screen cinemas. A drastic reduction in entertainment tax, prohibition on the release of video-rights before a film completes 100 days in the theatre, reduced electricity and water charges and a hike in admission rates are some. The south Indian states together host about 59% of the total theatres in India[3] .

Chart 4.2 State-wise number of single screens



Source: Cinema Owners & Exhibitors Association of India

Box office collection: Overseas

This segment has shown promise over the years especially with successes like *My Name is Khan*. However, as per industry views, the content that is acceptable overseas is either star-driven or the traditional Indian family drama. And with the multiplex culture driving a change in content in India and limiting star-driven films, this revenue stream has shown a de-growth even though new markets are continuing to open everyday. *My Name is Khan* is estimated to have grossed INR 900 million in the overseas market. Its rights were bought by Fox STAR for a deal estimated to be INR 1000 million.

Another reason for a dip in overseas revenues was that international releases require a large overseas distribution network for a wide reach which is not available to every production house in India. Smaller budget films without the backing of a large production house could not sell their overseas distribution rights and further refrained from going overseas.

This segment stood at an estimated INR 7.7 billion in 2010, down from INR 8 billion in 2009 registering a negative growth of 3.8% this year.

Table 4.7: Overseas box office revenues for 2006-10

INR billion	2006	2007	2008	2009	2010	CAGR
Box office: Overseas	7.0	8.5	10.0	8.0	7.7	2.4%
% change		*21.4*	*17.6*	*-20.0*	*-3.8*	

Source: PwC Analysis and Industry Estimates

However with newer markets and better content it is expected to do better in the future.

Home video: All is not well?

The home video business saw a decline in 2010, with most releases either not releasing on home video or not being profitable. Lack of quality content and retention of home video rights of big studio releases were the main reasons for this decline. Moreover, the inherent issues of piracy still remain, eating into the major part of the revenues of home video companies, making recovery difficult.

The industry also has new competition in the form of 'pay per view' from the DTH stable. Users who want to watch films at their own convenience (one of the main reasons for the growth of the home video industry), can now pay their DTH players and watch the latest releases at home without even having to walk to a DVD rental. Crashing the timeframe to showcase films on television has created further problems for the home video industry.

The home video segment was estimated to be worth INR 5.2 billion in 2010 as compared to INR 6.2 billion in 2009 recording a decline of 16.1%. The trend is similar to that being seen across the world accentuated by piracy as well as new modes of delivery.

Table 4.8: Home video revenues for 2006-10

INR billion	2006	2007	2008	2009	2010	CAGR
Home video	6.4	7.4	5.9	6.2	5.2	-5.3%
% change		15.3	-20.9	5.2	-16.1	

Source: PwC Analysis and Industry Estimates

High costs have restrained industry players from buying the rights to new releases. Hence, in most cases, CDs and DVD are distributed by the production house itself.

3 Research on India

Table 4.9: Home video acquisition costs in years 2008-2010		
Film	**Year of release**	**Price (INR million)**
Tashan	2008	40
Sarkar Raj	2008	40
Golmaal Returns	2008	30
Chandni Chowk to China	2009	10
Slumdog Crorepati	2009	8
*Dabangg**	2010	70
*Tees Maar Khan**	2010	20
We Are Family	2010	25

**Includes DTH rights*
Source: Industry Research

Hollywood releases remain the key revenue-earning opportunity for the home video industry. More players are moving towards the vintage home video collection (classics such as *Sholay, Golmal, Chupke Chupke,* etc.) to packaging films through a popular star (such as Kishore Kumar).

Ancillary revenues

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

Broadcast syndication

Cost of film syndication increased due to enhanced competition in the general entertainment channels (GEC) and film channels space. Syndicated films first release on a GEC and subsequently on film channels. The news of Colors[4] launching a new film channel and acquiring new content started a scramble for good film content. The prices for acquiring films rose steeply. Shahrukh Khan's upcoming release *Ra One* is estimated to have been sold for INR 400 million (cable and satellite rights). It is also rumoured that the rights for virtually all key releases slated for 2012 have already been sold out including those that are yet to go on the floors. The decision to buy these films is based on the star-cast as well as the acceptability as likely content for TV.

In this scenario, some companies, like SET Max, have been very selective in their choice of films. SET Max's recent acquisitions are *Robot, Crook, Rakthacharitra, We Are Family* and *Hisss*[4].

The year also saw a shift in the model for acquiring films–from syndication to outright acquisition. The industry has realised that with syndication, the value of content was being diluted by over-exposure. For example, *Jab We Met* could be seen across 10 channels last year. Gradually viewers lost interest in the film and the novelty of the content was lost. Hence, this year, channels refrained from reselling good content and held on to their rights. SET Max has acquired the rights of 2009's biggest blockbuster, *3 Idiots* and has aired it selectively, with good results.

They are expected to follow the same strategy with *Robot*. A majority of films in the libraries of the top broadcasters–Zee TV, Star TV and SET Max–are exclusive.

Chart 4.3: Cost of acquisition of satellite rights

Broadcast syndication rights cost (2009)		
Film title	**Category**	**Value (INR million)**
Ajab Prem ki Gajab Kahani	A	50
Blue	A	50
Chandni Chowk to China	A	40
Billu	A	30
Slumdog Millionnaire	B	45

Source: PwC Analysis and Industry Research

Broadcast syndication rights cost (2010)		
Film title	**Category**	**Value (INR million)**
Raajneeti	A	200
I Hate Luv Stories	A	120
We Are Family	A	140
No One killed Jessica	B	100
Peepli [Live]	B	40
Udaan	C	35

Source: PwC Analysis and Industry Research

4 Indian television

Table 4.11: Catalogue strength of key broadcasters		
Player	**Catalogue strength (no. of titles)**	**Recent acquisitions**
Zee	1200	*Peepli [Live]*
SET Max	>400	*3 Idiots, We Are Family, Hisss*
Star	N/A	*Action Replayy*
Colors	83	*Khatta Meetha , Golmaal 3, Dabangg, Patiala House, Guzaarish, Kites, Udaan*

Source: Company websites

Hollywood films in India

Hollywood releases are increasingly focusing on the Indian market. Though there was no major hit like *Avatar* in 2009, the industry did manage to do well. The main reason for that was because Hollywood studios provided the Indian film industry with good quality content and filled the void left by Hindi releases. In 2010, about 75 foreign films were released in India, with collections in excess of INR 4 billion as compared to INR 3 billion in 2009[5] . The top-grossing Hollywood films in India in 2010 are shown below:

Table 4.12: Hollywood film performance in India		
Sr. No.	**Film**	**Collection (INR million)**
1	*Inception*	180
2	*Harry Potter And The Deathly Hallows Part 1*	152
3	*The Chronicles Of Narnia – The Voyage Of The Dawn Under*	104
4	*Prince of Persia*	103
5	*Iron Man*	91

Source: Industry Research

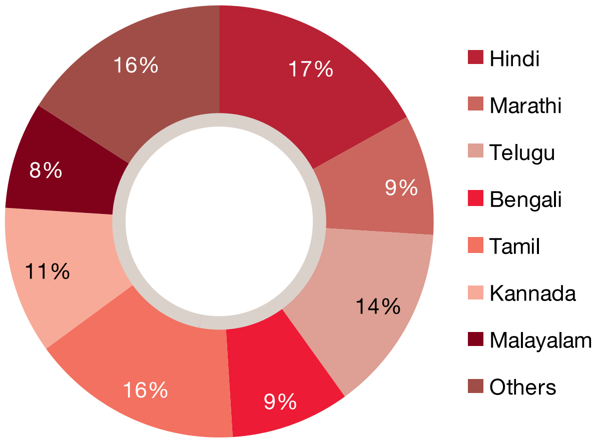
Hollywood studios are trying to get local by releasing the dubbed version of the English film in Hindi, Telugu and Tamil. Hollywood studios have started to release and market Oscar-nominated and award-winning films immediately after the awards ceremony. This was evident from the release of *The Hurt Locker, District 9* and others.

Hollywood content is showing a healthy growth rate in the market place . The share of Hollywood content now forms 4.5% of the total film industry revenues as compared to 3.1% in 2009.

Regional films

The regional film industry consists of films in languages other than Hindi and English such as Tamil, Telugu, Kannada, Malayalam, Bengali, Marathi, etc. Though the number of regional films released in a year is higher than the Hindi films, Hindi releases have higher box office collections.

Chart 4.4: Language-wise share of films released



Source: Film and Television Producers Guild of India

Endhiran (Robot): The biggest hit of the year

The regional film industry in India has been around for ages, but this year it made its mark. This year's biggest hit, however, Endhiran (Robot in Hindi) was produced by Sun Pictures and released in Tamil, Telugu and Hindi across the nation. The film is estimated to have grossed around INR 3.75 billion in collections, with INR 600 million in the opening weekend, and INR 1170 million in the first week of release. Sun Pictures not only broke the Indian film industry record in terms of revenues, but also showed the world the technology that the industry is capable of. The film had an extensive release in India as well as around the world.

5 Industry discussions

Key developments

Small-budget films with innovative content take on big-budget films

The year 2010 was different such that several small-budget films did good while many big-budget films with big stars failed to meet viewer expectations. While big-budget films depend on their star-cast and marketing to gain popularity, small-budget films with smaller marketing budgets rely on word-of-mouth publicity to gain popularity. Though some big-budget films like *Robot* did well, releases like *Raavan* and *Kites* failed to interest audience.

Small-budget films achieve their sales over an extended period as opposed to big-budget films that recover about 50% of their box office collections in the first weekend of release. Some small-budget films like *Peepli [Live]* and *No One Killed Jessica* went on to recover their production costs from the sales of cable and satellite rights itself. This might set a trend to focus on the content more than producers presently do.

Table 4.13: Performance of small budget and large budget films in India

Big budget films	Estimated budget (INR million)	Net box office collection – 2010 (INR million)
Kites	600.0	485.6
Raavan	1000.0	285.3
Guzaarish	750.0	294.2
Action Replayy	400.0	281.9
Khelein Hum Jee Jaan Sey	350.0	49.1

Source: Boxofficeindia

Small budget films	Estimated budget (INR million)	Gross box office collection (INR million)
Peepli [Live]	100.0	300.4
Band Baaja Baaraat	100.0	233.1
Love Sex Aur Dhokha	15.0	88.1
Tere Bin Laden	58.0	82.5
Khichdi - The Movie	NA	62.4
Do Dooni Chaar	20.0	45.7

Source: Boxofficeindia

Multiplexes look at alternate sources of revenue

With a long cricket season this year including the World Cup and the IPL, the film industry was facing a long hiatus in new releases. Hoping to make the most of the cricket frenzy, multiplexes started screening cricket matches. For example, last year, UFO Moviez screened the IPL at about 650 screens across India. Cinemax and PVR also screened the cricket matches at their theatres.

Additionally, multiplex owners are providing their properties for plays and screenings of old films as part of festivals to gain revenue.

Cinema advertising shows promise

In-screen advertising is a cost-effective way of reaching the advertisers' target audience. Moreover, you get the audience's full attention in a captive environment with the big screen delivering the full impact of the commercials. With digitisation, commercials can now be easily shown in theatres. Companies like Shree Cine Advertising and Dimples Cine Advertising are actively involved in cinema advertising. Currently the market for in-cinema advertising is estimated to be around INR 1.5 billion as compared to over INR 30 billion in the US.

3D films continue to gain ground

3D films first tasted success in 2009 with *Avatar*. Since then, the number of 3D releases as well as the number of 3D screens across the country have been steadily increasing. The ATP of a 3D film is significantly higher than that of a 2D film. Hence theatre owners are able to get higher revenue. Since the success of *Avatar*, India has seen the releases of *Toy Story 3, Alice in Wonderland, Despicable Me,* etc.

Globally, eight of the top 20 grossing films in the first eight months of 2010 were 3D, compared with three in 2009 and one in 2008. Yet it is clear that weaker films are diluting and will continue to dilute the audience's excitement about 3D. Despite the traditional rhythms of successes and failures that characterise the industry, it remains that 50 to 70% of box office revenues are generated by 3D internationally. 3D has helped the industry increase its revenues despite a decline in the number of tickets sold. 3D films generate two to three times the revenue per theatre of 2D, giving theatre operators a powerful incentive to convert to the new technology.

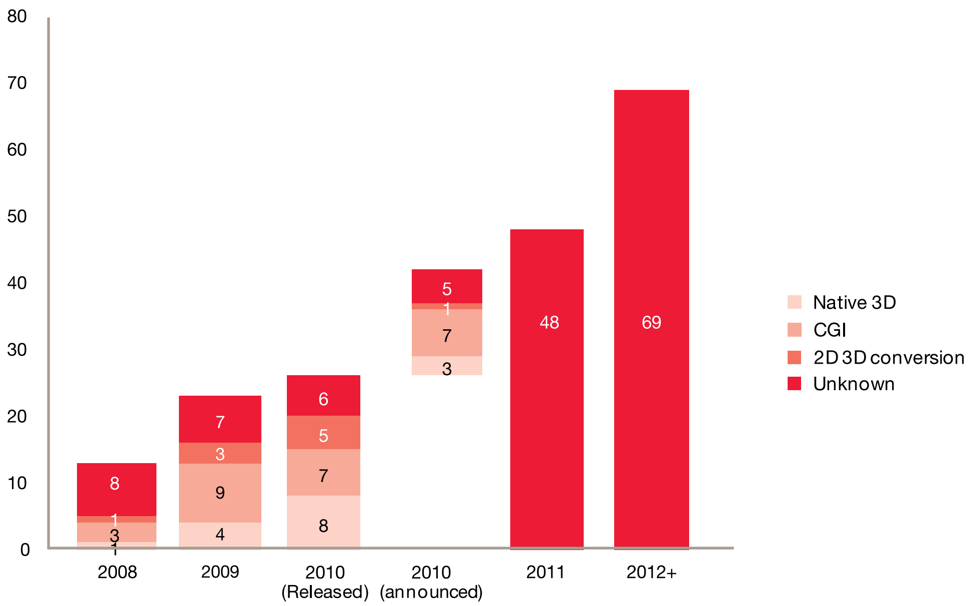
However, in India as well as globally, it is quite important to maintain the quality of 3D films to ensure that they command the premium over 2D films which would in turn lead to growth in 3D screens across the country.

Chart 4.5: 3D has now gained a significant visibility in the industry

	2007	2008	2009	2010
1	*Spiderman 3*	*Dark Knight*	*Transformers 2*	*ToyStory 3*
2	*Shrek the Third*	*Iron Man*	*Avatar*	*Avatar*
3	*Transformers*	*Indiana Jones*	*Harry Potter*	*Alice in Wonderland*
4	*Pirates of the Caribbeans*	*Hancock*	*Up*	*Iron Man 2*
5	*Harry Potter*	*Wall-E*	*Twilight - New Moon*	*Twilight Saga: Eclipse*
6	*Bourne Ultimatum*	*Kung-fu Panda*	*Hangover*	*Inception*
7	*300*	*Madagascar*	*Star Trek*	*Harry Potter – Part 1*
8	*Ratatouille*	*Twilight*	*Blind side*	*Despicable me*
9	*I am Legend*	*Quantum of solace*	*Monster vs. Aliens*	*Shrek forever after*
10	*The Simpsons*	*Horton Hears a who*	*Ice Age - Dawn of Dino-saurs*	*Harry Potter – Part 2*
11	*Wild Hogs*	*Sex & the City*	*X-Men Origins*	*How to train your dragon*
12	*Alvin & the Chipmunks*	*Mamma Mia!*	*Night at the Museum*	*Karate Kid*
13	*Knocked up*	*Juno*	*Proposal*	*Tangled*
14	*The book of secrets*	*Chronicles of Narnia*	*2012*	*Clash of Titans*
15	*Rush hours 3*	*Incredible Hulk*	*Alvin & the chipmunks*	*Grown ups*
16	*Live free or die hard*	*Wanted*	*Fast & furious*	*Megamind*
17	*Fantastic four*	*Get smart*	*GI Joe*	*Last Airbender*
18	*American gangster*	*Four christmases*	*Mall Cop*	*Tron Legacy*
19	*Bee movie*	*Tropic thunder*	*Taken*	*Shutter Island*
20	*Night at the museum*	*Bolt*	*Sherlock Holmes*	*The other guys*

Source: PwC 3D Here and Now

Chart 4.6: 3D Movie Analysis



Source: PwC 3D Here and Now

'Pay per view' market is set to grow

The 'pay per view' (PPV) market is still a very small percentage of the DTH market. However it is making its presence felt in the industry and becoming an important revenue source for producers. DTH service providers have reduced the price of PPV films and are offering these to the customers in the price range of INR 25-50. They are also asking for the early release of films on DTH, thus decreasing the time window for the audience. This will provide stiff competition to the home video and theatrical film markets. Going forward, as PPV becomes a large enough source of revenue for DTH players, the race for acquiring rights for showcasing new films on DTH will also increase pushing prices up.

Social networks are becoming key to film marketing

While films generally depend on word-of-mouth advertising for lifting their performance beyond the opening week, today social networks have become an important tool to target the youth online. They check reviews online, read comments and then decide if the films are worth experiencing in the theatres or can be brought home and consumed more economically.

Social networks are also an important gateway for exhibitors to connect with their users directly, directors to talk to users to discuss the films online and even writers to gauge the mood of today's youth. The online fan base has become as important as offline ones.

Key regulatory updates

- **Copyright law:** Copyright reforms in favour of music composers and lyricists were proposed by the government in 2010. These reforms mandate film producers to share 50% music royalties with lyricists and composers. However, after opposition from the Film Federation of India (FFI) and the representatives of the various industry bodies, the government has decided to try and resolve the issue through discussion between the producers, music composers and lyricists.

Future trends

- ### Social networking as a marketing tool

  Alternate and innovative marketing campaigns will use the latest consumer trends such as social networks and new media. While big releases may include marketing tools as add-ons, small-budget films can utilise them as primary tools of promotion as they are cheaper and yield good results. One such example would be the release of the teaser of *Zindagi Na Milegi Dobara* on www.youtube.com before the theatres or television.

- ### Content to cater to the modern consumer

  The success of small-budget films with innovative concepts seems to have started a trend to create content that caters to modern tastes. The success of *Peepli [Live],* and *Udaan* has prompted films with unusual concepts such as *Dhobi Ghat* in 2011. Going forward, similar films with different themes will be made.

- ### Cable and satellite rights to increase share

  As competition between TV channels continues, the cost of film acquisition will see a steady increase. Most channels benefit from the fact that they also have film channels and can cross-leverage their content on GECs as well as on the film channel. Hence, as long as the channels generate good TRPs, content prices will show an upward trend.

- ### Digital screens to see considerable growth

  The success of 3D films has created the need to have more 3D screens in India. 3D screens in India are growing in high double digits. Since it is much easier (and inexpensive) to convert a digital screen to 3D, an increasing number of exhibitors are going the digital way. Digital screens have got a boost from the need to have 3D screens. 3D screens are becoming more common with more than half of the newly built digital cinemas having 3D capabilities. Digital cinemas not only provide a better viewing experience but also help curb piracy, helping increase revenues for producers. According to estimates, presently there are around 4000 digital screens in India in 2010.[6]

- ### TV shows on home video/online to drive demand

  Globally, popular TV shows are available on home videos as well as online. This has created a market of its own. In India, there are very few TV shows available in CD/DVD format and market is as good as non-existent. Shows such as CID, Kaun Banega Crorepati, etc may have some market and in the future, producers may want to explore this avenue to generate extra revenues from past shows.

Deal watch

- In June 2010, HSBC Asian Ventures Fund 3, the Hong Kong-based private equity firm, acquired an undisclosed stake in Avitel Post Studioz Limited, the India-based provider of post-production, archival and restoration services, for a total consideration of INR 500 million (USD 10.6m). The investment will be utilised by Avitel for the expansion of its business by establishing an export specialising unit for animation and post-production services.
- In February 2010, the multiplex chain INOX Leisure acquired 43.28% stake in rival Fame India for INR 664.8 million through bulk deals.

6 Industry discussions

Key risks and challenges

- Shortage of infrastructure

  The industry faces an acute shortage of infrastructure for film shooting. Heritage studios like Filmistan, Natraj and Kamalistan have been taken over for real estate construction and setting up new facilities involves high land expenditure. While Reliance Mediaworks has set up studios, there is a growing need of additional shooting space.

- Lack of quality content

  The industry depends heavily on the kind of films, star power and quality of content for its success. As seen in 2010, lack of quality content failed to attract viewers. While some films managed to pull through on star power, overall it was a disappointing year. Going forward, this can have a major impact on exhibitor revenues.

- Lack of new releases during cricket season

  In 2011, cricket gained prominence in consumer minds and producers shied away from releasing their films till the end of the IPL season. However, films released just before the World Cup such as *Tanu Weds Manu* did well. This may be partially attributed to good quality content as well as to the lack of options for viewers as there were not many new releases.

- Cannibalisation of theatrical revenues

  A spate of new films was released at the end of the cricket season. Film releases were therefore getting bundled into the second half of the year. Viewers were facing an over-supply of films leading to the cannibalisation of collections of some, especially those with average content.

  Moreover, films are now becoming available on television and DTH within a couple of months of their theatrical release. This trend cannibalises the theatrical revenues of films to some extent. However, since most films make their money in the opening week and tend to last for not more than a month in theatres, the effect will be less.

- Piracy

  Piracy in the industry is in the form of physical CD sales and online film download. India is among the top five countries in the world, in terms of piracy. Piracy mainly happens through file-sharing networks. The number of portals providing films online for free has also increased manifold in the last year.

  Major Indian studios have formed a coalition named Alliance Against Copyright Theft (AACT) to fight piracy. The alliance has Reliance Big Entertainment, Moser Baer Entertainment, UTV Motion Pictures, Eros International and the Movie Producers and Distributors Association (MPDA) as its members. Since its formation, it has conducted multiple raids in Mumbai and Gujarat. However, the lack of strict anti-piracy laws means culprits can get away with mild punishment. The government is required to do more if piracy has to be brought under control.

Global outlook

We project filmed entertainment spending in North America, EMEA (Europe, Middle East, Africa), Asia Pacific, and Latin America will rise at a 5.9 % compound annual rate, reaching USD114.8 billion in 2015 from USD86.2 billion in 2010. Asia Pacific will be the fastest-growing region, increasing by eight percent compounded annually to USD 29.0 billion in 2015 compared with USD 19.8 billion in 2010. North America will grow by 5.2 % compounded annually to USD 50.3 billion in 2015 from USD 39.0 billion in 2010. Spending in EMEA also will increase, at a 4.9 % compound annual rate from USD 24.4 billion in 2010 to USD 31.0 billion in 2015. Filmed entertainment in Latin America will total USD 4.4 billion in 2015, up from USD 3.1 billion in 2010, a 7.6 % gain compounded annually.

Box office spending will be boosted by growth in 3-D screens, which will raise average prices while dampening admissions growth. Rising prices will be the principal drivers of box office spending, enhanced by modest growth in admissions. Favorable demographics and an expanding box office market will boost cinema advertising. As content owners and distributors continue to deal with industry dynamics such as piracy and evolving distribution technologies, there has been an increased focus on reevaluating the current release window system.

Some studios have communicated they are in favor of collapsing certain windows to maximize profitability, and various kinds of testing are in place. Shorter release windows will benefit video-on-demand, covered in the “Television Subscriptions and License Fees” chapter, but will have an adverse impact on box office. Home video will benefit from a shorter window following box office but will be hurt by the near contemporaneous video-on-demand release.

Growth in Blu-ray will offset declines in DVDs and propel the sell-through market. The proliferation of new electronic distribution services, the availability of content on tablets and other devices, and growing broadband penetration will drive electronic spending. Increased competition from electronic distribution services will cut into the physical rental market. Piracy will continue to hold down spending, particularly in Asia Pacific and Latin America as well as 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.

Table 4.14: Global filmed entertainment market by component (USD millions)

Component	2006	2007	2008	2009	2010p	2011	2012	2013	2014	2015	2011-2015 (CAGR)
Box Office	26,131	27,185	28,128	31,114	33,033	35,722	38,964	42,287	45,519	48,659	
% Change	*6.3*	*4.0*	*3.5*	*10.6*	*6.2*	*8.1*	*9.1*	*8.5*	*7.6*	*6.9*	*8.1*
Cinema Advertising	1,697	1,871	1,855	1,831	2,028	2,167	2,343	2,540	2,721	2,905	
% Change	*4.6*	*10.3*	*-0.9*	*-1.3*	*10.8*	*6.9*	*8.1*	*8.4*	*7.1*	*6.8*	*7.5*
Home Video											
Physical Sell Through	35,746	35,657	33,783	31,087	30,434	30,708	31,661	33,066	34,661	36,128	
% Change	*-0.6*	*-0.2*	*-5.3*	*-8.0*	*-2.1*	*0.9*	*3.1*	*4.4*	*4.8*	*4.2*	*3.5*
In-store Rentals	16,044	16,093	15,295	15,346	15,446	15,370	15,356	15,275	15,140	14,979	
% Change	*-0.2*	*0.3*	*-5.0*	*0.3*	*0.7*	*-0.5*	*-0.1*	*-0.5*	*-0.9*	*-1.1*	*-0.6*
Electronic	1,486	2,275	3,098	4,037	5,281	6,655	8,075	9,507	10,810	12,088	
% Change	*26.7*	*53.1*	*36.2*	*30.3*	*30.8*	*26.0*	*21.3*	*17.7*	*13.7*	*11.8*	*18.0*
Total Home Video	53,276	54,025	52,176	50,470	51,161	52,733	55,092	57,848	60,611	63,195	
% Change	*0.1*	*1.4*	*-3.4*	*-3.3*	*1.4*	*3.1*	*4.5*	*5.0*	*4.8*	*4.3*	*4.3*
Total	**81,104**	**83,081**	**82,159**	**83,415**	**86,222**	**90,622**	**96,399**	**102,675**	**108,851**	**114,759**	
% Change	*2.1*	*2.4*	*-1.1*	*1.5*	*3.4*	*5.1*	*6.4*	*6.5*	*6*	*5.4*	*5.9*

Source: PwC Global Entertainment & Media Outlook 2011-2015

Outlook for the Indian industry

- The Indian industry is projected to grow from INR 87.5 billion in 2010 to INR 136.5 billion in 2015 showing a CAGR of 9.3% for the next five years.
- The domestic box office is estimated to be back on the upward trend and grow from the current size of INR 61.1 billion in 2010 to INR 98.7 billion in 2015. The industry will benefit from the growth in multiplexes and higher ATP. However, as with the case of the industry, the growth will depend on film content and how it is received by viewers. Also, as things stand, single-screen theatres will continue to perform poorly in the near future.
- Depending on the budgets and the star power, some films (such as *Ra One*) will target audiences abroad. We expect that this segment will depend more on specific 'family type' content and big budget movies for growth. Moreover, with the opening-up of newer markets such as South Korea and others, producers with distribution capabilities and budgets can further increase their reach. Overseas collections are expected to grow from INR 7.7 billion in 2010 to INR 12.5 billion in 2015.
- The home video segment will continue to face stiff competition from DTH players. It will also suffer from piracy on a continuing basis leading us to expect that this market will not show much growth over the next five years. It is expected de-grow from INR 5.2 billion in 2010 to INR 1.3 billion in 2015.
- Driven by the growing demand for cable and satellite rights of films, ancillary revenues are also expected to grow from INR 13.5 billion in 2010 to INR 24 billion in 2015.

Table 4.15: Projected growth of the industry in 2010-15

INR billion	2010	2011	2012	2013	2014	2015	CAGR
Box office: Domestic	61.1	68.0	74.5	83.0	90.2	98.7	10.1%
% change		*11.3*	*9.8*	*11.2*	*8.6*	*9.4*	
Box office: Overseas	7.7	8.5	9.5	10.5	11.5	12.5	10.2%
% change		*10.4*	*11.8*	*10.5*	*9.5*	*8.7*	
Home video	5.2	4.5	3.2	2.6	1.8	1.3	-24.1%
% change		*-13.8*	*-28.2*	*-19.2*	*-31.7*	*-26.2*	
Ancillary rights	13.5	15.5	17.3	19.2	21.5	24.0	12.2%
% change		*14.8*	*11.6*	*11.0*	*12.0*	*11.6*	
Total	**87.5**	**96.5**	**104.5**	**115.3**	**125.0**	**136.5**	**9.3%**

Source: PwC Analysis and Industry Estimates

Radio advertising

At a glance

	2010	2015	CAGR
Market size	INR 10.8 billion	INR 26 billion	19.20%
	USD 0.24 billion	USD 0.58 billion	

Market definition

Indian radio market includes advertisers spending on radio stations.

The radio advertising industry

The industry showed healthy growth in 2010, on the back of substantial increase in advertisement volumes and marginal increase in rates. However, the advertising rates are still not at the same levels as those seen in 2008. While an increasing number of cars on roads is driving FM penetration on the road, the real boost in FM penetration has come from an increased number of FM-enabled mobile phones. At the end of 2010, there were 245 operational radio stations in India as compared to 248 in 2009.

While 2010 was a good year for radio, advertisers focused on innovative promotions to reach target audiences. With Phase III looming large in 2011-12, we can expect substantial growth in 2012 and 2013 with the arrival of new radio stations. However, the success of Phase III will depend on the kind of returns players see in new stations and the favourable resolution of issues awaiting resolution.

Overview

Radio advertising saw healthy growth in 2010. However, the market continued to be dominated by the top few players. Overall, the size of this industry was INR 10.8 billion in 2010, registering a growth of 20.0% over INR 9 billion in 2009. Radio advertising currently constitutes about 4.4% of the total advertising industry.

Table 5.1: Growth of the radio industry in 2006-10

INR billion	2006	2007	2008	2009	2010	CAGR
Radio advertising	5.0	6.9	8.3	9.0	10.8	21.20%
% change		*38.0*	*20.3*	*8.4*	*20.0*	
Radio share in ad pie	3.1%	3.6%	3.8%	4.2%	4.4%	

Source: PwC Analysis and Industry Estimates

India's place in the world

India's radio advertising market is still very small as compared to many developed countries. China's radio market is estimated to be the second largest in the Asia-Pacific region. The US remains the biggest radio market across the globe. Radio penetration in China is growing primarily due to the increasing number of cars on the road.

Table 5.2: Global radio advertising market in 2010

Country	Radio market (USD million)	Radio market (INR billion)
US	15,283	687.7
Canada	1,512	68.0
UK	741	33.3
China	1,396	62.8
Japan	1,476	66.4
India	240	10.8

Source: Global PwC Entertainment & Media Outlook 2011-2015

Outlook in brief

- Increasing FM-enabled mobile phones driving radio growth in India
- Smaller towns witnessing rapid growth, albeit on a low base
- Quick resolution of music royalty issue critical for success of Phase III auction
- E-auction methodology for Phase III auction
- Phase III expected to extend radio's reach to 294 towns and 839 stations. It will help boost regional growth of radio stations.
- Content innovation key for success of radio player post Phase III
- Comprehensive measurement tool remains a challenge for radio industry

Key developments

Telecom players and handset manufacturers increasing their spend on radio

Property/real estate was the top advertiser category on radio. However, an absence of any major player in the top 10 list indicates that property advertisements have largely been local. The year 2010 also saw a host of new handset manufacturers vying for listener attention. This is visible from the cellular phone manufacturers' entry into the top 10 radio advertiser category.

In 2010, Vodafone was the top advertiser as telecom players increased their spend in radio. This was also evident from the entry of Idea Cellular in the top 10. HLL, the top advertiser in 2009, reduced its spend on radio and focused on television and dropped to 10th place. Increase in TV channel promotions was evident with Star TV at the third place. Star TV was also rebranding itself and hence increased their promotions on radio.

Table 5.3: Top 10 advertising categories on radio (2010)

Sr no	Advertising category	Rank – 2009
1	Property/real estate	5
2	Cellular phone service	2
3	TV channel promotions	1
4	Independent retailers	4
5	Social advertisements	3
6	Cellular phones	New
7	Jewellery	10
8	Educational institutes	6
9	Corporate/brand image	New
10	Automobiles	New

Source: RAM, Adex

Table 5.4: Top advertiser spends by category on radio (2010)

Rank	Advertiser	Rank - 2009
1	Vodafone Essar Ltd.	2
2	Bharti Airtel Ltd	10
3	Star TV Network	6
4	Pantaloons Retail India Ltd	5
5	Nokia Corporation	New
6	Tata Teleservices	3
7	Ministry Of Health & Family Welfare	9
8	Coca Cola India Ltd	New
9	Idea Cellular Ltd	New
10	Hindustan Unilever Ltd	1

Source: Adex 2009, 2010

FM-enabled mobile phones driving radio business

India is the fastest growing mobile market in the world. This has had its effect on radio too. Radio penetration has increased from 59% in 2007 to 77% in 2011 in the four metros. FM listenership in the four metros where RAM is available has crossed 60%. The four cities covered are Mumbai, Delhi, Bangalore and Kolkata. Delhi has observed the greatest increase in FM penetration among RAM markets.

Table 5.5: FM penetration 2007 vs. 2011, RAM markets

City	2007	2011
Mumbai	51%	70%
Delhi	59%	88%
Bangalore	71%	87%
Kolkata	63%	64%
Overall	59%	77%

Source: Radio Establishment Survey - Universe Update 2011 (RAM)

The main reason for this increase in penetration can be attributed to a change in listener habits. With an increasing number of FM-enabled mobile phones in the affordable price range, users in metros are switching from traditional radio sets to mobile phones as their primary modes of radio-listening. This trend is quite clear for Delhi, Bangalore and Kolkata.

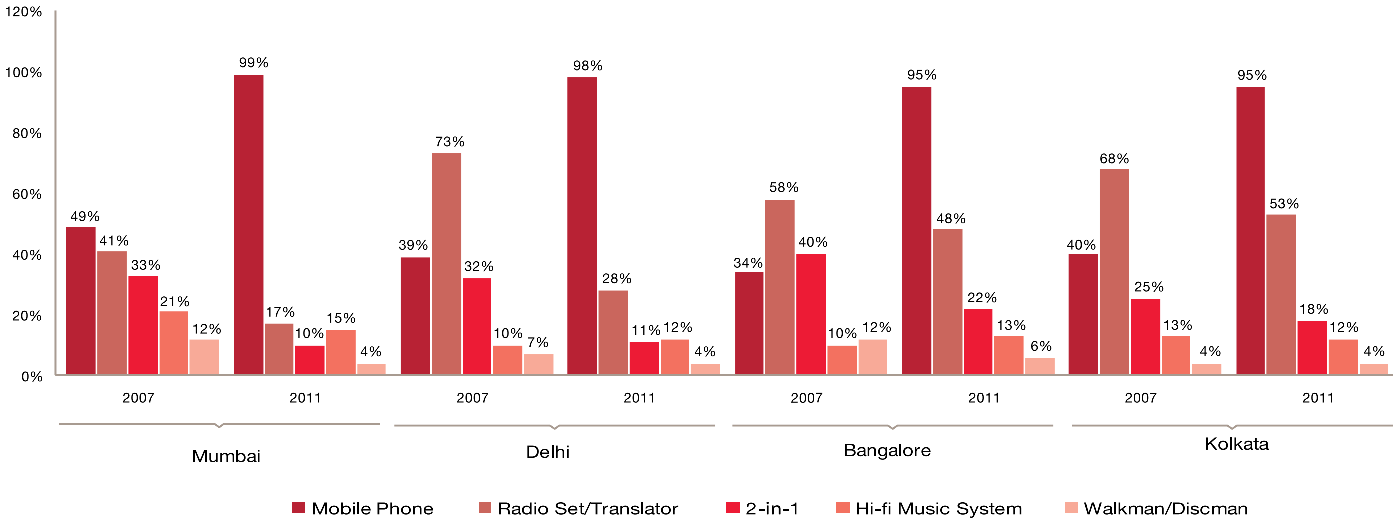
Radio handsets and music systems remain the most used device for radio-listening in small towns??. This is possibly because the change in the listening habit has not yet occurred in smaller towns. However, there is a significant increase in FM-enabled mobile phones as the preferred device for radio-listening.

Table 5.6: Most preferred mode of listening to radio

Mode of listening	%
Radio/music system	71.33
Mobile/other portable devices	20.95
TV	2.05
Car/stereo	1.06
Others	4.62

Source: IRS 2010 Q4

Chart 5.1: Devices owned – RAM markets – 2007 vs. 2011



Source: Radio Establishment Survey - Universe Update 2011 (RAM)

Growth driven by advertising volumes, particularly in smaller towns

Growth, in 2010, was driven by higher volumes, rather than increased prices. Many broadcasters, particularly those in the larger cities, increased advertising inventory by cutting down on music/talk time. This enabled them to substantially grow revenues without significant increases in advertising rates. Advertiser interest in Tier 2 and Tier 3 towns also picked up in 2010, with some of these markets showing growth rates of 30% and more. This is a healthy sign for the industry and is likely to result in greater interest in Phase III.

Community radio slowly taking off

The visibility factor of community radio stations in India has been very low and they have found it hard to attract advertisers. The trend is slowly changing though. Stations are realising that community radio is a cost-effective way to connect with their audience and strengthen brand value. For example, the NGO-supported community radio in Mumbai, 90.8 FM Jago Mumbai has been able to attract some advertisers. With eminent stars like Aamir Khan, Vidhu Vinod Chopra and Priya Dutt on the advisory board of the station, the community radio station (CRS) has made some headway in India's entertainment capital. The government is also trying to boost community radio. Presently, the ad rate for community radio is fixed at Re 1 per minute, but the Ministry or Information and Broadcasting is planning to set up a committee to revise these rates. There were 82 operational CRSs in the country in 2010.[1]

Improvement in margins expected with favourable legislation

The copyright board, which was given powers by the Supreme Court of India to decide in the matter of radio companies versus music rights owners on the issue of royalty payment, has decided to reduce the royalty payment to two per cent of their net advertising revenues. Previously, this was in the range of 10 to 20%, depending on the size of radio station, significantly eroding profit margins. This resulted in most radio companies incurring losses year-on-year. The current decision is in line with international norms of two to three per cent and is expected to boost the bottom-line for these radio companies and encourage new players to enter the market during the Phase III roll-outs. However, this matter is still not settled as music companies have challenged this order in court and the industry will need to wait for a final decision.

Innovation to drive radio industry as competition set to increase

With Phase III looming large and key metros in line to get additional stations, competition is set to increase. Moreover, radio needs to differentiate itself from other advertising avenues. Industry players are trying to innovate and the trend is expected to continue.

- Fever 104 FM aired the epic Ramayana episode-wise.
- On MY FM, Nukkad Natak Papad Wali Dadi was a tribute to the victims of the Bhopal gas tragedy, wherein famous street play artists narrated the tragedy with a positive intent.
- Radio Mirchi created a show in Kolkata where its RJs would read out Satyajit Ray's mystery stories adding sound effects and background music.
- BIG FM created a show called Uninor Antakshari which was played for 12 continuous hours[2] and supported by on-ground activity. BIG FM RJs interacted with listeners on-ground as a part of this activity.

Innovations were not only limited to content as players explored different avenues to increase revenue and reach. One such example was the Radio Mirchi tie-up with Bharti Airtel to launch Mirchi Mobile.

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

1 www.radioandmusic.com
2 Industry Research

Phase III: Crucial for the next stage of growth

The last few hurdles are cleared for the Phase III auction. The union cabinet approved the FM Phase III privatization. The key issue of music royalty is still looming large but the government is showing great intent in tackling it speedily. Phase III auctions will see 839 new stations in 294 cities in all. Post Phase III, FM radio will cover around 85% of the country making it a huge opportunity for the advertisers. There will be around 227 new cities with radio stations for the first time. These are smaller Tier 2 and Tier 3 towns. In addition to this, All India Radio (AIR) is expected to launch 320 new radio stations.[3]

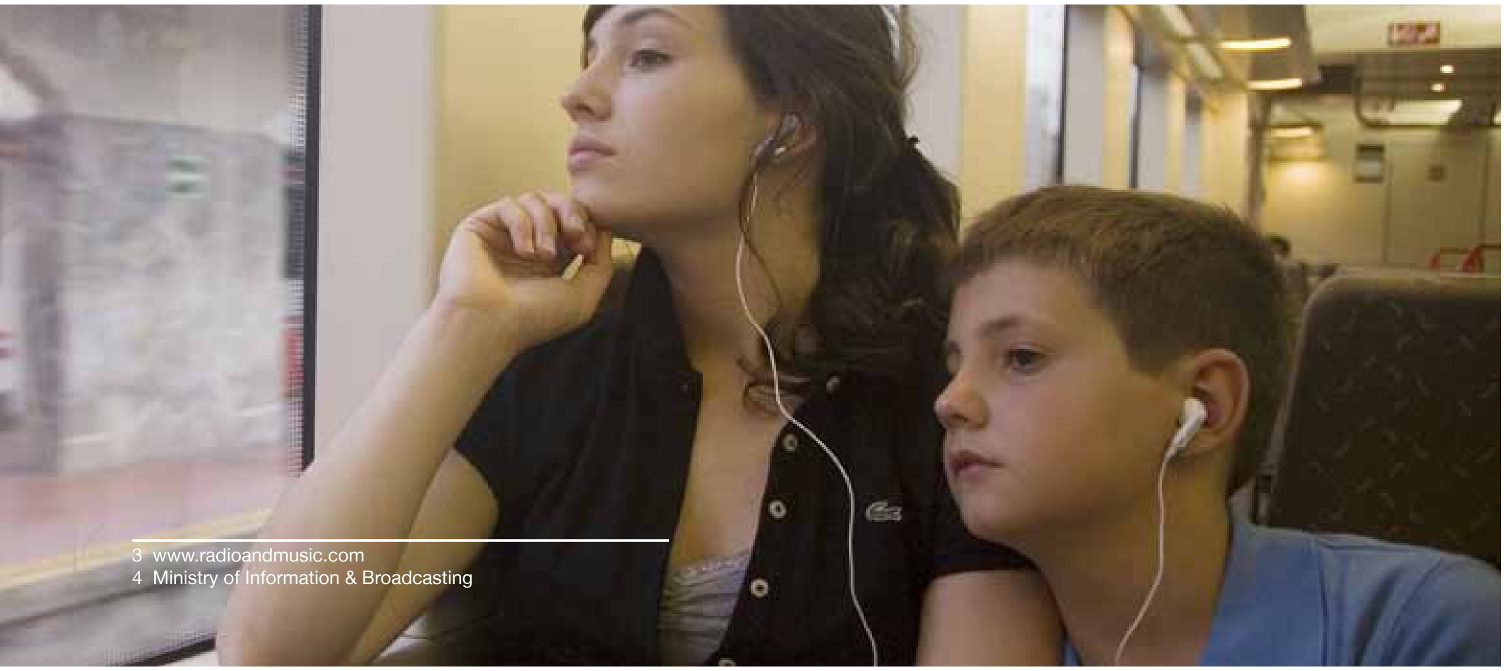
Table 5.7: Proposed new stations in metro cities

Metro city	All existing channels	New channels (proposed)
Mumbai	12	2
Delhi	13	1
Chennai	15	1
Kolkata	14	NIL

Source: Industry research, Indiantelevision.com

Key regulatory updates[4]

- **FDI limits:** Though TRAI had initially proposed to raise the FDI limit in radio to 49%, it reduced it to 26%. The government committee has approved this limit, thereby raising the FDI limit in radio to 26% from the current 20%. This will lead to larger involvement of foreign players in the radio industry as it will enable them to have veto power in the management.
- **Multiple licences:** Private operators have been allowed to own more than one channel but not more than 40% of the total channels in a city subject to a minimum of three different operators in the city. The limit on the ownership of Channels, at the national level, allocated to an entity has been retained at 15%. However channels allotted in Jammu & Kashmir, North Eastern States and island territories will be allowed over and above the 15% national limit to incentivise the bidding for channels in such areas
- **News broadcasting:** Radio operators have been permitted carriage of news bulletins of All India Radio. Broadcast pertaining to the certain categories like information pertaining to sporting events, traffic and weather, coverage of cultural events, festivals, coverage of topics pertaining to examinations, results, admissions, career counselling, availability of employment opportunities, public announcements pertaining to civic amenities like electricity, water supply, natural calamities, health alerts etc. as provided by the local administration will be treated as non-news and current affairs broadcast and will therefore be permissible
- **Networking of content:** Networking of channels will be permissible within a private FM broadcaster's own network across the country instead of in 'C' and 'D' category cities only of a region allowed at present



3 www.radioandmusic.com
4 Ministry of Information & Broadcasting

- **Others:** A choice is proposed to be given to the private FM broadcasters to choose any agency other than BECIL for construction of CTI within a period of 3 months of issuance of LOI failing which BECIL will automatically become the system integrator and set up co-location facilities and CTI.

Future predictions in trends

- Phase III to give a boost to radio industry
  - The industry has been awaiting the launch of Phase III. The increased number of radio stations will allow players to increase their reach. Depending on the players' Phase III strategy, it may also help some to strengthen their regional reach. Radio being a point medium to target specific audiences, a strong regional presence can help sell advertising time more effectively. Phase III may also see the entry of new players into the radio industry.
- Players to focus on digital revenues
  - Radio companies may increasingly look at leveraging the digital space to grow. There have been some initiatives by large operators in this direction. By extending their offerings onto digital platforms like the internet and telecom platforms, radio companies will not only create a new source of revenue but also tap into new listeners. This will also help music artists and music labels generate more royalties.
- Multiple frequencies to benefit audiences
  - It is expected that in Phase III, the government will allow multiple frequencies in the same city. This will allow existing players to innovate with content and programming while keeping their bread and butter channel intact. Innovative programming can be in the form of a channel or a timeslot dedicated to children stories[4], talk-shows, TV serials, or maybe even a channel dedicated to food and lifestyle. Multiple frequencies may also lead to increased focus on local content and culture.
- After HD TV, time for HD radio
  - HD radio is the trademark of iBiquity Digital Corporation's in-band on channel (IBOC) digital technology that enables AM and FM stations to broadcast digital signals alongside their analog signals. HD radio can deliver better sound quality without interference. The AM version sounds more like FM while the FM version upgrades the service to CD quality sound. HD radio co-exists with AM and FM radio, broadcasting on the same frequency and using the same broadcast tower. In addition to providing broadcasts with less interference, HD radio enables stations to broadcast additional channels using the same spectrum. Thus, HD radio enables consumers to receive new niche channels at no additional cost.

Key risks and challenges

- Lack of measurement and research
  - The industry has two major measurement tools, Radio Audience Measurement (RAM) and Indian Readership Survey (IRS). IRS is not considered detailed and systematic enough. The low frequency of IRS data collection means that only 'snapshot' data is available and trends are lost. The IRS collects listenership data from houses and hence does not account for listeners who are not in the house and listen to radio while travelling to work, which is emerging as a sizeable segment.
  - Even in the case of RAM, the tool has limited coverage currently in the four major metros of Delhi, Mumbai, Bengaluru and Kolkata. However, with radio presence in more than 85 cities and 227 new cities to be added in Phase III expansion, there is an urgent need to expand coverage.
  - With advertisers wanting to target Tier 2 and Tier 3 towns in India, this need is further heightened. Many stations have commissioned their own research to get data inputs. For example, My FM obtains research by Ormax Media, whereas Radio City has panels in four cities, reaching about 400 to 500 people per city. It remains to be seen if Phase III also brings about better measurement tools.
- E-auction of Phase III stations
  - The government has decided to go for e-auction to license new radio stations following the 3G auction model. The government expects that this will lead to transparent auctioning of licensing fetching the right price for each radio station. However, this can be a tricky situation for the players as e-auction for some stations can lead to a price war with the risk of licence fee spiralling out of control. However, most players are established and know the returns that can be generated from individual radio stations. This knowledge may lead to intelligent bidding from the stations. However, some new players trying to enter the market may drive up the price.
- Differentiation of content and channel offerings
  - Presently, though radio channels claim to differentiate in terms of content, the differentiation has been minimal. Since each player has only one channel in a particular market, each player is incentivised to target the largest audience segment. As a result, most channels play very similar content and listeners often switch between channels during advertisements. This can even affect listenership data as listeners covered in a survey may not recall which channel they were listening to.

4 www.indiantelevision.com

- Multiple frequencies may give radio channels the freedom to target specific audience segments, thereby leading to greater differentiation.

- Competition for talent
  - With high competition between broadcasters likely to be exacerbated by the entry of new players and increase in the number of stations, the battle for experienced and proven RJ talent is likely to intensify.

Global outlook

The radio market will increase by 3.5 % compounded annually to USD 53.1 billion in 2015 from USD 44.8 billion in 2010. The North American radio market, which is the largest, with revenues of USD 20.1 billion in 2010, is expected to grow 3.7 % on an annual basis to USD 24.1 billion in 2015. The radio market in EMEA will increase at a 2.0 % compound annual rate from USD 15.2 billion in 2010 to USD 16.8 billion in 2015. We expect the Asia Pacific radio market to increase 4.4 % on a compound annual basis from USD 8.1 billion in 2010 to USD 10.1 billion in 2015. The radio market in Latin America is projected to show the largest growth, increasing 9.1 % on a compound annual basis from USD 1.4 billion in 2010 to USD 2.1 billion in 2015.

Improved economic conditions worldwide in 2010 are reflected in significant improvements compared with 2009. Growth will continue through the forecast period at slightly lower rates. Terrestrial broadcasters are trying to increase their numbers of listeners by expanding into the newer technologies of digital radio and online radio. However, those technologies are not expected to add significant revenues in the near future. Satellite radio will boost spending in North America. Modest increases in public radio license fees will help maintain the radio markets in EMEA and Asia Pacific.

Table 5.8: Global Radio Market by Component (USD Millions)

Component	2006	2007	2008	2009	2010p	2011	2012	2013	2014	2015	2011–15 CAGR
Radio Advertising	34,677	34,902	33,274	28,765	30,403	31,313	32,631	33,947	35,266	36,678	
% Change	*2.9*	*0.6*	*-4.7*	*-13.6*	*5.7*	*3*	*4.2*	*4*	*3.9*	*4*	*3.8*
Public Radio License Fees	10,751	11,025	11,174	11,409	11,545	11,593	11,671	11,897	11,976	12,067	
% Change	*1.3*	*2.5*	*1.4*	*2.1*	*1.2*	*0.4*	*0.7*	*1.9*	*0.7*	*0.8*	*0.9*
Satellite Radio Subscriptions	1,360	1,999	2,432	2,517	2,852	3,287	3,619	3,857	4,142	4,381	
% Change	*79.2*	*47*	*21.7*	*3.5*	*13.3*	*15.3*	*10.1*	*6.6*	*7.4*	*5.8*	*9*
Total Radio	46,788	47,926	46,880	42,691	44,800	46,193	47,921	49,701	51,384	53,126	
% Change	*3.8*	*2.4*	*-2.2*	*-8.9*	*4.9*	*3.1*	*3.7*	*3.7*	*3.4*	*3.4*	*3.5*

Source: Global PwC Entertainment & Media Outlook 2011-2015

Outlook for The Indian radio advertising industry

- With Phase III looming large, it is expected that smaller towns will benefit with the presence of their own radio stations. This will result in local listeners getting tailor-made content specific to their need.
- If Phase III materialises in 2011, we can expect the industry to show higher growth than projected. PwC estimates that by 2015 the radio industry will be worth INR 26 billion from its current levels of INR 10.8 billion, growing at a CAGR of 19.2%.
- The radio industry took a hit on advertising rates in 2009 and has never quite recovered from it. The year 2010 saw good growth in volumes, and we can expect that as radio becomes more popular with advertisers, players will up their ad rates in 2011 and 2012.
- The share of the radio industry in the total advertisement pie is estimated to steady at around 5.5% till 2015.
- This growth in the industry will however depend on some key factors:
    - **Success of e-auction:** Licences in Phase III will be auctioned off in an e-auction model. It will be interesting to see if there are any price wars for some of the stations. The success of Phase III will depend on players bidding sensibly and more stations being auctioned off.
    - **Infrastructure cost:** There are indications from the government that Prasar Bharti transmission infrastructure charges may be lowered. With more radio stations, it will be a boost to existing players if infrastructure costs are reduced.
- Phase III may also see new players entering the radio business for the first time with the hope of boosting their valuation with a collective media offering. Hence, post-Phase III, we may also see some consolidation.

The Indian radio industry has the potential for good growth as much of the country is under-served with radio reach. Globally, radio accounts for 10 to 12% of the total entertainment and media advertising pie, while the similar figure in India is around five per cent. With only around 85 towns having radio stations, Phase III will be crucial to take the radio industry to the next level.

Table 5.9: Projected growth of the Indian radio advertising industry in 2010-15

INR billion	2010	2011	2012	2013	2014	2015	CAGR
Radio advertising	10.8	13.5	16.5	19.0	22.0	26.0	19.2
% change		*25.0*	*22.2*	*15.2*	*15.8*	*18.2*	
Radio share in ad pie (%)	4.4	4.8	5.2	5.3	5.3	5.5	

Source: PwC Analysis and Industry Estimates

Music

At a glance

	2010	2015	CAGR
Market size	INR 9.5 billion	INR 21.4 billion	17.6%
	USD 0.21 billion	USD 0.48 billion	
Physical sales	INR 3.3 billion	INR 1.4 billion	-15.8%
	USD 0.07 billion	USD 0.03 billion	
Mobile VAS	INR 4.4 billion	INR 15.5 billion	28.6%
	USD 0.10 billion	USD 0.34 billion	

Market definition

The music market consists of consumer spending on the following:

- 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, caller ring back tone (CRBT) and other mobile-friendly items

The music industry

The music industry in India is still searching for the right note. The year 2010 has been an indifferent year for the industry which remains plagued by piracy. However, as projected last year by PwC, digital sales have overtaken physical sales. While 3G has been good news for the music industry, monetisation of the digital revenue stream still remains a challenge.

The need of the hour for the industry is to build differentiated business models and find alternate revenue streams to sustain in this competitive market. Social media, mobile music and radio are some of the key revenue streams with the industry looking for more niche mediums to monetise content.

Overview

The industry earns its revenue from five major streams viz. physical sales, mobile VAS, radio broadcast, online download and public performance royalty. A major portion of the music revenues in India comes from film music while the share of independent music albums is very small.

The industry is currently estimated to be INR 9.5 billion in 2010 as compared to INR 7.5 billion in 2009 registering a growth of 25.7% on the back of strong performance by the mobile VAS segment.

Table 6.1: Growth of the industry in 2007-10

INR billion	2007	2008	2009	2010	CAGR
Physical sales	6.5	5.3	4	3.3	-20.2%
% change		*-18.5*	*-24.5*	*-17.5*	
Mobile VAS	0.7	1.0	2.1	4.4	84.6%
% change		*42.9*	*110.0*	*109.5*	
Radio	0.2	0.4	1.0	1.2	81.7%
% change		*100.0*	*150.0*	*20.0*	
Internet	0.0	0.0	0.1	0.1	94.3%
% change		*20*	*377.8*	*27.9*	
Public performance	0.2	0.2	0.4	0.5	43.7%
% change		*47.8*	*52.8*	*31.5*	
Total	**7.6**	**7.0**	**7.5**	**9.5**	**7.8%**

Source: PwC Analysis and Industry Estimates

- Radio broadcast: Including the government's All India Radio, private FM stations and satellite radio that play music from various sources. Radio stations pay royalty for the content played, a part of which goes to the music company.
- Online download: Sale of music through internet downloads. This does not include pirated or illegal download.
- Public performance: Royalty paid by event organisers for the use of music in their events and at public places.

Outlook in brief

- Mobile is expected to continue to be the major growth driver for the music industry. Mobile VAS is expected to contribute around 75% in the total revenues in 2015.
- Successful resolution of the royalty issue with radio companies is a must for a successful Phase III radio auction as well as for the growth of music companies.
- Physical sales is expected to decline further in the coming years.
- Newer ways to monetise music content is important for sustaining growth.

India's place in the world

India is among the few countries across the world where digital sales have overtaken physical sales. In most other developed countries, physical sales still form a substantial form of revenues.

Table 6.2: Physical sales vs digital sales across the world

Country	Physical sales (USD million)	Digital sales (USD million)	Physical: digital sales ratio
US	3,649	2,976	55:45
UK	1,390	636	67:33
Germany	1,789	220	89:11
China	40	125	24:76
Japan	4,190	1,270	77:23
India	73	100	42:58

Source: Global PwC Entertainment & Media Outlook 2011-2015

However, in most markets, digital sales are the growth drivers while physical sales are declining in double digits. Hence, going forward, one can expect that in these countries too, digital sales will overtake physical sales. In the UK, this is estimated to happen by 2013, while in the US, it will be in 2011.

Key developments

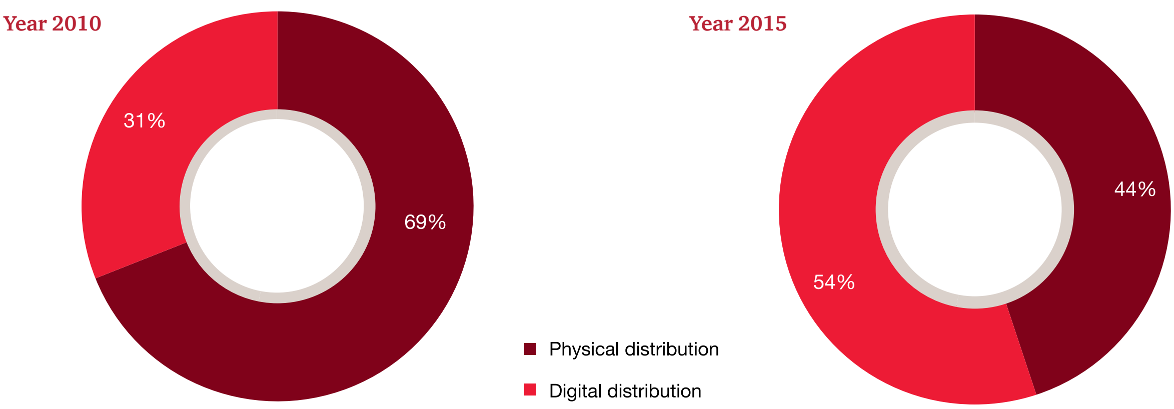
Physical sales on a path of decline

Physical sales of audio cassettes and CDs have been on a downward path and they continue on the same path this year. Physical sales were estimated to be INR 3.3 billion in 2010 as compared to INR 4.0 billion in 2009 showing a decline of 17.5%. While in previous years, piracy in cassettes and CDs was a major issue for physical sales, the challenge now has been easy availability of music online, be it legal or illegal. This provides users with the convenience of selection. Moreover, the next generation also believes in sharing music content among the peer group and this again results in consumers preferring music in the digital format. Going forward, we expect that physical sales will decline to a small segment in the music industry.

Mobile industry for digital music

The mobile industry continues to drive the music industry. As projected by PwC in its last publication, the digital sales of music comprising mobile and internet have overtaken physical sales in 2010. The mobile VAS segment alone is projected to be INR 4.4 billion in 2010 as compared to INR 2.1 billion in 2009 registering a healthy growth of 110%. This segment alone is estimated to be more than the physical sales revenues. While CRBT has been the largest revenue contributor in the past and remains so this year too, with better telecom infrastructure and the launch of 3G services, we can expect other forms of music to grow. This may include audio and video music which can be either provided by telecom players at a certain charge or direct live streaming of music to mobile phones.

Chart 6.1: Global physical vs. digital sales in 2010 and 2015



Source: Global PwC Entertainment & Media Outlook 2011-2015

Uninor has offered its users with ‘unlimited music’ services wherein a user can have unlimited music download at INR 2.50 per day and choose from its collection of 2.5 lakh songs licensed from Hungama. The user also has the option of INR 15 for seven days and INR 60 for 30 days of unlimited download. The company also allows users to set a song as their caller tune at the touch of their keypad.[1] Apart from Uninor, Nokia also provide users with access to music in its Ovi Store. Airtel launched Music Pod for its users on Airtel Live.

Internet music segment going nowhere

The online music segment comprises paid music downloads from various legal portals. In 2009, this market was estimated at INR 0.09 billion and it was projected to be INR 0.11 billion in 2010 showing a growth rate of 27.9%. This segment is severely impacted by piracy as there are a number of illegal music portals providing free music to listeners. This has also meant that there is a serious issue in monetising this content online. While some players are trying to revive this segment by providing free ad-supported live streaming, the same portals offer listeners with options to pay a nominal amount to own the music. However, we do not expect this segment to show any major growth unless new means of content monetisation are innovated.

Copyright resolution in a limbo

The copyright board, which was given powers by the Supreme Court of India to decide in the matter of radio companies versus music rights owners on the issue of royalty payment, has decided to reduce the royalty payment to two per cent of net advertising revenues. Previously, the same was around 18 to 20% in favour of the radio companies. This did not go down well with music companies and the decision had gone into a legal tangle.

Shifting means of consumption of music for youth

Young listeners are shifting from traditional modes of music consumption like home stereo systems and cassette players to mobile phones and IPods. Listeners are looking for mobility and instant access to music content. IPods provide mobility and easier listening, while FM-enabled mobile phones help listeners get radio access on the move. Now, with the greater proliferation of smartphones by handset manufacturers, combined with 3G services by telecom providers, listeners are able to get access to live audio streaming of their favourite music. It is estimated that there are around 20 million smartphone users in India currently and with smartphone pricing reducing, this number is set to increase manifold. This will give a further boost to online music streaming and instant access.

Players exploring social media to promote music

No sector is left out in the race to be a part of the social media circuit. Films need to be promoted on social networking sites, TV shows want to have the right fan base on these portals and music companies are not too far behind. For music companies, social media sites are not only the means to promote music, they are also a means to monetise the content. Music companies are also building applications for users to get music from their portals. Hungama launched MyPlay for Facebook users wherein the users can add this application to their profile and play from the music library of Hungama on their profile page. Shemaroo has also acquired Pen India’s digital music library to play across various new media platforms.

Future predictions in trends

- ### Phase III expansion in radio may give a boost to the music industry

  During Phase III, the radio industry is looking to add around 839 new stations. Since the revenue of music companies depends directly on the number of stations, each new additional station means additional revenue for music companies. However, the quantum of additional revenue will depend on the successful resolution of the music royalty issue.

- ### Ad-supported free music becoming popular

  Some music companies are trying out ad-supported free music. Google launched Google music which streams free Bollywood music. In return, an ad clip is played on the user’s mobile phone or computer while the user listens to the song. Moreover, these songs cannot be downloaded and hence there is no threat of piracy. Similarly, Nokia also opened up its music library for Nokia users for free ad-supported music.

- ### Growth of telecom service providers for music distribution

  With monetisation of content being an issue, tie-ups between music companies and telecom players will help the former monetise their digital music better. With users unwilling to spend on small-ticket items, such as payment for individual songs, through credit cards, telecom players provide an effective option to music companies to manage these transactions as well as to reach a large user base. Going forward, telecom players can be expected to play a larger role in monetising music content by offering the same product in multiple packages.

1 Media articles

Key risks and challenges

- Piracy as key challenge
  - Of the total music industry sales, 90 to 95% is illegal and victimised by piracy. Initially, piracy was limited to CDs and DVDs, but with the next generation relying more on the online and digital format to fulfil their need for music, piracy is growing out of control of the music industry. While pirates selling CDs and DVDs can be apprehended, popular online portals providing free music do not have their base in India making it even more difficult to catch them. With no apparent difference in the quality of music procured illegally online, listeners also continue using illegal music.
  - Another key reason for widespread illegal music downloads is convenience. Music listeners have access at one click of the mouse, anywhere anytime, without having to go and buy a physical copy.
  - While the government as well as private players are taking measures to curb piracy, they do not seem to be having any major impact. For example, Google has started listing legal music download sites among its top searches for music download. Moreover, it has also provided for streaming of legal music as opposed to download.[2]
- Monetisation of music rights in digital medium
  - While initiatives are taken to tackle piracy, users are getting used to the idea of free music, in the form of illegal download or free streaming. This has posed an additional challenge for the industry.
  - Most music providers currently have online portals which provide legal music at minimal charges. However, these do not seem to be cutting any ice with listeners.
  - While some listeners may even be willing to pay for legal downloads, lack of trust in using credit cards in the online medium especially for a micro-transaction, deters listeners from buying music online.

Global outlook

Global spending on recorded music fell by 7.7% in 2010. Moderating declines are projected for the next three years, with low single-digit gains expected in 2014 and 2015 as gains in digital spending begin to offset ongoing declines in physical spending. While we expect the market to stabilise, we are not projecting a return to prior levels. Spending in 2015 will remain 33.9% lower than in 2006. For the forecast period as a whole, spending will decline at a 1.1% compound annual rate to USD 22.1 billion in 2015 from USD 23.4 billion in 2010. Europe, Middle East, Africa (EMEA), the largest region, at USD 8.5 billion in 2010, will decline during the next two years and then increase beginning in 2013, nearly returning to its 2010 level by 2015. Spending will fall at a 0.2% compound annual rate. Asia Pacific will decline at a 3.0% compound annual rate to USD 6.1 billion in 2015 from USD 7.1 billion in 2010. North America will fall at a 0.6% compound annual rate to USD 6.9 billion from USD 7.1 billion. Latin America will decrease at a 0.4% compound annual rate to USD 651 million from USD 664 million in 2010.

Volume rather than price changes will account for most of the growth in digital spending and most of the decline in physical spending during the next five years in most countries. New services will fuel growth in digital distribution, helped by broadband, smartphone and tablet penetration. The traditional mobile market is declining in many countries, while streaming services are beginning to attract subscribers. Success in combating online piracy through graduated-response programmes will boost legitimate digital spending, assuming new forms of piracy do not emerge. Graduated response systems involve internet service providers' issuing warnings to file-sharers. The warnings escalate in severity, with the ultimate threat of disconnecting file-sharers' internet access. The adoption of such systems is proving to be a significant deterrent to piracy in the countries in which such measures have been implemented. Physical distribution will decline 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, as many people—principally in the expanding, over-45-years-of-age demographic—still prefer music in physical formats.

Table 6.3: Global recorded music market by component (USD millions)

Component	2006	2007	2008	2009	2010p	2011	2012	2013	2014	2015	2011–15 CAGR
Physical distribution	29,863	25,730	21,442	18,664	16,249	14,133	12,744	11,533	10,540	9,706	
% change	*-8.9*	*-13.8*	*-16.7*	*-13*	*-12.9*	*-13*	*-9.8*	*-9.5*	*-8.6*	*-7.9*	*-9.8*
Digital distribution	3,629	5,154	6,144	6,729	7,191	7,978	9,011	10,120	11,259	12,421	
% change	*75.4*	*42*	*19.2*	*9.5*	*6.9*	*10.9*	*12.9*	*12.3*	*11.3*	*10.3*	*11.6*
Total	33,492	30,884	27,586	25,393	23,440	22,111	21,755	21,653	21,799	22,127	
% change	*-3.9*	*-7.8*	*-10.7*	*-7.9*	*-7.7*	*-5.7*	*-1.6*	*-0.5*	*0.7*	*1.5*	*-1.1*

Source: PwC Global Entertainment & Media Outlook 2011-2015

Outlook for the industry

- It is estimated that the music industry will be INR 21.4 billion in 2015 as compared to INR 9.5 billion in 2010 showing a CAGR of 17.6%.
- As the trend has been over the last couple of years, the digital form of music is expected to grow at a much faster pace. However, the same is not true for the physical music segment which is expected to decline. It is estimated that physical sales will be a mere seven per cent in 2015 de-growing at a CAGR of 15.8%.
- Mobile VAS will be the largest contributor to the music industry. Going forward, it is expected that live streaming, subscription to telecom player's music libraries, etc will provide impetus to this segment. This segment is expected to be INR 15.5 billion in 2015 growing at a CAGR of 28.6%.

Table 6.4: Growth of the industry in 2010-15

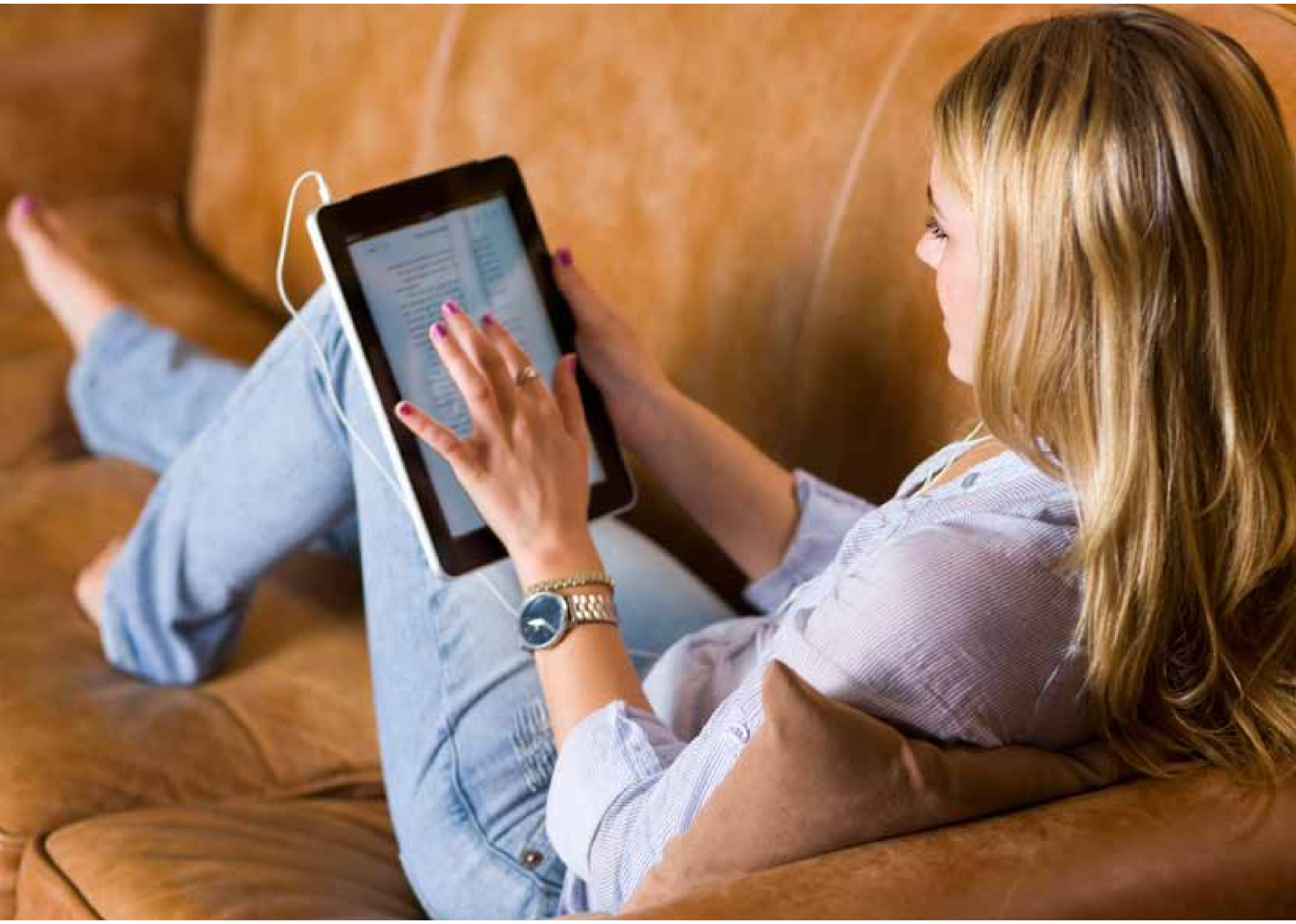
INR billion	2010	2011F	2012F	2013F	2014F	2015F	CAGR
Physical sales	3.3	2.8	2.3	1.9	1.6	1.4	-15.8%
% change		*-16.7*	*-16.4*	*-17.4*	*-15.8*	*-12.5*	
Mobile VAS	4.4	7.0	9.0	11.0	13.0	15.5	28.6%
% change		*59.1*	*28.6*	*22.2*	*18.2*	*19.2*	
Radio	1.2	1.4	1.7	2.1	2.5	3.0	20.1%
% change		*16.7*	*21.4*	*23.5*	*19.0*	*20.0*	
Internet	0.1	0.1	0.2	0.2	0.3	0.4	26.0%
% change		*27.3*	*28.6*	*33.3*	*25.0*	*16.7*	
Public performance	0.5	0.6	0.7	0.9	1.0	1.1	18.4%
% change		*19.1*	*33.3*	*15.8*	*15.3*	*10.0*	
Total	**9.5**	**11.9**	**13.9**	**16.1**	**18.4**	**21.4**	**17.6%**

Source: PwC Analysis and Industry Estimates

- Radio is also a major contributor to the music industry. However the current proposed royalty-sharing structure means that music companies cannot expect much from the radio segment in the short term. However, if Phase III is successful, and the Supreme Court changes the copyright board's decision to favour music companies, it is likely to provide a boost to the music industry.

Chapter 07

Internet advertising and access



At a glance

	2010	2015	CAGR
Market size	INR 7.7 billion	INR 24 billion	25.5%
	USD 0.17 billion	USD 0.53 billion	

Market definition

The Indian internet advertising market consists of revenues from displays, classifieds, paid searches, videos and other online formats.

The online advertising industry

Bolstered by the growth in the economy, the rise in internet users and growth in mobile internet and advertising, the industry has witnessed exponential growth. The internet provides advertisers with the option of controlling their advertising run-time depending on the response. Their decisions to continue or change advertising cost little. Online advertising remains a low-cost, yet important medium for targeting customers.

During the economic downturn a couple of years ago, companies increased their online ad-spend to test-market new products. They continued doing so when the economy picked up. The downturn provided them with an opportunity to test the online medium for advertising potential.

The size of this industry was INR 7.7 billion in 2010, registering a growth of 28.3% over INR 6 billion in 2009.

Table 7.1: Growth of the industry in 2006-10

INR billion	2006	2007	2008	2009	2010	CAGR
Online advertising	1.6	2.7	5.0	6.0	7.7	48.1%
% change		*68.8*	*85.2*	*20.0*	*28.3*	

Source: PwC analysis and industry estimates

Online advertising is divided into two types:

- **Display advertising:** Banner advertising, pictures with links, etc
- **Text advertising:** Found in side panels of search engines in text

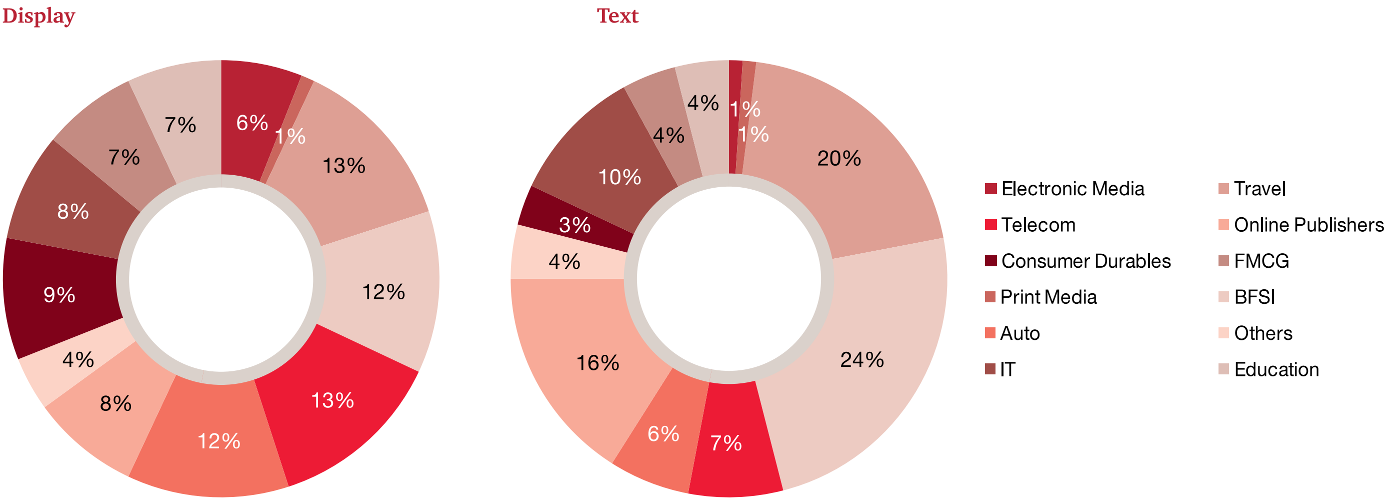
As in 2009, travel, banking and the financial services industry (BFSI), auto and telecom sectors remained the largest advertisers in 2010, making up 50% of the total display advertisement market. As for text advertising, BFSI, travel and online publishers were the dominant sectors, constituting 60% of the market.

Online ads have evolved from a Cost Per Impression (CPI) or cost per mille -1000 impressions (CPM) to cost per click (CPC) to cost per acquisition (CPA). Advertisers such as BFSI, auto, and travel are gradually moving towards CPA advertising.

Outlook in brief

- The online advertising market is one of the fastest growing segments in the Indian E&M industry.
- Increasing broadband penetration, successful broadband wireless access (BWA) spectrum auction and the arrival of 3G looks to boost the means to access the internet and will in turn lead to growth in internet advertising.
- Social media is growing to become an important form of online advertising.
- Lack of trust in the online medium and the absence of effective measurement tools are the key challenges facing the industry.

Chart 7.1 Display and text advertisements 2010-11



Source: Internet and Mobile Association of India

India's place in the world

The Asia-Pacific market of online advertising is dominated by Japan, China and Australia. India, as of now, has a very small share in this market. Though one of the fastest-growing markets in the region, it is nowhere close to the size of those in the US and the UK as well as other major countries in Asia Pacific.

With growing internet penetration, the arrival of 3G and fresh BWA auctions by the government, it is likely that the market will expand as well as grow but how fast remains to be seen.

Table 7.2: The market size of key global players (USD million)

Country	Market size (2010)	Growth % (2011-15)
US	25,190	11.3
UK	5,799	5.9
China	3,428	25.7
Japan	8,795	8.2
Australia	2,085	9.4
India	171	25.5

Source: PwC Global Entertainment & Media Outlook 2011-2015

Key developments

Cricket craze led to manifold growth in web traffic

The World Cup in 2011 was a good time for most cricket websites. In India, the volume of traffic on cricket sites was as no surprise. This also meant that advertising on these portals grew manifold during this period.

Social media showed promising signs

Active users of social media can spend hours on their favourite portals accessing any information coming their way. In India social networking sites have shown a remarkable growth of 43% in total unique visitors over 2009. The following comScore data underlines this fact.

Social media is not limited only to social networking sites such as Facebook and Orkut. They also extend to blogs, Twitter and much more. Yet another piece of evidence of the impact of social media sites in India is the growth in advertising on social media. Advertising on social media has shown a growth of 54% in 2010-11. Product promotions on social networking sites are on the rise. Companies are enticing users with teasers on Twitter. Some are even willing to provide discounts to customers if they 'like' their product on a website or join a community started by the company. Going forward, we expect this trend to grow stronger and more advertisers to go the social media way.

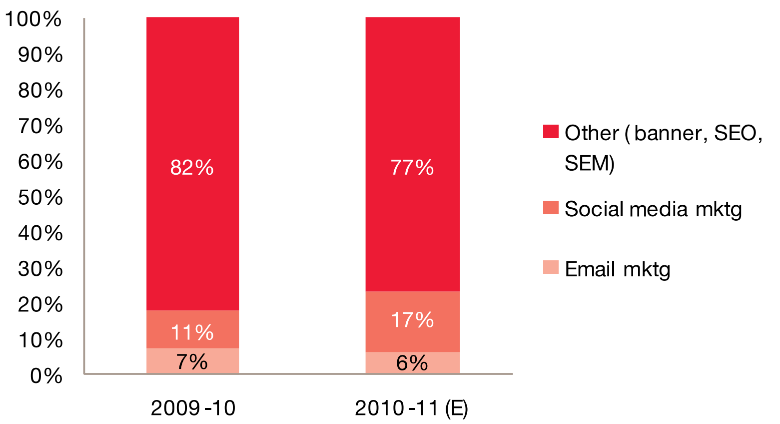
Table 7.3: Top social networking markets

Growth of top 10 social networking markets worldwide			
July 2010 vs. July 2009			
Total worldwide: Age 15+, home and work locations*			
	Social networking unique visitors (000)		
	Jul-2009	Jul-2010	% change
Worldwide	*770,092*	*945,040*	*23*
United States	131,088	174,429	33
China	N/A	97,151	N/A
Germany	25,743	37,938	47
Russian Federation	20,245	35,306	74
Brazil	23,966	35,221	47
United Kingdom	30,587	35,153	15
India	23,255	33,158	43
France	25,121	32,744	30
Japan	23,691	31,957	35
South Korea	15,910	24,962	57

Top social networking sites in India			
July 2010 vs. July 2009			
Total India: Age 15+, home and work locations*			
India	Total unique visitors (000)		
	Jul-2009	Jul-2010	% change
Total internet: Total audience	35,028	39,562	13
Social networking	23,255	33,158	43
Facebook.com	7,472	20,873	179
Orkut	17,069	19,871	16
Bharatstudent.com	4,292	4,432	3
Yahoo! Pulse	N/A	3,507	N/A
Twitter.com	984	3,341	239
LinkedIn.com	N/A	3,267	N/A
Zedge.net	1,767	3,206	81
Ibibo.com	1,562	2,960	89
Yahoo! Buzz	542	1,807	233
Shtyle.fm	407	1,550	281

Source: comScore Media Matrix

Chart 7.3: Online marketing growth



Source: IAMAI

Mobile internet

India is the second largest mobile subscription market in the world with 750 million subscribers in December 2010 and is set to be the largest market by 2013, according to the London-based Informa Telecoms and Media's latest forecast. Mobile internet users in India are pegged to number 11 million by the end of 2009 and estimated to almost double by the end of 2010.

There are additional reasons for growth in mobile internet. Firstly, the prices of internet-(low-cost GPRS) enabled handsets are reducing drastically. While the base price of a GPRS-enabled handset was in the range INR 5,000 to 6,000 last year, this year the same is around INR 2,500. Smartphones which were priced at over INR 12,000 last year have reduced to under INR 7,000. This has aided internet access at very low costs to users. Secondly, the growing trend of social networking among the youth has increased the demand for smartphones and GPRS-enabled phones. Internet-enabled mobile phones are easily available with pre-loaded applications for Facebook, Twitter, etc. Telecom players are also reducing GPRS rates to enable the proliferation of mobile internet. Packages at reasonable costs for data services on mobile phones are now available.

India's place in the world

India is estimated to have around 20 million mobile internet users in 2010. As compared to that, markets like China have around 291 million mobile internet users. This indicates that India's mobile internet market is still in its nascent stages. It is expected to show substantial growth in the next five years.

Table 7.4: Mobile internet subscribers around the world (millions)

	2006	2007	2008	2009	2010
United States	1.16	5.55	11.54	22.53	35.10
UK	7.80	12.50	20.70	23.40	25.58
Germany	4.90	9.20	13.60	19.00	23.20
China	16.14	27.37	64.12	156.87	291.50
Japan	63.20	83.30	96.10	106.20	111.60
India	NA	NA	3.47	10.50	19.50

Source: PwC Global Entertainment and Media Outlook 2011-2015

Japan is the biggest market in the world in terms of size followed by the US. India, as is evident, has room to grow. A similar view can be taken for the mobile internet advertising market.

Table 7.5: Global mobile internet advertising market

USD million	2010
United States	570
UK	116
Germany	68
China	17
Japan	1,275

Source: PwC Global Entertainment and Media Outlook 2011-2015

Key developments

3G has arrived, but is yet to make an impact on mobile advertising and the internet market.

In 2010, the widely anticipated 3G auctions were completed successfully and by the end of the year, most of the players launched their 3G services. However, 3G in India is yet to take off, owing to two factors.

- **Lack of cheap 3G-enabled handsets:** Though the number of mobile subscribers in India is hovering at around 750 million, the number of handsets which can be used to access the internet is limited. Even there, the number of 3G-enabled handsets is minimal as compared to the total population and the expected growth rate of 3G users. Moreover, many of these handsets are priced above INR 5,000, making it an expensive proposition for many users. Airtel has announced its plan to launch cheaper handsets for Indian consumers.
- **Pricey 3G user plans:** The issue is not only limited to the lack of cheap 3G handsets. It is also about the high-priced 3G data plans put up to ride on the initial 3G frenzy and limiting 3G usage to the upper middle-class.

Internet access market

India is among the fastest-growing broadband markets in the Asia-Pacific region, with an estimated 81 million internet users estimated to reach 100 million by next year. It has a broadband subscriber base of around 10 million and its internet users total to 17 million. It registered a growth of 40% year-on-year and is expected to continue to show healthy double-digit growth.

However, the growth is slower than what the government had targeted in its national broadband policy. The target was to have 20 million users by 2010. The primary reason is last-mile connectivity and lack of wireline infrastructure. Moreover, the average monthly rates charged by ISPs in metros are around INR 500 to 1000 which is quite high as compared to the monthly average revenue per user (ARPU) of INR 110 for GSM mobile users.[1] Poor wireless connectivity adds to customer woes with frequent disconnections and low speed.

India recently concluded its BWA spectrum auction where key players participated. The opening-up of additional spectrum under the BWA auction will give a boost to the issues of last-mile connectivity and will help increase the reach of broadband in rural areas. BWA auctions also mean faster internet speeds resulting in a better user experience. Hence, it is expected that broadband subscribers are set to witness substantial growth in the coming years.

India's place in the world

Global mobile internet access spending totalled USD 89.9 billion in 2010, with 56% of that total generated by Japan, South Korea, China and Indonesia. Japan alone accounted for 43% of the global mobile internet access spending.

Table 7.6: Global internet access market

USD Million	2006	2007	2008	2009	2010
United States	30,751	35,167	37,845	39,746	43,268
UK	7,395	8,602	10,125	10,739	11,033
China	8,812	12,917	18,207	20,223	23,248
India	409	691	765	1,114	1,508

Source: PwC Global Entertainment and Media Outlook 2011-2015

Table 7.7: Broadband households (millions)

	2006	2007	2008	2009	2010
United States	49.78	60.63	67.55	71.39	78.75
UK	11.46	14.31	16.44	17.82	18.90
China	44.10	58.63	74.89	93.50	115.00
India	1.55	2.72	4.21	6.51	10.99

Source: PwC Global Entertainment and Media Outlook 2011-2015

Table 7.8: Broadband households penetration (%)

	2006	2007	2008	2009	2010
United States	44.5	53.8	59.3	62.0	67.9
UK	44.8	55.7	63.7	68.8	72.7
China	11.5	15.1	19.0	23.3	28.1
India	0.8	1.3	2.0	3.0	4.2

Source: PwC Global Entertainment and Media Outlook 2011-2015

Table 7.9: Internet households (millions)

	2006	2007	2008	2009	2010
United States	83.28	89.63	91.55	93.39	96.75
UK	16.64	17.54	18.75	19.92	20.40
China	75.19	113.81	159.89	173.50	185.00
India	8.50	13.02	11.55	13.93	16.72

Source: PwC Global Entertainment and Media Outlook 2011-2015

Table 7.10: Internet households penetration (%)

	2006	2007	2008	2009	2010
United States	74.5	79.6	80.4	81.1	83.4
UK	65.0	68.2	72.7	76.9	78.5
China	19.7	29.3	40.5	43.2	45.2
India	4.2	6.3	5.5	6.4	7.5

Source: PwC Global Entertainment and Media Outlook 2011-2015

1 TRAI

Chart 7.4: Internet numbers in rural India - yearwise

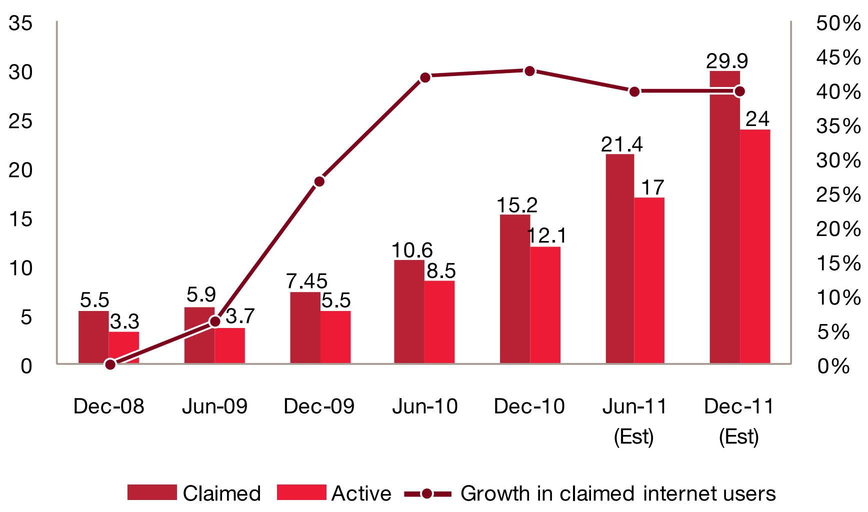
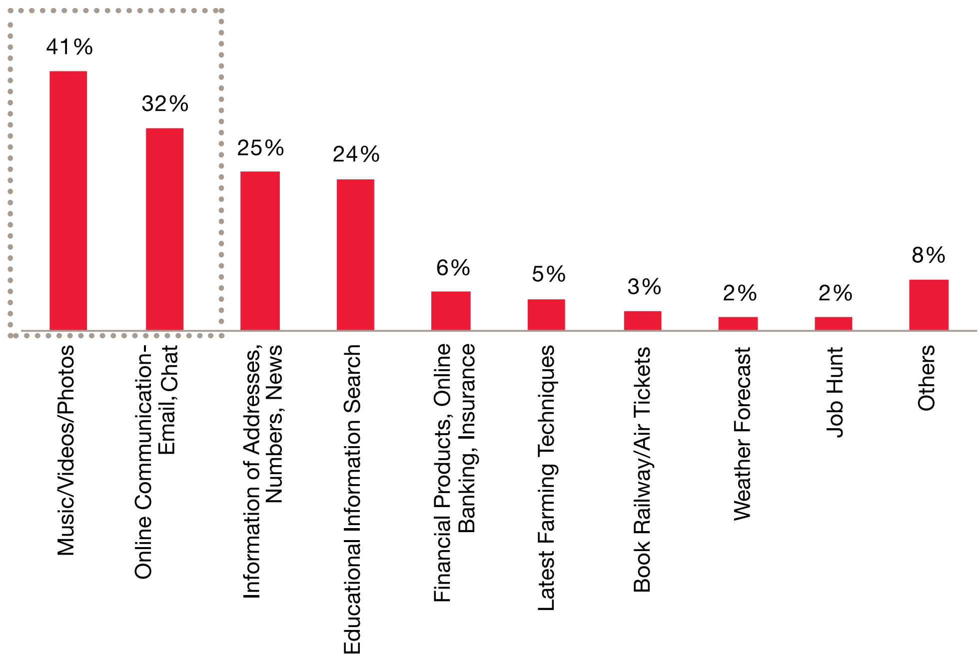


Chart 7.5: Purpose of internet access



Source: IAMAI

Key developments

Internet users have grown in rural India

The internet in India has long been driven primarily by urban users. Thirty per cent of the urban population constitutes most of the internet users in India. However, rural India has been showing good growth lately due to government initiatives as well as those taken by private players. The government has started Community Service Centres (CSC) while private players have taken initiatives such as ITC's e-Choupal, Hindustan Unilever's Project Shakti, Microsoft's Project Shiksha, among others.

CSCs and other public internet access infrastructure are the most-used access points in rural India. While email and chat are among the key motives for the rural as well as urban population, for rural users, access to music and photos ranks even higher than email and chat. Rural users are yet to be fully comfortable with the use of the internet for ecommerce.

Travel sites push ecommerce growth on fast track

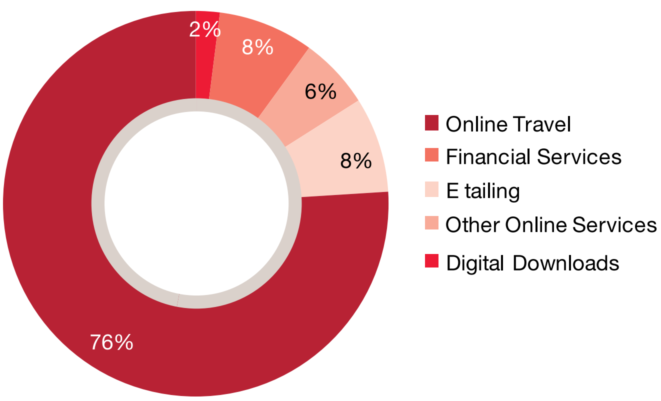
Travel sites reached 37% of the online population in India in April 2010, an increase of over 50% over the previous year. This reflects the growing trend of consumers researching travel costs on comparable sites before making their travel arrangements. On an average, online users spent about 38.4 minutes on travel sites in a month and visited the sites about four times a month.

Table 7.11: Most visited travel sites by unique visitors			
Most visited travel sites by unique visitors			
April 2010 vs. April 2009			
Total India age 15+: Home/work location*			
	Total unique visitors (000)		
	Apr-2009	Apr-2010	% change
Total internet: Total audience	33,753	38,399	14
Travel	9,398	14,062	50
Indian Railways	5,303	7,749	46
MakeMyTrip	1,710	2,377	39
Yatra Online	1,211	1,933	60
Expedia Inc	962	1,640	70
ClearTrip.com	689	1,194	73
TravelAdNetwork	569	872	53
Travelocity	347	812	134
IndiaRailInfo.com	147	647	340
Jet Airways	468	585	25
eRail.in	178	464	160

Source: comScore Media Metrix

While online travel is the major component of net commerce, etailing also comprises buying consumer items such as cameras, computers, home and kitchen appliances, flowers, toys and gifts online.

Chart 7.6: Components of net commerce market (2009)



Source: IAMAI

Indian shoppers are still wary of buying online

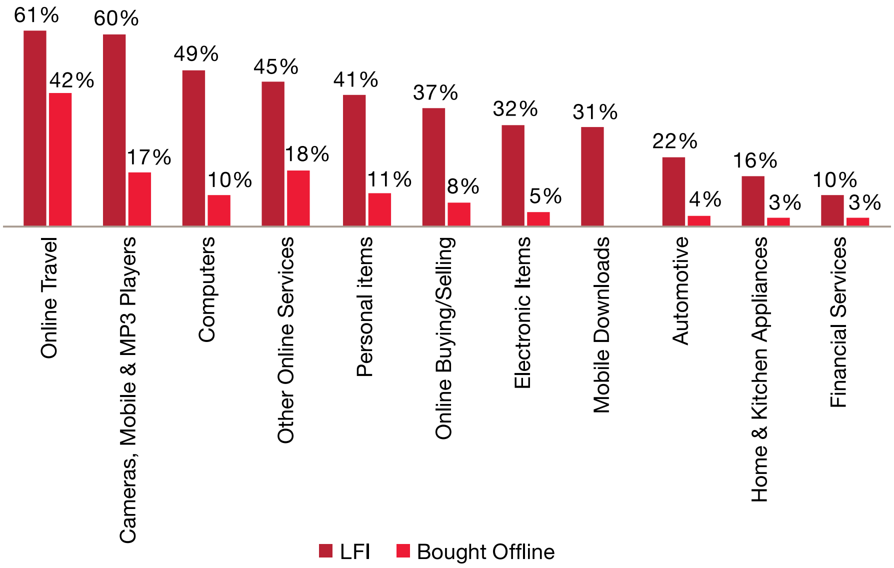
Cash-on-delivery mechanisms were introduced by players to promote online shopping. Such provisions have been provided by players such as Bagittoday, Flipkart, Infibeam, etc. However, this mode of payment has not yet caught on with users. This could be due to low awareness. Mobile payments are also a very small size of the market, though this mode should grow as awareness of online shopping increases. There are now many companies in this space like Paymate, Smartpay, Atom Technologies, ngpay, etc. that provide mobile payment solutions.

Key regulatory update

New national broadband policy expected soon

India, despite healthy growth in the broadband subscriber base, has not been able to meet its targeted user base as per the national broadband policy which was first formulated in 2004. According to the policy, the target was to reach 20 million subscribers by 2010. However, the latest numbers indicate that there are around 10 million broadband users by the end of 2010. One of the reasons for this is the lack of infrastructure and last-mile connectivity.

Chart 7.7: Non-online shoppers



Source: IAMAI

As per the TRAI, despite having 104 service providers, India has not been able to add substantially to broadband users as compared to the 18 million users added by mobile companies. However, with the successful completion of 3G and BWA auctions, the numbers are expected to pick up. The TRAI paper projected 5, 20 and 40% of the households in the country to have broadband connections by 2010, 2012 and 2014, respectively.

The TRAI paper had several objectives:

- Identify the steps to be taken to increase broadband demand and penetration
- Identify regulatory issues and challenges in broadband growth in India
- Identify the need for a nationwide optical fibre network
- Identify ways for cable operators to provide broadband to end-users.

This paper is an effort to predict realistic broadband subscriber targets and methods to achieve them.

Future prediction in trends

While it is a fact that Indian consumers like to purchase goods after seeing them, there are many intangible things that can be conveniently purchased online. These include bill payments, financial products, travel, movie tickets, etc that do not require the consumer to see the product before purchase. Such facilities are expected to gain in popularity as internet usage grows.

Deal watch

- In September 2010, Instamedia Network, the web's leading content network and creator of Software as a Service (SaaS)-based content platform, Instapress, secured USD 4 million in funding from Times Internet Limited, a subsidiary of The Times of India Group. The proceeds of the strategic investment will be used to grow the company's network of writers and accelerate its technology platform development.
- In January 2011, Groupon entered the Indian market with the acquisition of SoSasta.com.
- In December 2010, online apparel retailer Fashion and You raised USD 8 million from venture capital firm Sequoia Capital to build its supply chain for premium brands to be sold at a discount. The funds raised will be used for enterprise resource planning solutions, delivery logistics and the expansion of warehouses.
- Bazee com Pvt Ltd invested INR 164.8 million in Ebay India Pvt Ltd.

Key risks and challenges

- Means to monetise content

  The online space is flush with web portals vying for user attention. The key for these players is to find means to monetise the content on their portal. Currently, the online space has limitations in terms of measurement mechanism. This remains the key challenge for the industry.

- Lack of trust

  According to a survey by the Indian Internet and Mobile Association, 70% users feel that online information is misrepresented and inaccurate. Moreover, recent stories about credit card information thefts have left users concerned about using the online medium for payment. Steps to combat this lack of trust are important for the smooth functioning of online payment dependent companies.

Global outlook

Internet advertising

We project spending in North America, EMEA (Europe, Middle East, Africa) Asia Pacific, and Latin America will increase from USD 70.5 billion in 2010 to USD 129.9 billion in 2015, a 13.0 % compound annual growth rate. Spending in North America will total USD 50.4 billion in 2015, up from USD 28.1 billion in 2010, averaging 12.4 % growth compounded annually. EMEA will reach USD 41.7 billion in 2015, also a 12.4 % compound annual increase from USD 23.2 billion in 2010. Asia Pacific will average 14.6 % compounded annually from USD18.0 billion in 2010 to USD 35.5 billion in 2015. Latin America will expand from USD 1.2 billion in 2010 to USD 2.2 billion in 2015, a 14.1 % compound annual increase.

Paid-search advertising will rise to USD 56.0 billion in 2015, an 11.9 % compound annual increase from USD 32.0 billion in 2010. Display, classified, and other advertising will advance at a 12.8 % compound annual rate from USD 35.7 billion in 2010 to USD 65.2 billion in 2015. Total global wired Internet advertising will reach USD 121.2 billion in 2015 from USD 67.7 billion in 2010, a 12.4 % compound annual increase. Mobile advertising will rise to USD 8.7 billion in 2015 from USD 2.8 billion in 2010, a 24.9 % compound annual increase.

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 to the Internet. Growing traffic on social networking sites is attracting advertising and fuelling growth in display advertising. Classified advertising, a highly cyclical component of the market, will have a positive influence on overall internet advertising as economic conditions improve. Growth in the mobile internet access subscriber base will drive mobile advertising.

Table 7.12: Global internet advertising market: Wired and mobile by component (USD millions)

Category	2006	2007	2008	2009	2010p	2011	2012	2013	2014	2015	2011–15 CAGR
Wired internet advertising											
Search	15,401	20,963	25,656	28,070	31,960	36,024	41,036	46,155	51,046	56,020	
% change	*51.4*	*36.1*	*22.4*	*9.4*	*13.9*	*12.7*	*13.9*	*12.5*	*10.6*	*9.7*	*11.9*
Display, classified, other	22,010	28,410	32,157	31,123	35,709	40,515	46,639	53,002	59,137	65,183	
% change	*36.0*	*29.1*	*13.2*	*-3.2*	*14.7*	*13.5*	*15.1*	*13.6*	*11.6*	*10.2*	*12.8*
Total wired internet advertising	37,411	49,373	57,813	59,193	67,669	76,539	87,675	99,157	110,183	121,203	
% change	*42.0*	*32.0*	*17.1*	*2.4*	*14.3*	*13.1*	*14.5*	*13.1*	*11.1*	*10.0*	*12.4*
Mobile advertising	501	861	1,621	2,188	2,846	3,583	4,603	5,876	7,205	8,662	
% change	*85.6*	*71.9*	*88.3*	*35.0*	*30.1*	*25.9*	*28.5*	*27.7*	*22.6*	*20.2*	*24.9*
Total	**37,912**	**50,234**	**59,434**	**61,381**	**70,515**	**80,122**	**92,278**	**105,033**	**117,388**	**129,865**	
% change	*42.4*	*32.5*	*18.3*	*3.3*	*14.9*	*13.6*	*15.2*	*13.8*	*11.8*	*10.6*	*13.0*

Source: PwC Global Entertainment and Media Outlook 2011-2015

Internet access

We project spending in North America, EMEA (Europe, Middle East, Africa) Asia Pacific, and Latin America will increase from USD 269.9 billion in 2010 to USD 407.9 billion in 2015, an 8.6 % compound annual growth rate. Asia Pacific and EMEA are the largest regions, at USD 116.4 billion and USD 91.7 billion, respectively, in 2010. Asia Pacific will be the slowest-growing region during the next five years, principally because its mobile Internet access market is far more developed than that of any other region. Asia Pacific will expand at a projected 6.5 % compound annual rate to USD 159.7 billion in 2015. We project EMEA to grow at a 9.9 % compound annual rate to USD 146.8 billion in 2015. Spending in North America will total USD 71.5 billion in 2015 from USD 48.1 billion in 2010, averaging 8.3 per-cent growth compounded annually. Latin America, which has the least-developed market, will be the fastest-growing region, with a 16.8 % compound annual increase to USD 29.8 billion in 2015 from USD 13.8 billion in 2010.

National broadband plans in each region will extend the broadband infrastructure into underserved areas. As that happens, the broadband household base will expand, and declines in dial-up will accelerate. Broadband pricing is affected by competition and the growing share of premium broadband subscribers. On balance, average monthly broadband spending will increase in EMEA, Latin America, and Canada and will decrease in the United States and Asia Pacific.

Approaching broadband saturation in many countries will lead to slower growth in broadband households. Mobile broadband has become integral to national broadband plans, leading to wireless network upgrades. Competition between carriers also is stimulating investment in the wireless infrastructure. Growing penetration by smartphones and tablets is expanding the potential market for mobile internet access.

Table 7.13: Global Internet access market: wired and mobile by component (USD millions)

Component	2006	2007	2008	2009	2010p	2011	2012	2013	2014	2015	2011–15 CAGR
Dial-up	30,396	27,846	25,659	22,428	19,410	16,395	13,273	10,225	8,032	6,224	
% change	*-19.0*	*-8.4*	*-7.9*	*-12.6*	*-13.5*	*-15.5*	*-19.0*	*-23.0*	*-21.4*	*-22.5*	*-20.3*
Broadband	98,668	118,109	135,073	146,987	160,618	175,729	192,771	211,207	228,730	246,786	
% change	*27.7*	*19.7*	*14.4*	*8.8*	*9.3*	*9.4*	*9.7*	*9.6*	*8.3*	*7.9*	*9.0*
Total wired internet access	129,064	145,955	160,732	169,415	180,028	192,124	206,044	221,432	236,762	253,010	
% change	*12.4*	*13.1*	*10.1*	*5.4*	*6.3*	*6.7*	*7.2*	*7.5*	*6.9*	*6.9*	*7.0*
Mobile access	38,289	51,968	65,725	77,834	89,899	101,473	114,901	129,531	142,709	154,861	
% change	*102.0*	*35.7*	*26.5*	*18.4*	*15.5*	*12.9*	*13.2*	*12.7*	*10.2*	*8.5*	*11.5*
Total	**167,353**	**197,923**	**226,457**	**247,249**	**269,927**	**293,597**	**320,945**	**350,963**	**379,471**	**407,871**	
% change	*25.1*	*18.3*	*14.4*	*9.2*	*9.2*	*8.8*	*9.3*	*9.4*	*8.1*	*7.5*	*8.6*

Source: PwC Global Entertainment and Media Outlook 2011-2015

Outlook for the online advertising industry

The online advertising industry is estimated to march ahead from INR 7.7 billion in 2010 to INR 24 billion in 2015 showing a CAGR of 25.5% over the next five years.

As 3G becomes more affordable, it will give a boost to mobile advertising and in the near future, mobile advertising will have a significant share in internet advertising. As the national broadband policy is formulated and implemented over the next three to five years, we will see better growth in broadband subscribers leading to increase in the internet subscription market as well as online users who will boost the internet advertising market.

Table 7.7: Projected growth of the online advertising industry in 2010-15

INR billion	2009	2010	2011	2012	2013	2014	CAGR
Internet advertising	7.7	10.0	12.5	15.5	19.5	24.0	25.5%
% change		*29.9*	*25.0*	*24.0*	*25.8*	*23.1*	

Source: PwC Analysis and Industry Estimates

Chapter 08

Out-of-home advertising

At a glance

	2010	*2015*	*CAGR*
Market size	INR 14 billion	INR 24 billion	11.4%
	USD 0.31 billion	USD 0.53 billion	

Market definition

The Out-of-home (OOH) advertising industry consists of advertiser spending on media:

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

The OOH industry

After witnessing a double-digit decline in 2009, the OOH sector saw a revival in 2010 on the back of a growing economy, change in the lifestyle of consumers and increasing media fragmentation. Digital billboards replacing traditional billboards as well as the growing number of digital networks are affecting the OOH industry. Upgraded street furniture as part of city beautification projects and renovated airports in Delhi and Mumbai have provided advertisers with new locations and better quality sites. Additionally, improvements in railway networks are enabling new advertising platforms enhancing opportunities for advertisers. The government is expected to aid the industry by establishing specific guidelines and eliminating unauthorised signs. However, it is yet to achieve the growth rates seen prior to 2009.

The OOH market in India was INR 14 billion in 2010 as compared to INR 12.5 billion in 2009 showing a growth of 12% over the previous year.

Table 8.1: Growth of the Indian OOH industry in 2006 -10

INR billion	2006	2007	2008	2009	2010	CAGR
OOH advertising	10.0	12.5	15.0	12.5	14.0	8.8%
% change		*25.0*	*20.0*	*-16.7*	*12.0*	
OOH share in ad pie (%)	6.2	6.4	6.9	5.8	5.7	

Source: PwC Analysis and industry estimates

India's place in the world

India is still quite low on the OOH advertising market as compared to the rest of the developed world. Digital OOH in China has over 70,000 screens in Shanghai alone which is more than the total digital screens in India combined.

Table 8.2: OOH market in other countries

Country	2009	2010	Growth %
US	5,900	6,140	4.1
UK	1,208	1,359	12.5
Japan	5,982	5,702	-4.7
China	1,740	2,005	15.2
India	272	311	12.2

Source: PwC Global Entertainemnt & Media Outlook 2011-2015

Key developments

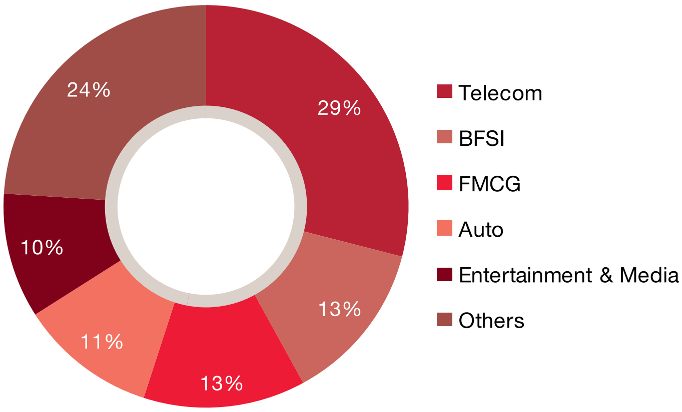
Telecom, BFSI, E&M and FMCG are among the top advertisers for 2010

Telecom continued to be the biggest advertiser on OOH in 2010. Real estate is another sector which is not among the biggest advertising sector on OOH but is growing fast. With the recovery in the economy, BFSI was back to advertising on OOH in a bigger way.

Outlook in brief

- Infrastructure growth leads to growth in OOH media in 2010.
- OOH players are offering innovative and customised solutions to advertisers for specific target audiences.
- An effective measurement mechanism remains a challenge, holding back advertisers from increasing their spend in OOH.
- Digital OOH is expected to grow by leaps and bounds in the coming decade.

Chart 8.1 Sector-wise advertising spends for OOH



Source: PwC estimates and industry discussions

Focus is shifting from the number of screens to the quality and quantity of audience.

The currency of outdoor media is shifting from the number of screens to the potential and size of the audience. As per industry sources, the OOH audience primarily belongs to SEC A[1]. Advertisers are beginning to realise this and are willing to pay a premium for quality and quantity of audiences, but are unwilling to pay per screen.

Digital OOH is the next growth medium for the industry.

Though digital OOH in India has grown, it is still not on par with other developing countries, our industry discussions revealed that the share of digital OOH in India has gone up from approximately one per cent to five to six per cent over the last four years. However, this is significantly lower than the global average of approximately 20%.

The growth in digital OOH through LEDs has been slow. One of the main reasons is that advertisers are not customising content for this medium and are instead recycling TV advertisements. On account of this, the medium is unable to attract sufficient eyeballs. Also, hosting moving pictures on digital media in public places such as roads, etc raises concern among authorities in terms of distraction for drivers. Also, advertisements on LCDs have not kept pace with their inherent potential, since there are only limited properties that allow for concentrated and captive audiences to justify the investment. In addition, digital OOH players have in the past used poor procurement strategy such as overbidding for properties for lower term periods without proper market research.

However, though users are slowly realising the advantages of digital OOH, the medium still needs to be sold. Digital OOH is expected to grow at the rate of 30 to 35% in the next few years.

Some examples of recent growth in digital OOH are as follows:

- Municipal Corporation of Delhi (MCD) installed 25 LED screens across Delhi for the Commonwealth Games and Kashrey Media Innoventures Pvt. Ltd. launched LED video screens in Gurgaon.
- RC&M won the rights to operate a digital network in the stations of the Delhi Metro Rail Corporation. The main stations, which see footfalls of more than 200,000 people daily, will each have 10 46-inch screens displaying passenger information as well as advertising.
- Hype Integrated Communications is installing thousands of screens in Mumbai's local trains.
- Peacock Media introduced LCD screens in buses in Tamil Nadu.

Innovation and customisation is the key to OOH growth in India.

Advertisers today are demanding from OOH players, the ability to customise their offerings for select audiences. OOH media is trying to increase their reach at places that have captive audiences. These include bus shelters, lifts and waiting areas, airport transfers, cabs, etc. One such successful example is digital advertising in Meru Cabs. While the company has been offering non-digital advertising to users, this is the first time it will offer digital advertising.[2] The company plans to install digital screens in its fleet of cabs. With around one million passengers spending an average 45 minutes in a cab, these cabs offer a captive SEC A audience to advertisers. Moreover, the non-digital advertising offered by Meru is also quite effective as the cab acts as a moving advertisement covering the length and breadth of the city.

Also, for digital OOH to attract audiences and address the authorities' concerns, the advertisers need to customise their offerings for that medium and not re-use content prepared for other media.

OOH properties are increasing.

Infrastructure growth in India has opened up many new spaces for OOH media including Tier 2 and Tier 3 cities. Times OOH won the advertising contract at Terminal 3 (T3) at Delhi's Indira Gandhi International Airport for 20 years while Laqshya won the promotional rights at T3. The Commonwealth Games also brought in new infrastructure facilities in New Delhi which provided new avenues for outdoor advertising.

1 SEC (Socio Economic Classification) is the division of a total potential market into smaller groups based on sociological or cultural variables, such as social class, education, income, occupation, etc of the Chief Wage Earner of the household. SEC range from A1, A2, B1, B2, C, D, E1 and E2 with A1 being the highest classification. There are similar classifications for rural population.

2 The Economic Times

OOH players focus on ROI than on increasing the number of properties.

After facing the brunt in 2009, OOH players have turned smarter and have started to focus on properties that will maximise returns in less time. OOH players are no longer over-bidding for prime properties. There has also been rationalisation in the bid prices. Moreover, the focus is also on the type of audience of the OOH property and how to use that rather than just increase the number of properties and reach. OOH, unlike print and television, is not a mass medium for advertising. It is a niche medium with focus on geography, audience, type of property, location of property and various other parameters.

Future predictions

- **Infrastructure growth supporting growth of OOH in Tier 2 and Tier 3 cities**
    - Infrastructure growth in metros has been providing growth opportunities for OOH media. Improving public and private transport services has already provided branding opportunities by way of airports, radio cabs, subways, metro rail, highways, toll bridges, bus queue shelters, buses, trains, etc. On 28 March 2011, Mudra Max wrapped and branded an entire Delhi Metro train. The train was wrapped with Pepsi branding and ran from New Delhi to the Delhi airport. This was the first time the Delhi Metro allowed itself to be wrapped by any advertiser. Central Railway has invited tenders from advertising agencies and other interested parties for awarding ad rights on three express trains under its Pune division.
    - This growth in infrastructure is not limited to central government initiatives. Looking at improving public infrastructure, several state governments are tying up with private players to invest in return for long-term media contracts to use some part of this infrastructure for OOH.
    - Even though larger spends are happening in metros and bigger towns, improving infrastructure is expected to increase available inventory in these locations. Also, on account of expected lower costs on operations as well as tendering, the profitability of OOH players can improve.

Deal watch

- In October 2010, Delhi-based LiveMedia, an OOH TV company, bought a controlling stake in Tag Media, an in-store television network. Industry sources peg the deal value at USD 4 million.
- Bay partners, DFJ Mauritius and SVIC New Tech Business Investment invested INR 340 million, INR 171.5 million and INR 126 million in RS LiveMedia Pvt Ltd respectively.
- GPC Mauritius invested INR 300 million in TDI International India Ltd.

Key challenges

- **Still searching for the right measurement mechanism**

  Presently, there is no standardised research methodology used by the industry for measuring effectiveness. Most players use proxies such as passenger traffic in airports, metro stations, etc. Since most advertisers currently base their decisions on perception, the lack of research is not hampering sales seriously. However, since research is available on other media such as TV, print, etc., advertisers are inclined to move their budgets to these outlets to increase effectiveness.

  The launch of the Indian Outdoor Survey by MRUC coincided with the creation of a measurement tool to help the industry connect with advertisers for the right value for its properties. The tool was initially limited to the Mumbai and Pune markets but the agency is now planning to extend its reach to Delhi, Bengaluru, Hyderabad, Ahmedabad and Chennai. Apart from extending the reach, the tool needs to find acceptance among key media agencies and OOH players and needs to be marketed properly. While some OOH players are trying to devise their own measurement mechanism, what the industry needs is a common tool for advertisers to rely on.

- **Highly unorganised industry**

  The industry consists of a large number of unorganised players. This makes it difficult to measure the effectiveness of the medium. Also, monitoring is a problem as the medium is widespread. To counter this, the MCD is starting to impose fines on unauthorised billboards. Comprehensive monitoring will take longer.

- **Lack of quality OOH properties**

  The quality of OOH properties in India is not up to the same standards as in the western countries. In India, most billboards need to be changed manually and cannot be controlled. The west has digital signages which are dynamic and can be adjusted with the ambience. They give more control to the advertisers and help them evolve with the customer need. As the industry evolves, the quality of outdoor media needs to improve and keep pace with global developments.

Global outlook

The OOH market will grow by 5.6% on a compound annual basis from USD 26.1 billion in 2010 to USD 34.2 billion in 2015. Asia Pacific had the largest OOH market in 2010, at USD 9.8 billion, a total projected to increase 5.7 % compounded annually to USD 12.9 billion in 2015. EMEA, the second-largest market in 2010, at USD 8.5 billion, is expected to show the slowest growth, increasing at a compound annual rate of 5.2 % to USD 10.9 billion in 2015. North America will grow 5.5 % on an annual basis from USD 6.6 billion in 2010 to USD 8.6 billion in 2015. Latin America is expected to show the largest gain, growing by 7.9 % on a compound annual basis from USD 1.2 billion in 2010 to USD 1.8 billion in 2015.

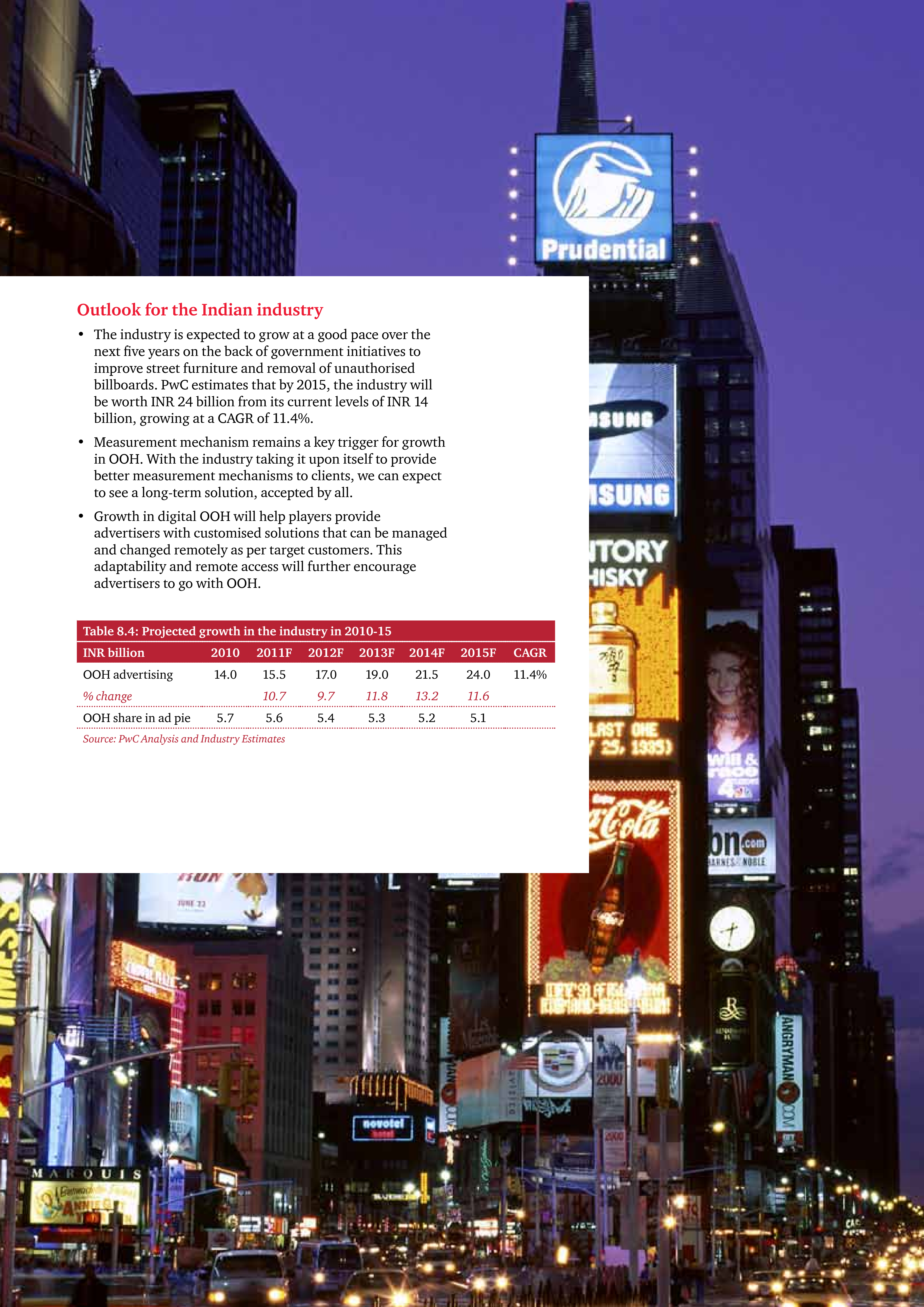
because the out-of-home market in a number of countries in EMEA is saturated. In some countries there is virtually no room for additional billboards, and the large supply of inventory is holding down prices. Also, in some of the larger countries, particularly France, Italy, and Spain, the shift to digital is proceeding slowly. In Asia Pacific, slow growth in Japan, which also has a saturated market, is hindering overall growth in the region. In Latin America, a strong economy in Brazil was the primary reason for the increase in 2010. Out-of-home is beginning to be developed in several Latin American countries as transit ads, street furniture, and digital networks become increasingly used.

Table 8.3: Global market by region (USD millions)

Region	2006	2007	2008	2009	2010p	2011	2012	2013	2014	2015	2011–15 CAGR
North America	7,164	7,709	7,439	6,303	6,581	6,970	7,374	7,758	8,167	8,601	
% Change	*8.0*	*7.6*	*-3.5*	*-15.3*	*4.4*	*5.9*	*5.8*	*5.2*	*5.3*	*5.3*	*5.5*
EMEA	8,986	9,699	9,796	8,173	8,483	8,935	9,481	9,926	10,415	10,914	
% Change	*9.1*	*7.9*	*1.0*	*-16.6*	*3.8*	*5.3*	*6.1*	*4.7*	*4.9*	*4.8*	*5.2*
Asia Pacific	10,725	11,382	10,805	9,616	9,812	9,387	10,425	11,502	12,221	12,946	
% Change	*3.7*	*6.1*	*-5.1*	*-11.0*	*2.0*	*-4.3*	*11.1*	*10.3*	*6.3*	*5.9*	*5.7*
Latin America	998	1,047	1,148	1,105	1,217	1,325	1,437	1,539	1,649	1,779	
% Change	*15.9*	*4.9*	*9.6*	*-3.7*	*10.1*	*8.9*	*8.5*	*7.1*	*7.1*	*7.9*	*7.9*
Total	**27,873**	**29,837**	**29,188**	**25,197**	**26,093**	**26,617**	**28,717**	**30,725**	**32,452**	**34,240**	
% Change	*6.9*	*7.0*	*-2.2*	*-13.7*	*3.6*	*2.0*	*7.9*	*7.0*	*5.6*	*5.5*	*5.6*

Source: PwC Global Entertainment & Media Outlook 2011-2015

Out-of-home advertising will gain a greater share of the overall advertising market in North America, Latin America, and much of Asia Pacific during the next five years, benefiting from (1) increased use of digital billboards, which expand the effective out-of-home inventory because multiple ads can be shown on the same display and (2) from improved out-of-home audience measurement. Improved audience measurement systems make it easier for advertisers to compare out-of-home with other media, in the process encouraging advertisers to incorporate out-of-home in their overall advertising campaigns and thereby increase their spending in the medium. The expansion of captive video networks will also fuel growth because out-of-home can reach people in areas inaccessible to most other media. Out-of-home also goes hand in hand with increased mobile ad spending as advertisers seek media to reach people away from home and when they are shopping. Although these developments also apply to EMEA, growth in that region will be limited



Outlook for the Indian industry

- The industry is expected to grow at a good pace over the next five years on the back of government initiatives to improve street furniture and removal of unauthorised billboards. PwC estimates that by 2015, the industry will be worth INR 24 billion from its current levels of INR 14 billion, growing at a CAGR of 11.4%.
- Measurement mechanism remains a key trigger for growth in OOH. With the industry taking it upon itself to provide better measurement mechanisms to clients, we can expect to see a long-term solution, accepted by all.
- Growth in digital OOH will help players provide advertisers with customised solutions that can be managed and changed remotely as per target customers. This adaptability and remote access will further encourage advertisers to go with OOH.

Table 8.4: Projected growth in the industry in 2010-15

INR billion	2010	2011F	2012F	2013F	2014F	2015F	CAGR
OOH advertising	14.0	15.5	17.0	19.0	21.5	24.0	11.4%
% change		*10.7*	*9.7*	*11.8*	*13.2*	*11.6*	
OOH share in ad pie	5.7	5.6	5.4	5.3	5.2	5.1	

Source: PwC Analysis and Industry Estimates

Animation, gaming and visual effects (VFX)

At a glance

	2010	2015	CAGR
Market size	INR 31.3 billion	INR 82.6 billion	21.4%
	USD 0.7 billion	USD 1.84 billion	
Animation	INR 23.0 billion	INR 57.3 billion	20.0%
	USD 0.51 billion	USD 1.27 billion	
Gaming	INR 8.3 billion	INR 25.3 billion	24.9%
	USD 0.18 billion	USD 0.56 billion	

Market definition

- Animation revenues include spending on work outsourced to India, locally created animation movies and revenues earned as part of animation used in commercials.
- 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 includes revenues generated from shots created for producers for domestic and international movies.

The animation, gaming and VFX industry

Currently estimated at INR 31.3 billion in 2010, the Indian animation and gaming industry marked a positive growth of 31.4% from INR 23.8 billion in 2009.

Table 9.1: Growth of the industry in 2007-2010

INR billion	2007	2008	2009	2010	CAGR
Animation	13.0	15.6	18.5	23.0	21.7
% change		*20.0*	*18.6*	*24.3*	
Gaming	2.7	4.0	5.3	8.3	41.1
% change		*47.0*	*34.4*	*56.2*	
Total	**15.7**	**19.6**	**23.8**	**31.3**	**25.6**
% change		*24.6*	*21.8*	*31.4*	

Source: PwC Analysis and Industry Estimates

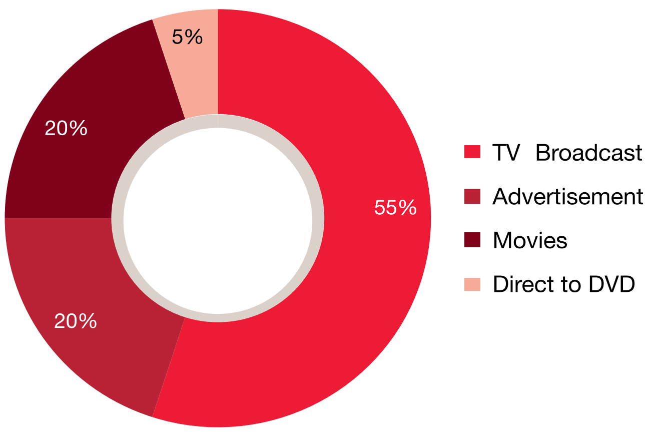
A burgeoning economy and increasing disposable incomes with increasing spends on recreational activities are pushing the growth of the industry in India.

Animation and VFX

The Indian animation and VFX industry showed a healthy growth in 2010 on the back of the growth in the global animation industry and the subsequent work outsourced to Indian firms. The Indian industry was estimated to be INR 23 billion in 2010 showing a growth of 24.3% over 2009.

Backed by good growth in the children's television genre and the success of *Avatar*, a greater share of revenue is estimated to have come from these two segments as compared to direct to DVD content.

Chart 9.1: Revenue distribution of the animation and VFX industry



Source: PwC Estimates and Industry Research
**Advertisement includes VFX also.*

Outlook in brief

- Public and private players are focusing on skill development for the animation and VFX industries.
- Indian studios are evolving for greater shares of outsourcing work by delivering better quality and superior technological advances.
- TV channels are driving demand for animation content.
- Local animation movies have failed to meet viewer expectations.
- Social networking is boosting game development, with more companies focusing on localised content.
- Players are evolving ways to handle microtransaction for online and social network gaming.

Key developments

Indian animation movies fail to meet viewer expectations

The animation film industry received a boost with the success of *Avatar* in 2009. A number of animation films were made and released to capitalise on the need. However, Indian animation films did not live up to the expectations set by *Avatar* and did not fare too well at the box office. This was possibly due to poor quality as compared with Hollywood films and the lack of appeal of traditional storytelling.

Table 9.2: Indian animation film performance in 2010

S. No.	Film	Net BO (INR million)
1	*Toonpur Ka Superhero*	39.8
2	*Lava Kusa*	1.4
3	*Ramayana The Epic*	8.7

Source: Boxofficeindia.com

Globally though, animation films were among the top performers. In India too, they did decently, even if not up to the level of *Avatar.*

Table 9.3: Top performing Hollywood films in 2010

S. No.	Film	Genre
1	*Toy Story 3*	Animation
2	*Alice in Wonderland (2010)*	Part-animation
3	*Iron Man 2*	Live action
4	*The Twilight Saga: Eclipse*	Live action
5	*Harry Potter and the Deathly Hallows Part 1*	Live action
6	*Inception*	Live action
7	*Despicable Me*	Animation
8	*Shrek Forever After*	Animation
9	*How to Train Your Dragon*	Animation
10	*Tangled*	Animation

Source: PwC Research

Indian studios are evolving

Indian production houses are slowly moving up the value chain. While initially, only post-production work outsourced from Hollywood studios used to be sent to India, Indian studios are now looking to create their own intellectual property, by collaborating with foreign studios. Also, with the popularity of 3D, a large amount of 2D-to-3D conversion is being done by indigenous studios. For example, Lucasfilm and Prime Focus have announced their collaboration on the 3D conversion of *Star Wars: Episode I The Phantom Menace* for theatrical release.

Some of the recent co-productions between Indian and foreign studios are the following:

Table 9.4: Co-productions between Indian and foreign studios

S. No.	Indian studio	Foreign studio	Film
1	DQ Entertainment	ZDF Group,TF1	*The Jungle Book*
2	DQ Entertainment	M6 Studios	*Le Petit Nicolas*
3	DQ Entertainment	Method Animation, France Television	*Peter Pan*
4	Crest Animation Studios	Lionsgate	*Alfa and Omega*
5	Crest Animation Studios	Lionsgate	*Norm of the North*

Source: PwC Research

In April 2011, DQ Entertainment entered into broadcast agreement with Al Jazeera Children‘s Channel (JCCTV) which has broadcasting rights of three DQE animated productions, *The Jungle Book, New Adventures of Lassie and Mysteries and Feluda*. This agreement provided JCCTV the exclusive broadcasting rights for three animated TV series worldwide in Arabic. Crest Animation studios have a three-film deal with Lionsgate. They have already released *Alfa and Omega* globally as well as in India while *Norm of the North* is the second announced stereoscopic 3D animated family feature.

Licensing and merchandising of popular characters are on the rise

Licensing and merchandising is another revenue stream being explored by the animation studio. Many popular animated characters are now entering Indian homes in the form of novel merchandise. DQE signed a licensing agreement with TV Mania Gmbh through DQE's merchandising agents in France, TF1 Enterprises. Under this agreement, TV Mania has the right to manufacture and distribute *Jungle Book* apparels and accessories for babies, kids and teenagers over a two-year period. Also, online gaming firm, Zapak, launched *Roary the Racing Car* toys in India in association with Nick and became exclusive distributors for global toymaker Spin Master Ltd.

VFX outsourcing of Hollywood movies are getting big in India

Hollywood movies have been outsourcing a large amount of VFX work to Indian studios, the reason being cost-effectiveness. Indian studios can produce the same VFX shots at half or even one-fourth the cost of those produced in Hollywood. Technology and software standards being at par, a Hollywood VFX director can spend time here and get the output required. However, technical skills can be further improved on. Once Indian studios close that gap and get a sense of what the director wants in the VFX shot, Indian studios can get an even greater share of outsourced work.

Countries such as Singapore, Malaysia, China, Thailand, Korea and Vietnam have signed co-production treaties with the US and Canada and are giving stiff competition to Indian animation and VFX companies in terms of cost.

Table 9.5: List of Hollywood films outsourcing VFX work to India

Film	Indian studio
TRON: The Legacy	Prime Focus, Eyeqube
Dragonball Evolution	Prime Focus

Source: PwC Research

TV channels are driving demand for animation content

Children's TV channels have been doing quite well in the last few years. Major players such as Disney, Nick, Cartoon Network, etc, have increased their presence. A number of children's channels were launched by the Sun Group in regional languages. Children's channels are more or less driven by animation content and this led to the demand for animation studios to produce hours and hours of content. Several comic strips are also trying to use their characters to make animated episodes for various TV channels. The content demand has increased from one children's channel in 1995 to around 11 in 2010.

Indian films are starting to use VFX to give audiences a visual treat

Films such as *Patiala House, Tees Maar Khan, No One Killed Jessica, My Name is Khan,* etc. have used VFX to improve shots.

Table 9.6: VFX shots used in Indian films

Film	No of VFX shots	Indian studio
Patiala House	500	Prime Focus
Endhiran (Robot)	2000+	Indian Artists Computer Graphics Pvt
Surya (Tamil)	500	Prime Focus
Madrasapattinam (Tamil)	550	Eyeqube

Source: Industry Research

Key challenges

Weak pre-production cycle is impacting the industry

While many Indian animation and live-action films have tried to utilise VFX to bring films to life, the impact has been minimal and in some cases not even noticeable. The prime reason is the weak pre-production in Indian films as compared to Hollywood films. Pre-production is about visualising the concept before actually producing it. Visuals that are heavy on VFX need pre-visualisation. Pre-production is a long process and requires time. For example, a 40-scene VFX pre-production in *Endhiran* took around six to seven months to put together. Indian film producers work on a short timeline and hence do not focus on pre-production. However, if the industry needs to give Hollywood quality to its viewers, it will need to focus on pre-production for its VFX shots.

Lack of finances hits budgets

Budgets are a major challenge for animation films as well as for the VFX work in films. Animation films require higher finance than live-action films. VFX budgets allocated for Indian films are a pittance as compared to Hollywood films. Hollywood films can spend up to USD 200 million on visual effects, while Indian productions cannot even dream of similar budgets.

Shortage of skilled manpower is a concern

While the ministry of information and broadcasting is trying hard to create avenues of animation education, along with private players such as Big Aims and Arena Animation School, there is a paucity of skilled manpower in the animation and VFX area. Moreover, there are a few central universities that have started to offer degree courses in animation and VFX. Though India has covered the technological requirement for providing quality output to Hollywood studios, the technical experience and expertise is still missing. In the coming years, India is expected to be able to overcome this challenge.

Original storylines are needed to popularise Indian animation films

Indian animation films are more dependent on human and mythological characters. *Luv-Kusa, Ramayana, Bal Ganesha, Hanuman,* etc. are some examples. Children may not always be able to connect with these concepts. Animation studios therefore need to adopt contemporary storytelling styles for mythological films to work. Animation films need original storylines and characters for success.

Lack of incentives is a concern

The government needs to provide further impetus to promote locally-produced content. This will help build an audience for animation at the grassroots level. The local industry is also pushing for a 'must-carry' clause for children's channels. There could however be limitations to bandwidth.

The gaming industry

The industry in India, despite its challenges, continues to grow at a fast pace driven by mobile and online gaming. Social networking has been a boon for the gaming industry with online users becoming gaming addicts through this route. While console gaming gets users acquainted with new formats (like motion-sensitive and 3D games), PC gaming is not quite living up to the promise it has. Piracy remains a major issue for PC gaming, with game manufacturers looking to generate revenues from online subscription.

Overview

The gaming industry has four key segments. While mobile and console gaming are showing healthy growth, PC gaming has been quite stagnant.

- **Mobile gaming:** Mobile gaming is the largest segment in the market and is growing at a very healthy pace on the back of a growing mobile market. India had around 750 million mobile subscribers at the end of 2010 as compared to 525 million at the end of 2009[1]. While users are still getting used to purchasing games, 3G is expected to give a boost to the mobile gaming experience in the coming years. With low ARPUs from mobile subscribers, telecom players are looking to make more and more money in VAS. A higher demand for smartphones is also driving the demand for mobile games. It is estimated that mobile gaming was around INR 5.1 billion in 2010 showing a growth of 70% over 2009.
- **PC gaming:** PC gaming is considered a dying segment with gaming companies who are focusing more on online and network games as they give them a more assured revenue stream. Piracy takes away around 60 to 70% of the revenue of the PC gaming industry. However, we feel that consumers will keep this segment alive as this is the starting point in a gamer's lifecycle. The gaming user starts with the PC and then moves on to online, network and console gaming. PC gaming will remain the smallest segment in the gaming industry in the coming years. It was estimated to be around INR 0.7 billion in 2010 showing a relatively lesser growth of 23% as compared to 2009.
- **Console gaming:** Console gaming accounted for around 15% of the market share in 2010. This segment 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 the hardware console market in India is around INR 5 billion to 5.5 billion. Lately, with rising disposable incomes and the growing popularity of consoles like Xbox and PS3, console gaming has shown a healthy growth. Despite the high prices of the games, avid gamers are eagerly buying console games for the very different experience. This segment was around INR 1.2 billion in 2010 as compared to INR 0.8 billion in 2009.
- **Online gaming:** This segment is likely to give PC-gamers the next level of experience. Online gaming is less affected by piracy as most online gaming sites require original games for the user to be able to play online. This forces users to buy original games for the real-time feel of playing the games online. This segment was estimated to be around INR 1.3 billion in 2010.

Table 9.7: Growth of the gaming industry in 2007-2010

INR billion	2007	2008	2009	2010	CAGR
Mobile	1.5	2.5	3.0	5.1	50.3%
% change		*67.6*	*19.3*	*70.0*	
PC	0.3	0.4	0.6	0.7	23.0%
% change		*28.6*	*44.4*	*23.1*	
Console	0.6	0.7	0.8	1.2	20.0%
% change		*6.7*	*18.0*	*52.0*	
Online	0.3	0.4	1.0	1.3	59.7%
% change		*50.0*	*155.6*	*35.6*	
Total	**2.7**	**4.0**	**5.3**	**8.3**	**41.1%**
% change		*47.0*	*34.4*	*56.2*	

Source: PwC Analysis and Industry Estimates

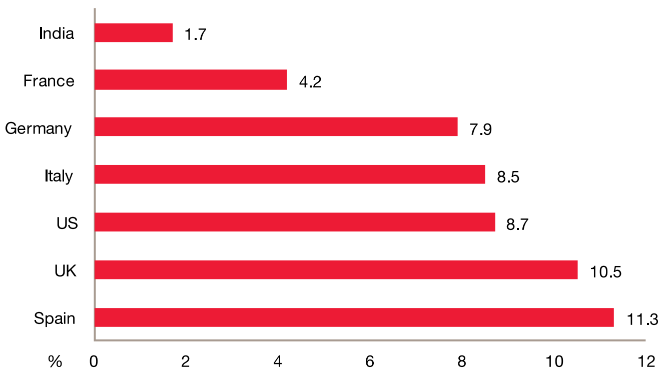
1 TRAI

India's place in the world

Mobile gaming

The mobile gaming market in India, though growing fast, is still in its nascent stage, as compared to other geographies. India has one of the largest mobile consumer bases in the world and in the near future, this percentage count should increase.

Chart 9.2: Penetration of games downloads by mobile consumers



Source: Researchonindia

Microtransactions

China was the first country in the world to adopt the microtransactions model when Shanda began offering games that could be played for free online. This was in large part due to piracy. Revenues are generated through microtransactions where gamers purchase virtual items such as swords or currency to progress with their characters or buy more content such as access to an advanced level. Gamers who do not match those purchases are at a disadvantage, which induces them to match purchases and create opportunities for developers to create more virtual items.

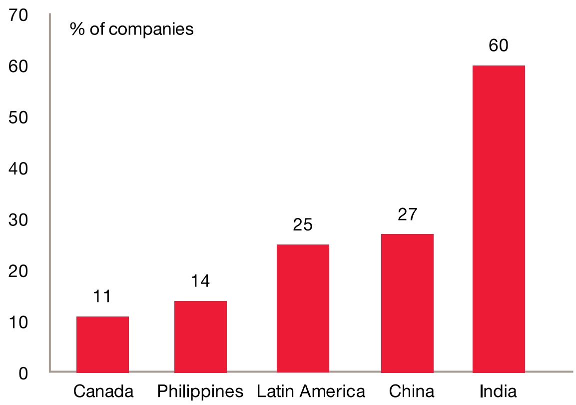
Microtransactions generally account for a larger share of online revenues in Asia Pacific than in other regions. In fact, microtransactions in some countries comprise a majority of total spending on online games.

Key developments

The game outsourcing industry is growing

Gaming is another sector in which India has emerged as an outsourcing hub. The cost differential of developing games in India is huge amounting to almost 50% savings as compared to developing games in the US. As the global gaming industry expands, India will continue to ride the growth wave.

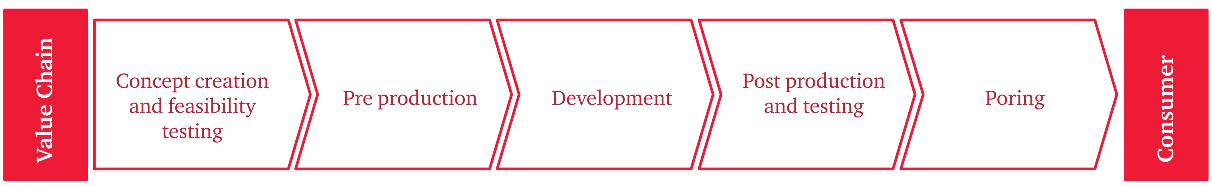
Chart 9.3: Top outsourcing destinations for US companies



Source: Researchonindia

A growing talent pool and rising skill levels are further allowing US companies to outsource game development at each level of the gaming value chain. This talent pool also in turn gives India an edge in outsourcing as compared to other outsourcing hubs such as China, Philippines and Canada.

Chart 9.4: The gaming industry value chain



Source: ResearchonIndia

Social networking sites boost online gaming

Social networking sites such as Facebook have around 25 million users in India with almost 30% of this population addicted to online gaming on these sites. Though Facebook and Orkut are for socialisation, more time is spent on these sites in playing games with friends and other users. Games such as Farmville and Mafia Wars are not limited to any age group and attract children and housewives alike. The time spent by users on these games is high and encourages them to spend in buying virtual items and gifts. 9XM, the Hindi music channel, entered the social networking gaming space with its popular animated characters duo Bade and Chote. It also partnered with Indian superstar Shah Rukh Khan for an interactive game *Be a Star Paparazzi*. It is estimated that globally, Zynga, the leading game developer for social networking sites alone draws around 230 million[2] users per month to play F*armville, Poker* and *Mafia Wars*.

High growth in DTH sector is boosting gaming

DTH operators are tying up with gaming companies to provide games on their platform. Presently, this segment is very nascent and does not contribute significantly to DTH revenues. However, it brings games to the user's home. Moreover, these games provide users with base-level gaming experience at very low costs.

Table 9.8: Gaming on DTH

Date	DTH provider	Game company	Brand
September 2010	Tata Sky	Hungama	Actve Games
January 2010	Reliance Big TV	Indiagames	iGames

Source: Researchonindia

Tata Sky presently offers more than 50 games to its subscribers on Active Games. DishTV offers its interactive content without any charge.

Indian films and sports inspire gaming

Games based on popular Indian films and sports, especially cricket, have been developed.

Many Indian films are being converted to online games. One example is the social networking site Ibibo's *Mumbai Underworld* which allows users to be a don. This was launched in competition to Zynga's *Mafia Wars* on Facebook.

Table 9.9: Sports games based on Indian films

Movie	Localised Content
Rang De Basanti, Sarkar, Home Delivery	Among the 60-odd movies that have been converted into mobile games
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 uniquecontent in tune with the theme of the movie targeting the youth. The movie website leverages on gaming and other innovative digital applications.

Source: Researchonindia

3D gaming is on the upswing

3D is the new kid on the gaming block. The positive view in the gaming industry notes that there is a strong fit between 3D immersion capability and the demand for immersive gameplay and that gamers are early adopters of new technology. Also, there are no, or very limited incremental production costs, and that the 3D-capable game consoles already exist. The more cautious users emphasise that most hardcore gamers seem more interested in the story and the gameplay rather than in the technology that accompanies them. The best-selling 'flagship game' that dominate the market are not yet available in 3D.

Hardcore gamers are obsessed with performance, and 3D reduces both the resolution and the frame rate and can generate nausea in fast-motion games (like first-person shooter games). Sony's PlayStation 3 has been upgraded to accommodate 3D, making it the first 3D Blu-ray player. Microsoft's Xbox 360 is 3D-capable, but this feature has not been marketed yet. Some of the most popular games such as *Gran Turismo 5, Motor Storm Pacific Rift, Wip3out, Pain, Mortal Kombat, NBA 2K11* or *Crysis*, will be available in 3D.

Table 9.10: Just announced 3D games

Announced PS3 3D games	PS3 3D games announced at E3
• Gran Turismo 5 • Motor Storm Pacific Rift • Pain • Super Stardust HD • Wip3out	• Crysis 2 • Ghost Recon • Motor Storm Apocalypse • Mortal Kombat • NBA 2K11 • Shaun White Snowboarding

Source: PwC 3D Here and Now…

2 The Times of India

In some game categories, 3D adoption probably awaits its adoption by other entertainment formats. In action, adventure and heroic fantasy games, for example, gamers want to replicate their cinema experience. 3D is not yet the standard for these categories of films. In sports games, the gamers also want to replicate their experience watching games on TV, and the development of 3D sports broadcasting is probably needed to generate a market for 3D sport games.

Many experts look to the launch of next-generation 3D-ready consoles, probably in 2012 or 2013, which they think will include a commitment by manufacturers to develop flagship made-for-3D games. If these next-generation consoles are successful, they should certainly build the audience for 3D TV.

Increased number of gaming parlours drive gaming across India

Playing a game online can be a costly affair as it may include owning an original game, a high-end PC and a high-speed broadband connection. Gaming parlours such as Zapak and Sify provide school and college students the alternative at a lower price. In these gaming parlours, users can play online games at prices as low as INR 20 per hour. Moreover, these gaming zones offer users very high speed to play the games seamlessly. Zapak has further increased the number of gaming parlours. Also, since these gaming parlours have acquired the licences of original games, users do not need to spend on buying original games at home.

Table 9.11: 3D adoption across genres

Game category	Immersion as KPI	3D comfort	Mirror of other formats	Potential 3D adoption
Action	+	- (long game time)	- - (action movies)	- -
Adventure	+	- (long game time)	- - (adventure movies)	- -
Arcade	+			+
Educational	+			+
Fighting	+	- (speed)	- (Fight TV programmes)	-
FPS	+ +	- - - (speed + glass discomfort)	- (action movies)	- -
Movement tracking	+ +			+ +
Music	+ +			+ +
Racing	+ + +	- (speed)		+ +
RPG	+ +	- - (speed + long game time)	- - (Sci-fi movies)	- -
Simulation	+			+
Sports	+ + +	- - (speed + game time)	- - (Sport TV programmes)	-
Strategy	+ +			+ +

Source: PwC 3D Here and Now…

India-specific games show good response

Sony launched *Hanuman: Boy Warrior,* a PS2 game based on Indian mythology with an expectation of 3000 to 4000 units uptake on the first day, though the response was 10,000 units. Indian origin social networking site Ibibo started its cover versions of social networking games with *Teen Patti* and *Mumbai Underworld,* getting tremendous response. Sony is also planning to launch games based on characters of Amar Chitra Katha. Going forward, we can expect more local developers and players to come out with similar games.

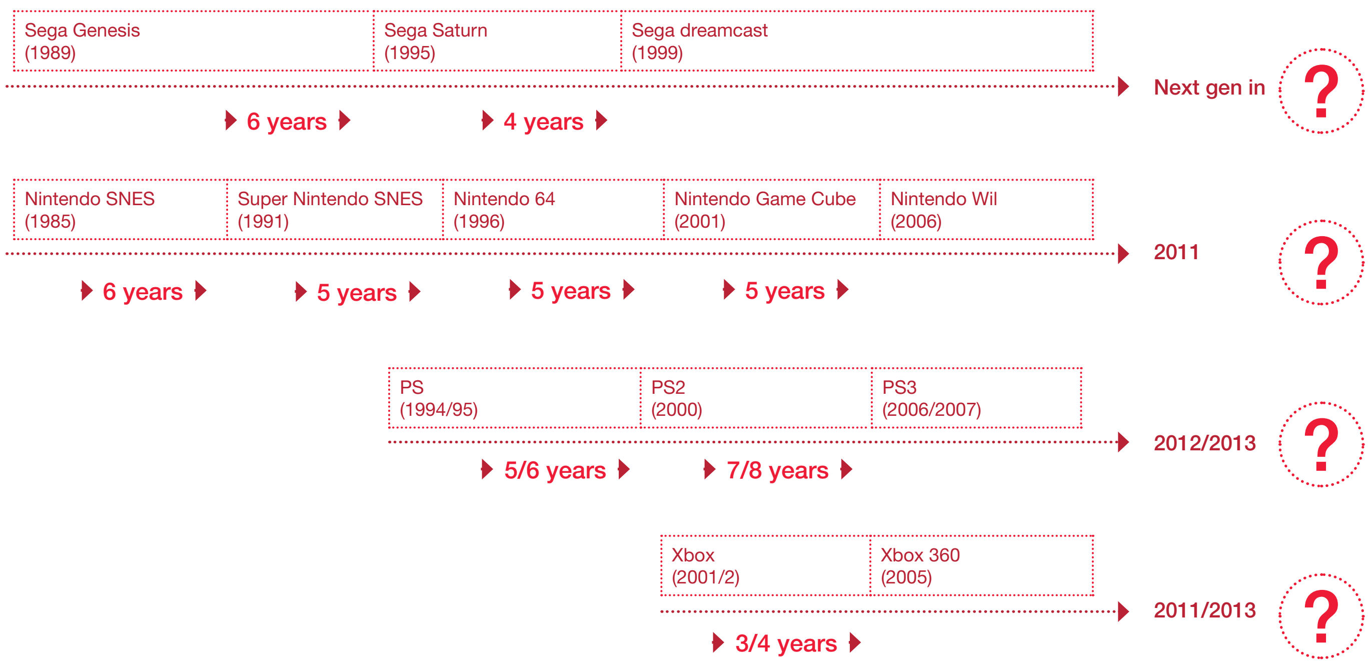
Low-cost smartphones provide greater accessibility to games

In 2010, we saw that the cost of smartphones was reduced substantially to keep them within the reach of the common man. Feature-packed smartphones from manufacturers like Micromax, Karbon, etc gave power to the end-user. This also benefited the gaming industry, especially the mobile gaming segment as it not only helped increase awareness of mobile gaming, but also helped provide better accessibility and platforms for high-end mobile gaming.

Console manufacturers focused on user experience

Console manufacturers are focusing on providing better user experiences. Game console manufacturers have moved to motion-based user experiences with the launch of consoles such as Sony's PS3 Move and Microsoft's Xbox Kinetic. While these consoles are still expensive as compared to those available in US, their popularity is growing. These consoles allow users to be more involved in the game and provide real-life experiences. Though limited games are available for this new platform, we can expect that as the popularity of the consoles grows, game development for them will also pick up. Since these consoles are evolving rapidly to give better user experiences, it will be interesting to know the next-generation offering from these console manufacturers.

Chart 9.5: What we can expect from next-gen consoles



Source: PwC 3D Here and Now…

Future predictions in trends

Microtransaction is to help monetise online game revenues

Currently, monetisation of online games is a key challenge. The primary mode of monetisation is in the form of in-game advertising and the revenue generated from users buying the games after experiencing the trial version. In the case of social gaming, the games are not for sale and hence the revenue comes from the sale of in-game virtual items. In India, users are reluctant to use credit cards for smaller spends. Managing these microtransactions will be crucial for monetising in-game virtual items. These transactions can be handled through tie-ups with mobile phone companies or through home-delivered cash cards.

Zynga ties up with MOL to monetise online game content[3]

Zynga, the developer of Mafia Wars, Poker and FarmVille and the leading social gaming company has tied up with MOL, a leading payment service provider to launch Zynga's game cards for payment for their virtual goods online. These services are launched across six Asian countries including India. In India, they will be available at MOL-associated cyber cafes like Sify. The cards will be available in USD 2, USD 5 and USD 10 denomination. These cards will give users the facility of buying virtual goods online without using a credit card.

3G is not expected to have a major impact anytime soon

The arrival of 3G in India has been good news for the gaming industry. However, 3G is in a very nascent stage now and we do not expect it to have any major impact in gaming revenues for the next couple of years for the following reasons:

- Lack of availability of 3G services in an affordable price range
- Lack of 3G-friendly gaming content
- Need for phones powerful enough to process multiplayer online gaming

Key challenges

Piracy remains a major challenge

The Internet and Mobile Association of India estimates that around 70% of the games sold in the Indian market are pirated. The reason for piracy is the high cost of owning the games and cheaper alternatives offered by the pirates. In India, pirated games are available at around INR 30 to 50 as compared to INR 800 to 1000 for the original versions. Moreover, the time to launch international games in India is another area of concern with pirates able to offer quicker access. Steps are being taken by the government and industry players to control the same, but piracy seems to be here to stay for now.

High taxes hinder the growth of console gaming

In India, a console market is slowly starting to emerge, spurred by the introduction of the Wii and aggressive promotions of the Xbox 360. However, the pricing of these consoles in India as compared to the US is quite high. While a user can get a PS3 at about USD 299 to 330 in the US, in India, it sells at USD 380 to 390. High duties and taxes are responsible for this price difference. Twenty-five per cent import tax and another 12.5% VAT is imposed on gaming consoles in India. This significantly increases the cost of international games.

Infrastructure is a major issue for the gaming industry

India ranks very low in broadband speed and internet penetration as compared to other countries. This restricts users from building a set-up at home and playing games as per their convenience. However, successful BWA spectrum auction and the arrival of 3G may change this in the near future and allow users who can afford a home set-up the option to play from their home using high-speed internet.

Table 9.12: Average measured connection speed - AsiaPac

Global rank	Country/region	Q3'10 avg. Mbps
1	South Korea	13.7
2	Hong Kong	9.4
3	Japan	8.3
19	Taiwan	4.8
39	New Zealand	3.4
45	Singapore	3.1
51	Australia	3.0
56	Thailand	2.7
105	Malaysia	1.3
123	Philippines	1.0
129	China	1.0
143	India	0.8

Source: Akamai's report on the state of the internet

3 web articles

Deal watch

- In April 2010, Reliance Big Entertainment Ltd. acquired 50% in Codemasters, a British developer and publisher of video games, for an undisclosed sum.
- Rakesh Jhunjhunwala, the India-based private investor, acquired a 30% stake in Krayon Pictures Pvt Ltd, the India-based company engaged in making 3D animation films, for an undisclosed consideration. With this investment, Krayon Pictures will use the funds for its expansion.

Global outlook

The video game market in North America, EMEA (Europe, Middle East, Africa), Asia Pacific, and Latin America will expand from USD 55.5 billion in 2010 to USD 82.4 billion in 2015, growing at an 8.2% compound annual rate. Asia Pacific, with three of the top four countries in the world, is the largest region, at USD 22.2 billion in 2010, and is projected to be the fastest-growing region during the next five years, increasing 11.8% on a compound annual basis to USD 38.7 billion in 2015. Online and wireless games, the fastest-growing end-user components of the video game market, constitute a larger share of total spending in Asia Pacific than in other regions and consequently have a greater influence on growth. EMEA, the second-largest region in 2010, with USD 16.9 billion, is projected to grow by 6.2% compounded annually to USD 22.8 billion. North America is projected to increase from USD 15.2 billion in 2010 to USD 19.1 billion in 2015, growing by 4.6% on a compound annual basis. Latin America is projected to grow to USD 1.8 billion in 2015 from USD 1.3 billion in 2010, a 7.5% compound annual gain.

The console game market will continue to be driven over the next few years by new games being marketed for the current generation of consoles: the Wii, Xbox 360, and PS3. The latest handheld devices—the Nintendo 3DS, the PlayStation Portable (PSP), and the PSP Go—also continue to support the market. We expect that by 2015, the next generation of consoles will begin to be introduced. This will spur renewed growth in console games.

The online market will benefit from an increase in penetration of broadband households combined with growing digital distribution of content. The increasing popularity of massively multiplayer online games (MMOGs), with their subscription fees and microtransactions, is also aiding the growth of the market. Casual and social network games are further important components of the online market, helping expand the demographic base and stimulate spending. Some developers are shifting their attention from console games to concentrate more on online games.

The growth of smartphones and tablets, such as the iPad, with improved graphic capabilities, will raise the bar for the quality of wireless games and will drive demand. At the same time, new application stores that make the purchase of games more user-friendly will increase the number of gamers. The growth of third-generation/fourth-generation (3G/4G) networks, with their faster speeds, will provide an environment enabling wireless games to approach the quality of console games.

Table 9.13: Global video game market by component (USD millions)

Component	2006	2007	2008	2009	2010p	2011	2012	2013	2014	2015	2011–15 CAGR
Console games	20,041	25,793	30,690	28,817	28,066	28,605	29,626	30,832	32,326	34,815	
% change	*7.9*	*28.7*	*19*	*-6.1*	*-2.6*	*1.9*	*3.6*	*4.1*	*4.8*	*7.7*	*4.4*
Online games	5,458	7,500	9,866	11,858	14,190	16,327	18,945	21,972	25,224	28,396	
% change	*35.4*	*37.4*	*31.5*	*20.2*	*19.7*	*15.1*	*16*	*16*	*14.8*	*12.6*	*14.9*
Wireless games	3,203	4,015	5,522	6,486	7,527	8,492	9,595	10,652	11,735	12,684	
% change	*41.4*	*25.4*	*37.5*	*17.5*	*16*	*12.8*	*13*	*11*	*10.2*	*8.1*	*11*
PC games	4,746	4,604	4,297	3,900	3,902	3,794	3,747	3,707	3,637	3,574	
% change	*2.8*	*-3*	*-6.7*	*-9.2*	*0.1*	*-2.8*	*-1.2*	*-1.1*	*-1.9*	*-1.7*	*-1.7*
Total end-user spending	33,448	41,912	50,375	51,061	53,685	57,218	61,913	67,163	72,922	79,469	
% change	*13.4*	*25.3*	*20.2*	*1.4*	*5.1*	*6.6*	*8.2*	*8.5*	*8.6*	*9*	*8.2*
Advertising	660	1,032	1,361	1,574	1,845	2,075	2,310	2,530	2,765	2,967	
% change	*277.1*	*56.4*	*31.9*	*15.7*	*17.2*	*12.5*	*11.3*	*9.5*	*9.3*	*7.3*	*10*
Total video games	34,108	42,944	51,736	52,635	55,530	59,293	64,223	69,693	75,687	82,436	
% change	*15*	*25.9*	*20.5*	*1.7*	*5.5*	*6.8*	*8.3*	*8.5*	*8.6*	*8.9*	*8.2*

Source: PwC global Entertainment & Media Outlook 2011-2015

Outlook for the animation and gaming industry

- The Indian animation and gaming industry has shown tremendous growth in the past and it seems that this growth will continue in the future. PwC estimates that the animation and gaming industry will be a INR 82.6 billion industry by 2015 from the current level of INR 31.3 billion in 2010, surging at a CAGR of 21.4%.
- We expect that by working in collaboration with international studios, Indian studios will improve upon their content, storyline and artistic sense to enhance the quality of animation films.
- With public and private investment in animation schools, in the coming year, a large pool of skilled manpower will be available for local studios.
- With the improvement in skill levels and the availability of technology, along with the benefits India provides in terms of cost savings, international outsourcing work in animation, gaming and VFX will increase.
- The increasing number of children's channels is expected to drive demand for original animation content.
- Console gaming is set to enter the next generation in India with PS3 Move and Xbox 360 Kinetic. Increase in demand of these consoles will drive content and better piracy controls. Blu-ray discs will put money in the pockets of manufacturers.
- Mobile gaming is expected to reach a new level with the arrival of 3G. However, high 3G pricing will mean that it will not be a mass public tool.

Table 9.14: Projected growth of the industry in 2010-15

INR billion	2010	2011F	2012F	2013F	2014F	2015F	CAGR
Animation	**23.0**	**27.6**	**33.6**	**40.3**	**48.4**	**57.3**	**20.0%**
% change		*20.0*	*21.7*	*20.0*	*20.0*	*18.5*	
Gaming	**8.3**	**11.1**	**14.3**	**17.4**	**21**	**25.3**	**24.9%**
% change		*32.8*	*29*	*22*	*20.9*	*20.2*	
Mobile	5.1	6.8	8.9	10.7	12.8	15.4	24.7%
% change		*33.0*	*31.0*	*20.2*	*20.0*	*20.0*	
PC	0.7	0.8	0.9	1.0	1.1	1.2	11.8%
% change		*18.8*	*10.5*	*9.5*	*11.6*	*9.1*	
Console	1.2	1.8	2.4	3.1	4	5.1	32.7%
% change		*42.0*	*35.0*	*32.0*	*28.0*	*27.0*	
Online	1.3	1.7	2.1	2.6	3.1	3.6	22.6%
% change		*30.8*	*23.5*	*23.8*	*19.2*	*16.1*	
Total gaming	8.3	11.1	14.3	17.4	21	25.3	24.9%
Total	**31.3**	**38.7**	**47.9**	**57.7**	**69.4**	**82.6**	**21.4%**
% change		*23.4*	*23.8*	*20.6*	*20.3*	*19.0*	

Source: PwC Analysis and Industry Estimates

Sports entertainment

The sports entertainment industry

The sports entertainment industry witnessed a good year in 2010 and an even more spectacular one in the first half of 2011 on the back of a roaring cricket season (ICC World Cup 2011, IPL Seasons 3 and 4, T20 World Cup) and the FIFA World Cup. The year 2010 also saw the successful completion of the Commonwealth Games with India showing its best-ever performance.

Advertising on key sporting events

Key sports properties like the World Cup and IPL 4 gained higher revenues. IPL 4 was bigger than the World Cup in terms of ad revenue. Ad rates for the World Cup doubled as compared to its 2007 edition and showed a 25 to 30% increase for IPL 4 over IPL 3.

Table 10.1: Major advertisers of the World Cup and IPL

	WC advertisers	IPL advertisers	
Sponsors	Sony Pepsi Maruti Suzuki CEAT Phillips Nokia	Vodafone Videcon	Sponsors
		Hyundai Pepsi LG Samsung Tata Photon Godrej Cadbury's Havells	Co-sponsors
		Axis Bank Colgate Park Avenue Kent RO	Extra Innings sponsors

One notable fact is that other than Pepsi, none of the corporates opted to advertise for both events. This reduced the risk of major contraction in the ad spend in the current year.

Table 10.2: Advertisement revenue projection of major sporting events

Series	Broadcasters	Schedule (2010-2011)	Ad revenue (INR million)
India South Africa	Ten Sports	Dec 16 - Jan 23	1300
ICICI World Cup	ESPN Star Sports	Feb 19 - Apr 2	7500
IPL-4	SET Max	Apr 8 - May 22	10000
India-West Indies	Ten Sports	Jun - Jul	1000
Champ League	ESPN Star Sports	End 2011	1200

Source: Emkay

The total ad revenues of IPL and the World Cup combined are expected to constitute about 10 to 12% of the total ad revenues of the calendar year 2011.[1]

1 Edelweiss

Commonwealth Games 2010

Marred with controversy, the Commonwealth Games were held in India from 3 to 14 October 2010. From a media point of view, the Games spelled success. The opening ceremony received wide appreciation and 11.6 million viewers in the metros tuned in across DD National and DD Sports. Across the six metros, 7.4 million viewers watched the show on DD National while the remaining came from DD Sports on 3 October 2010.[2] In comparison, the opening ceremony of the Olympic Games in 2008 was watched by 7.8 million viewers across the two channels.

Doordarshan earned revenues of INR 559.9 million from the Commonwealth Games while Prasar Bharati's revenue from the Commonwealth Games stood at INR 581 million.[3]

IPL (Seasons 3 and 4)

IPL 3 received a better response as compared to IPL 2. However performances were not at par with IPL 1. It received an average (last 53 matches) TVR of 4.5% as compared to four per cent in IPL 2 but lower than 4.7% of IPL 1. However, according to TAM sports, IPL 3 was able to reach 138 million viewers as compared to 121 million in IPL 2 and 100 million in IPL 1. IPL 3 also saw its online debut as www.youtube.com streamed matches live.

IPL 3 was also the last season for all players for their respective franchisees and IPL 4 saw the re-auction of the players along with the entry of two new franchisees, Pune and Kochi. Earlier franchisees were allowed to retain four of their original players while the rest were to be put up for auction. The Sahara Group bid USD 370 million for the rights to the Pune franchisee named Pune Warriors, while Rendezvous Sports World, a consortium of five companies got the rights to the Kochi franchisee at a staggering USD 333.33 million. It was named Kochi Tuskers Kerala.

IPL 4 however was affected by India's glory at World Cup 2011. The rates for the first few matches were not at par with expectations and much below the ones in previous editions of IPL. Buoyed by the World Cup glory, Indian fans were not yet ready to take sides in IPL and were shying away from watching the matches. IPL 4 had its effect on Hindi GECs as they lost out on GRPs.

Table 10.3: IPL 3 ratings for various matches

Channel	Date	Day	Start Time	Programme	Dur (min.)	TVR (%)
MAX	4/11/2010	Sun	15:57	L/T DLF IPL3 T20 DD/KP-DL	179	2.4
MAX	4/11/2010	Sun	20:07	L/T DLF IPL3 T20 MI/RR-JP	201	5.9
MAX	4/12/2010	Mon	19:57	L/T DLF IPL3 T20 DC/RCB-NG	206	4.5
MAX	4/13/2010	Tue	15:57	L/T DLF IPL3 T20 MI/DD-MU	202	2.8
MAX	4/13/2010	Tue	19:58	L/T DLF IPL3 T20 KKR/CSK-CH	160	4.2
MAX	4/14/2010	Wed	19:57	L/T DLF IPL3 T20 RR/RCB-JP	185	3.9
MAX	4/15/2010	Thu	19:57	L/T DLF IPL3 T20 CSK/DD-CH	189	4.7
MAX	4/16/2010	Fri	19:57	L/T DLF IPL3 T20 KP/DC-DH	192	4.2
MAX	4/17/2010	Sat	16:57	L/T DLF IPL3 T20 MI/RCB-BG	193	3.5
MAX	4/17/2010	Sat	20:15	L/T DLF IPL3 T20 RR/KKR-KO	162	4.3

Source: TAM Sports, exchange-4 media

IPL3 Match	2008	2009	2010
Average TV	4.7	4.0	4.5
Cumm Reach (million)	100	121	138

2 TAM
3 Indiantelevision.com

ICC Cricket World Cup 2011

India won the World Cup after a gap of 28 years. While this was good news for fans, it was even better news for advertisers. If ratings are anything to go by, things just got better and better once India progressed through the group stages to the knockouts and then to the final. The final of the ICC Cricket World Cup was the most watched event of the whole tournament and even bettered the records set by IPL. Tournament average for 2011 was 3.86 TVR as compared to 2.02 TVR in 2007, where India was ousted in the early stages.

Of the matches played, India vs England was the most watched match in the group stages garnering a TVR of 12.63. However, this was better by the match average TVR or 20.98 for the India vs Pakistan match as expected and this was furthered bettered by match average TVR of 23.21 for the final between India and Sri Lanka.

Table 10.4: Impact of Cricket World Cup 2011 on TV channels

	GRPs		
Genre	Pre World Cup	World Cup Season '11	Difference
English business news	35	32	-7%
English GEC	44	37	-15%
English movies	181	191	6%
English news	68	74	9%
ESPN	39	177	349%
Hindi business news	33	31	-4%
Hindi GEC	6594	6174	-6%
Hindi movies	2397	2271	-5%
Hindi news genre	784	918	17%
Infotainment	267	254	-5%
Kids	1351	1371	1%
Music genre	493	509	3%
Star Cricket	122	1464	1099%
Star Sports	35	898	2496%

Source : TAM, CS$+

It was not only advertisers who benefited as the DTH industry also tagged along in the World Cup frenzy. Almost all DTH players came out with special packages for the cricket season. The introduction of HD set-top boxes by a few players was also perfectly timed and has sparked the popularity of HD. More channels are now expected to switch to HD. Radio players also benefited through the broadcast of cricket-related stories and got higher listenership and advertisement revenues. However, the World Cup did have its adverse effect on Hindi GECs and most channels lost GRPs during this period.

Football World Cup 2010

Football attracts viewers for domestic and international events. Eastern India and specially West Bengal is considered to be the hub of football in India and large-scale following of the game results in good viewership.

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

Deal watch

In July 2010, Avigo Capital Partners, the India-based private equity firm, acquired an undisclosed stake in Technology Frontiers India Pvt Ltd, the India-based digital display and sports rights management company, for an undisclosed consideration.

Outlook of sports entertainment

Cricket has always been a major advertisement attraction sport and generates much revenue. Moreover, the advertisement spot rates for cricket matches in which India plays have generally been higher. The year 2011 saw India winning the ICC Cricket World Cup as well as IPL 4. India has many more tours lined up in 2011 and due to the impetus given by India's World Cup win, we can expect fans to take extra interest in watching upcoming tours. This will also generate extra advertisement revenues. We expect 2011 to fare much better in terms of advertisement revenues as compared to 2010. It is estimated that cricket alone will generate over INR 20 billion in 2011 as compared to around INR 13 billion in 2010.

Chapter 11

Tax and regulatory issues

The entertainment and media industry has witnessed positive growth in the past years. In order to further propel the pace of growth and in the light of changing market trends and technologies, the government of India, through its various regulatory bodies, over the years, has been endeavouring to bring about regulatory changes to allow foreign direct investments, etc. within diverse sectors of this industry.

On the tax front, there have been significant developments in terms of amendments in existing tax laws, new laws like the Direct Taxes Code or the proposed Good and Services Tax (GST), landmark judgements, notifications, etc., impacting the industry at large.

Some of the key tax and regulatory developments for major sectors of the industry are highlighted below:

Television industry

Direct tax issues

Taxability of income of telecasting companies:

Foreign telecasting companies (FTCs) in India derive income primarily from two sources:

- Advertising revenues and
- Subscription revenues

Advertisement revenues collected by agents/ representatives on behalf of FTC
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. FTCs are liable to tax in India, only if they have a permanent establishment (PE)/business connection in India. Further, the taxability is only on the income attributable to such PE/ operations carried out in India. FTCs generally appoint an agent in India for marketing advertisement airtime slots and collecting advertisement revenues.

Tax authorities have been contending that:

- Beaming channels of FTCs in India and earning advertisement revenues constitute a business connection for FTCs and,
- The agent of FTCs, concluding contracts on behalf of FTCs or securing orders wholly or almost wholly for FTCs in India, constitutes its PE in India.

While the FTCs have been denying creation of business connection/PE, alternatively, they have been contending that even assuming creation of its PE, the payment of arm's length remuneration to such an Indian agent will extinguish its tax liability in India. In this context, the Bombay High Court, in one of its landmark rulings, has accepted such an alternative argument. This judgement is likely to bring much respite to the FTCs who have been facing substantial tax demands in India.

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-licenses these rights to the multi system operators (MSOs), cable operators, etc.

The FTCs have been taking a stand that the payment for the grant of distribution rights is not for any 'copyright' and hence, is not in the nature of royalty (taxable on gross basis at a specified rate) but constitutes business income which would not be taxable in India in the absence of any PE/operations carried out in India.

The Indian tax authorities in some cases have contended 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 advertisement revenues. While, in some cases, they have contended that the payment is for grant of copyright and therefore constitutes royalty. The issue is pending adjudication at various appellate levels.

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

Generally, 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 license period.

In the case of television programmes, one view is that significant value of the programmes is derived at the time of the 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 programmes should be allowed as deduction in the year of the first airing itself. In the case of film rights acquired for a limited period or for limited airings, the view is that the expenditure should be allowed over a period of time/number of airings. The contrary view is that the expenditure on the acquisition of rights should be treated as incurred on the acquisition of capital 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. Recent reports suggested that the comptroller and auditor-general of India (CAG) have recommended the contrary view.

Withholding tax issues

While the decision of the Supreme Court reversing the Karnataka High Court decision and upholding that withholding tax provisions are triggered only if payments to non-residents are chargeable to tax under the Act, has settled the controversy about the trigger-point of withholding tax obligation on payments to non-residents, some issues surrounding the withholding of tax obligations on certain key payments made by telecasting companies, are discussed below:

Payment for lease of transponders

Characterisation of the payment for the lease of transponders has been the subject of extensive debate and there has been a chain of judicial decisions on the issue, without any finality. The tax authorities have been contending that the payment is in the nature of royalty, or fees for technical services and therefore liable to withholding tax. There are conflicting decisions at the appellate level on the subject.

The Delhi High Court, in a recent decision has held that such payments do not constitute royalty and therefore are not taxable in India. The High Court observed that the transponder is an in-severable part of the satellite and cannot function without the continuous support of various systems and components of the satellite and therefore control and constructive possession of the transponder cannot be handed over by the satellite operator to its customers. Further, it was also observed that satellite companies would not have a business connection in India merely because the satellite had a footprint area including India. The decision of the High Court has provided some clarity on this long-standing controversy. However, the Delhi High Court has not rendered any decision on the tax authority’s argument in some cases that such payment constitutes fees for technical services.

Payment by FTCs to foreign companies for acquiring content

FTCs generally acquire television content either on licence or on outright basis and have been arguing that such payment 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 will be subject to withholding tax in India. Thus, the issue has been a matter of dispute between tax-payers and the tax authorities. In a recent decision, the Mumbai Tax Tribunal has held that an economic link between the payment of royalties and permanent establishment (PE) is necessary for royalties to arise in India.

Payments for production of television programmes
Television channels generally acquire programmes from the television programme producers for broadcasting or telecasting through their channels.

Indian tax authorities have been contending that since 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, 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. The Delhi High Court in one of its decisions on this controversy has accepted the television channel's contention.

Payments for purchase of on-air time slots from channel companies
Generally, media-buying agencies buy on-air time slots on various channels on behalf of advertisers.

Indian tax authorities have been contending that consideration for purchase of air-time slots are liable to withholding tax. Recent reports suggest that the CAG has recommended that such payments made by the advertiser/ media agencies for buying slots on television should be subject to withholding tax at 10%.

Discounts given to advertising agencies
Generally, television channels enter into agreements with advertising agencies for canvassing and procuring advertisements for television channels for which discounts are provided to advertising agents.

Tax authorities have been contending that such discounts are in the nature of commission or brokerage paid by television channels to advertising agencies and accordingly, are liable to withholding tax under Section 194H of the IT Act. However, tax-payers are of the view that television channels provide discount on tariff charged by them for the ad spots and hence, the question of payment of commission to advertising agencies does not arise. Accordingly, there will be no scope of withholding tax from such non-existent payments. Further, the relationship between television channels and advertising agents is on principal-to-principal basis and not that of a principal-to-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. Therefore, the discount is in the nature of commission liable to withholding of income tax under Section 194 H.

Submission of statements by producers of cinematograph films
Companies involved in film production are required to furnish a statement providing prescribed details of all payments in excess of INR 50,000. However, uncertainties prevail over the applicability of such compliance requirements to producers of ad films, TV serials, documentary films, etc. Recent reports suggest that the CAG in its report has recommended such compliance requirements should equally apply to producers of films and television content and that the CBDT should suitably amend the norms.

Indirect tax issues

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 a conceptual level, VAT should not be levied. However, in some jurisdictions, revenue authorities have been disputing this position and have sought to levy VAT on the 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 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 VAT or service tax. Hence, a clarification on this position would resolve the unnecessary litigations pertaining to VAT.

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, it 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 Maharashtra, the hub of the Indian entertainment industry, there is a restriction that the purchaser can claim ITC only if the acquired copyright is re-sold within a particular period (i.e. 12 months).

Typically, the acquirer of the content exploits the content himself/herself 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.

It is therefore suggested that the Maharashtra government may amend the VAT legislation to allow ITC on content acquisition without any restriction as a measure of relief to the industry in India.

Double taxation on copyright: Service tax as well as VAT
Service tax has now been levied 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

With a need for a consistent foreign investment policy and to provide a level playing field to service providers in broadcasting and telecommunication sectors, TRAI had issued a consultation paper in 2010, inter-alia including its propositions for increasing the foreign investment caps applicable in the broadcasting sector. TRAI, taking into consideration the comments received from various stakeholders through a consultation process and its discussions with the Ministry of Information and Broadcasting, has issued its latest set of recommendations on June 3 2011.

Sr. No.	Segment	Existing limit	Proposed limit
1	Broadcast carriage services:		
(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 and taking up digitisation with addressability	49%	74%
3	Other MSOs	49%	49%
4	Local cable operators	49%	49%
5	FM radio	20%	26%
6	Downlinking	100%	100%
7	Uplinking – non-news and current affairs	100%	100%
8	Uplinking – news and current affairs	26%	26%

** Currently foreign investment in broadcasting sector requires FIPB approval.*

*** It is proposed that foreign investment up to 49% in carriage services be allowed under the automatic route. Foreign investments in content services need to be routed through FIPB and no automatic route is available.*

TRAI had issued a consultation paper last year (i.e. on 15 March 2010) dealing with policy issues on uplinking/downlinking television channels in India, raising issues such as the following:

- 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.
- Guidelines to develop the country into a teleport/hub for uplinking/turnaround of TV channels which are not meant for viewing in India, etc.

Based on interactions and suggestions received from the Ministry of Information and Broadcasting, TRAI, on 22 February 2011, submitted its reconsidered recommendations. Some of the key views expressed vide MIB and TRAI's recommendations have been summarised in Annexure 1.

On August 5 2010, TRAI released its recommendations for implementing digital addressable cable TV systems in India. After some rounds of dialogue between TRAI and MIB on proposed implementation timeframes, MIB has finalised the deadline for the digitisation in a phased manner, in four stages. A task force has been constituted by MIB to oversee and facilitate the implementation of digital addressable cable TV systems in the country. We understand from a note released by MIB, that the following timelines may be finalised in this regard:

Phase	Area suggested by TRAI	Timeframe for digitisation	
		Recommended by TRAI on February 22 2011	Final view of MIB
Phase I	Delhi, Mumbai, Kolkata and Chennai	December 31 2011	March 31 2012
Phase II	Cities with a population more than one million	December 31 2012	March 31 2013
Phase III	All urban areas (municipal corp./ municipalities)	December 31 2013	September 30 2014
Phase IV	Rest of India	December 31 2013	December 31 2014

Source: TRAI

In line with its efforts to promote digital addressable system, TRAI has issued the Telecommunication (Broadcasting and Cable) Services (Fourth) (Addressable Systems) Tariff Order, 2010. The tariff order is issued to actively promote digital addressable systems so as to improve the quality of service. It covers all digital addressable systems such as DTH, HITS, IPTV, and digital addressable cable TV. The order also advices DTH operators to offer TV channel(s) to their subscribers on a la carte basis not later than 1 January 2011.

TRAI had 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 the 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 and placement fee paid by broadcasters to MSOs/cable operators, tariff for commercial subscribers and digitisation with addressability. The new tariff regime is expected to bring in transparency among stakeholders operating in the non-CAS areas.

TRAI had also issued a consultation paper on 22 April 2010 with an objective to review the tariff framework for cable TV services in CAS-notified areas. 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, in demand with the pacing digital technology in the pay-TV market.

The guidelines for providing headend–in–the–sky (HITS) broadcasting service in India were issued by the MIB in 2009. Based on the request made by the MIB (as HITS regime has not yet resulted in stakeholders implementing the same due to certain industry and policy issues), TRAI subsequently issued a fresh consultation paper in 2010 seeking comments of the stakeholders on amendments to interconnection regulations and tariff dispensation for HITS services in India. The revised guidelines when issued could provide an impetus to the entities proposing to opt for HITS broadcasting service.

TRAI had submitted its recommendations on mobile TV in 2009. Apparently, some of these recommendations did not find favour which led to the MIB directing TRAI to review and resubmit its recommendations. TRAI has submitted its reconsidered recommendations on mobile TV in 2010. MIB in its recent strategic plan has mentioned that the new policy guidelines for mobile TV will soon be formulated.

In the backdrop of increasing complaints over the contents being aired, a self-regulatory body–Broadcast Content Complaints Council (BCCC), mandated to regulate all non-news channels, is expected to be made operational in 2011.

As per 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 and 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 linking exchange control restrictions, the government may consider putting an appropriate limit under the automatic route for such payments even in cases, where the 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 cable operators.

In 2008, TRAI had recommended that technical interoperability be part of the licence conditions. However, in view of the increased number of DTH operators and standards, MIB has recently requested the authority to reconsider the issue of technical interoperability. In line with established practice, on August 20 2010, TRAI issued a consultation paper to highlight and accordingly address various issues involved in technical interoperability.

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 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 generally 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. Consequently, 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

Generally, advertising agencies buy space/slots in bulk from print media companies (i.e. newspapers and magazines) for which discounts are provided to advertising agents.

The CBDT is of the view that such discounts are in the nature of commission or brokerage paid by newspapers to advertising agencies and accordingly, are liable to withholding tax under Section 194H of the IT Act. However, tax payers are of the view that newspapers provide discounts on bulk purchase of space by advertising agencies and hence, the question of payment by newspapers to advertising agencies does not arise at all. Accordingly, there will be no scope of withholding tax from such non-existent payments. Further, the relationship between newspapers and advertising agents is on principal-to-principal basis and not that of a principal-to-agent. Accordingly, it would not fall within the purview of Section 194H of the IT Act.

Regulatory issues

The existing policy framework* for print media segment is as under:

S. No.	Particulars	FDI cap	Some conditions
1	Publishing of newspaper and periodicals dealing with news and current affairs	26%	1. At least 50% of FDI to be inducted by way of issue of fresh equity 2. Three-fourth of directors and all key executives and editorial staff to be resident Indians
2	Publication of Indian editions of foreign magazines dealing with news and current affairs	26%	3. Hundred per cent identical content of the foreign magazine, local content and ads also possible 4. Publisher/owner of the magazine to have sound credentials 5. Proposed publication to have a five-year track record with at least 10,000 copies in the last financial year
3	Fascimile editions of a foreign newspaper	100%	FDI by the owner of original newspaper whose facsimile edition is proposed to be brought out in India
4	Publishing/ printing of scientific and technical magazines / specialty journals / periodicals	100%	

Source: TRAI

The union cabinet has given approval for the amendments proposed by MIB to the Press and Registration of Books Act, 1867. The key amendment proposed is to clarify that newspapers, magazines, journals and newsletters are covered within the ambit of said Act, and to also include their electronic replicas.

Film industry

Direct tax issues

Deduction of expenditure on film production and acquisition of distribution rights

Rule 9A/9B of the IT Rules provides for the manner of claiming deduction with respect to 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 the 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 (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, etc.) or the income needs to be computed based on the provisions of the 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.

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

In cases where the film production venture is undertaken jointly between Indian producers or between Indian and the foreign producers, care should be taken to ensure that the arrangement does not result into constitution of an association of persons (AOP), taxed as a separate independent legal entity apart from its members. If the venture is assessed as an AOP, complexity could arise. E.g. deductibility of interse expenditure, availability of credit for taxes withheld, eligibility to claim the tax treaty benefits, etc.

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 films into India, through their branch in India, and grant exhibition/distribution rights for lumpsum consideration or royalty based on ticket sales. Determination of the taxable income of 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 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, 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 the 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.

Payment of royalty for sale and distribution of cinematographic films on DVD and VCD

Indian distributors entering into licence agreements with foreign companies for sale and distribution of cinematographic films on DVD and VCD make periodical payments to them depending upon the sales of DVDs and VCDs often described as royalty in the agreements. Indian tax authorities have been contending that such payment constitutes royalty chargeable to income tax in India and therefore Indian distributors are liable to withhold tax on such periodical payments made to foreign companies which hold the copyright of the films. 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. Therefore Indian distributors are not liable to withhold tax from such payments.

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

Film financiers are not engaged either in producing films or in hiring the services of producers and directors for making the film. The film financier only provides financial assistance for the venture and is entitled to recover the money, from the distribution of the film. Recently, tax tribunals have held that financing of 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.

Indirect tax issues

Differential rate of VAT on sale of recorded DVDs/CDs in different states

With the advancement of technology and the availability of low-cost DVDs/CDs in India, the home entertainment segment of the cinematographic film is growing at a staggering pace. The only hurdle in this growth is piracy i.e. unauthorised versions of the original DVDs/CDs floating in the market.

Typically in the 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 the retail market. The VAT rate applicable on the sale of recorded DVDs/CDs in the majority of states in India is four to five per cent. However, in some states, the rate of VAT on the sale of recorded DVDs/CDs is 12.50 to 15%. There is a direct nexus between the prices of recorded DVDs/CDs and piracy in India. The increased cost of recorded DVDs/CDs (on account of increased rate of VAT i.e. 12.50 to 15%) results in unaffordability of the legitimate copy of the DVDs/CDs to the consumers. In such a scenario, the demand of non-legitimate versions of the recorded DVDs/CDs increases and helps piracy flourish.

Piracy results in loss to the state government's VAT revenue, as the sale of pirated/non-legitimate versions of DVDs/CDs go without the levy of VAT. Hence, it would be prudent for state governments to either exempt the sale of DVDs/CDs from levy of VAT or reduce the rate of VAT on them to four to five per cent.

Dual taxation

In the Union Budget 2011, service tax was levied on temporary transfer of copyrights in films.

Theatrical revenue

Since the transactions between the producer and distributor involves transfer of right to use copyrights in the films, and copyrights are considered 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.

While some states like Maharashtra and Delhi provide some relief from VAT by exempting grant of theatrical rights from VAT, similar relief is not available in other states and there is a need to bring a uniform approach for the same.

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, etc. Wherever the copyright in films is temporarily transferred to other entities, it would be chargeable to VAT as well as service tax, leading to double taxation.

Regulatory issues

Considering the international practices being followed and changes in the viewer's expectations, the MIB is considering updating the 60-year-old Cinematograph Act, 1952. It has prepared a draft Cinematograph Bill, 2010.

Presently, Indian films are cleared by the Central Board for Film Certification (CBFC) under four categories:

1. U: Films for universal viewing for all age groups
2. U/A: Unrestricted public exhibition but with a word of caution that parental discretion is required for children below 12 years
3. A: Restricted to adult (18 years and above) viewers
4. S: Restricted to members of any professional class

Under the proposed Cinematograph Bill, 2010, a new system of five-level certification has been prescribed:

1. U: Films for universal viewing for all age groups
2. 12+: For children of 12 years of age and above
3. 15+: For children of 15 years of age and above
4. A: Only for adult (18 years and above) viewers
5. S: Restricted to members of any professional class

- Some of the other key highlights of the proposed Cinematograph Bill, 2010, are as under:
  - Greater representation of women in CBFC and the advisory panel of CBFC
  - Stringent punishment against piracy

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. This should help to increase the export potential of the local film industry as such films may get the status of national production in such other countries. It will also ease the process of importing equipment needed for films and lead to sharing of technologies and talent.

Radio industry

Direct tax issues

Deduction of licence fees

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 they are 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. Characterisation of expenditure as revenue or capital expenditure has always been a matter of intense controversy between tax payers and tax authorities and is expected to be resolved only at a higher appellate level.

Regulatory issues

On July 7, 2011, Cabinet has approved the proposed policy framework on FM Radio Phase III policy to be introduced by MIB. Some of the key features proposed to be introduced in the policy framework are:

- Foreign Investment limit proposed to be increased from 20% to 26%
- Private players may be allowed to carry news bulletins of All India Radio
- Information pertaining to sporting events, traffic and weather, coverage of cultural events, festivals etc. clarified to be non-news and current affairs
- Restriction of 15% ownership of channels pan India by an entity retained. However channels allotted in Jammu & Kashmir, North Eastern States and island territories to be over and above the 15% national limit.
- Adoption of e-auction methodology in batches for awarding licenses.

Currently, an annual licence fee of four per cent 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 will apply only to revenues from 'radio operations'. Further boost may be given to the radio sector by charging licence fees on the basis of 'net income', as this will ensure the collection of annual licence fees only from profit-making companies that provide relief to loss-making radio players and also impetus to the radio industry in general.

There is a five-year lock-in condition for changing the ownership pattern of the FM radio company through transfer of shares of the major shareholders to new shareholders. This condition may be relaxed to enable easy exits for promoters incurring losses and facilitating the introduction of investors with deep 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 foreign investments in the broadcasting sector proposed an increase in foreign investments in radio to 26%). 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 unreasonable, as also the additional restriction of one channel-per-city for such a 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 lumpsum royalty or royalty based on turnover of the licensee or a combination of both. Royalty based on turnover of the licensee is generally taxable in the respective years of turnover. However, as regards lumpsum royalty, issues could arise as to whether such royalty is taxable in the first year, i.e. on grant of licence or over the period of licence or 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, 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 and royalty payments to film producers/artists forms a significant part of a music company's cost. The issue that arises is whether such payment (which could have a mix component of lumpsum and yearly payments) 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. 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 the VAT Act in Maharashtra, the hub of the entertainment industry, copyrights are treated as intangible goods and the transfer of copyrights, temporarily or permanently, attracts the 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 them.

At the time of the 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 sells the CDs containing the music, it is not in a position to claim input tax credit of the VAT levied by the producer and such VAT becomes the cost of the music company.

Regulatory issues

On the music royalty dispute, the Copyright Board order had suggested that FM radio broadcasters will have to pay two per cent royalty to music firms from their net advertising revenue. However, following a protest by the music industry, the Supreme Court had stayed the order. The Supreme Court lifted the stay on the Copyright Board order and asked the Madras High Court to solve the matter.

Gaming industry (entertainment value-added services)

The auction of 3G spectrum by the government last year rang profit bells for the VAS industry. In view of the dynamic and ever-evolving nature of the VAS industry in India, tax implications of the innovative business combinations/joint ventures/collaborations in this space necessitate due consideration and attention on the part of all stakeholders. This matter assumes importance especially since the VAS industry is still perceived to be at a nascent stage in India as compared to developed countries of the world and consequently, most transactions/ arrangements in the VAS space involve a mind-boggling and unprecedented set of tax issues.

Direct tax issues

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

- Scenario 1: Where the user transacts directly with the content creator or the content aggregator directly for availing the VAS
- Scenario 2: Where the user obtains the required content through the mobile operator and the mobile operator in turn contracts with the content creators, content aggregators, technology enablers, as required

Since stakeholders in the VAS value chain may be tax residents of other countries, the taxation of the income recipients and withholding tax obligations of the payers of income, in India, necessitates greater examination and analysis.

Typically, payments involved in the VAS space may be characterised as royalty or fees for technical services or business income based on the facts of the case and the substance of the agreement.

One also needs to analyse whether the payee has a taxable presence in India to determine tax liability in India. Under the Act and the DTAA, in certain cases, existence of agents in India, provision of services through employees/other personnel, availability of place at disposal, amongst others, creates a taxable presence for the payee in India.

Mildly put, it is a highly risky proposition to assume that tax liability in India cannot be triggered in the absence of physical or other modes of presence of the payee in India.

Managed VAS refers to the outsourcing of a part or all of the VAS operations including everyday management to another organisation, which might be a demerged company of the same group.

- In this connection, there are some tax-neutral amalgamation/demerger-related provisions under the Income Tax Act, 1961, which may be applicable and may need to be considered. Typically, in such strategic models, end-to-end operations, right from offering services to the users, to billings are handled by the outsourced organisation.
- Typical issues, amongst others, involve the section of the Act/the rate at which tax is required to be deducted at source by the mobile operators before making payments to the outsourced organisations for services rendered by them.
- In case of resident outsourced companies, an issue will arise as to whether tax is required to be deducted at source under Section 194C of the Act which deals with contractor payments; or whether Section 194J of the Act, which deals with payments for professional services, amongst others, needs to be applied. There can be instances where both sections may appear to overlap. In such cases, it will be important to analyse the agreement and the exact nature of services in order to be able to analyse and differentiate between the scope of operations of the two sections of the Act.

Similarly, in case of a non-resident outsourced company, applicability of Section 195 of the Act becomes critical since it is applicable only if the income payable to the non-resident company is 'chargeable to tax' in India and determination of the portion of income 'chargeable to tax' in India is a function of the payee company's residential status and presence/ activities in India.

- Depending upon whether the arrangement is on principal-to-principal basis and other factors like the nature and substance of the agreement, the transacting parties could run the risk of being treated as an association of persons (AOP). AOP is a unique concept whereby two or more parties joining together for a common purpose/cause, may be jointly treated as a distinct, separate taxable entity under the Act.
- Formation of an AOP can have adverse implications for the parties in the form of possible higher tax rate, uncertainty on availability of benefits of Double Taxation Avoidance Agreement (DTAA) between India and other countries, restrictions on allowability of carry-forward of losses, etc.
- Ascertaining whether an AOP is formed or not is a tedious exercise since the Act does not define an AOP or list out the exhaustive list of factors that go towards formation of an AOP. Emphasis needs to be placed on judicial precedents on the subject.
- Thus, every outsourcing arrangement involves intricate and complex tax issues, for which appropriate, advance tax planning and due deliberation is the need of the hour.

Indirect tax issues

Double taxation in case of mobile VAS

Typically, the content developer owns copyright in the content. Such supply of content to telecom operators is treated as transfer of copyrights in the content and is subject to VAT. In addition, such supply of content to telecom operators is also subject to service tax under the specific category 'development and supply of content services'. Hence, both VAT and service tax is applicable on such transactions.

Since telecom operators are not eligible to claim credit of VAT on procurement of VAS, the VAT levied becomes a cost to the telecom operators and it is beneficial for the industry if the VAT is not levied to telecom operators on VAS.

Sports entertainment industry

Direct tax issues

Payments for acquiring broadcasting rights of live events
The issue is whether the payment made to a 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 can give rise to tax issues for clubs/governing bodies, especially in the light of 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 with respect to the activities or services in the nature of trade, commerce or business. In the light of the above amendment, the exemption claimed by the clubs/governing bodies, if any, needs to be re-looked at if the league event is considered a commercial activity.

Union Budget 2011

Key direct tax proposals

Certain key proposals of the Union Budget 2011-12 (Budget) addressable relevant to the media and entertainment sectors are discussed below:

Corporate taxes

- Corporate tax rates to remain unchanged: Surcharge on tax to be reduced from 7.5 to five per cent, in case of a domestic company and 2.5 to two per cent in the case of a foreign company.
- The effective minimum alternative tax (MAT) rate to be increased from 19.93 to 20.00% in case of domestic companies and from 19 to 19.44% in case of foreign companies
- The dividend received by a domestic company from its overseas subsidiary to be taxed at the rate of 15% reduced from 30%: The income will be computed without any deduction of expenses incurred for earning dividends.
- Limited liability partnerships to pay alternate minimum tax at effective rate of 18.5% with credit available up to 10 years:
- SEZ units to pay MAT effective from FY 2011-12: As a result animation/VFX/gaming companies having SEZ units will now be covered under MAT provisions.
- No extension of tax holiday granted to STPI/EOU units
  - Notified jurisdictional area
- Central government to notify overseas jurisdiction not cooperating in exchange of effective information
- Transfer pricing regulations to apply on transactions with any person located in such area
- No deduction of any payment to any financial institution unless assessee authorises board or any tax authority to seek information from the financial institution
- No deduction for any expenses (including depreciation) arising from the transaction with entities located in notified jurisdictional area unless assessee furnishes prescribed particulars
- Receipts from any person located in such notified jurisdictional area to be deemed as income unless the assessee satisfactorily explains the source
- Any payment, chargeable under the Act, made to a person located in notified jurisdictional to suffer withholding tax rate at the higher of normal tax rate or 30%

Direct Taxes Code Bill, 2010

The provisions of DTC 2010 are intended to come into effect from 1 April 2012. An analysis of the proposals in DTC that are likely to impact the media and entertainment sector is set out below.

General Anti-Avoidance Rule (GAAR)

- GAAR empowers the Commissioner of Income Tax to amend, disregard or re-characterise or declare an arrangement as impermissible :
- if the arrangement entered into was with the objective of obtaining tax benefit and, inter alia, lacks commercial substance or misuses the provisions of the DTC.
- GAAR provisions override provisions of tax treaties.
- Thus, GAAR provisions are highly subjective and provide sweeping powers to the tax department.

Controlled Foreign Company (CFC)

- CFC provisions were introduced with a view to tax the passive income earned by a foreign company directly or indirectly controlled by a resident in India.
- CFC means a foreign company, which satisfies the following conditions:
  - The foreign company is controlled by resident tax payers: 'Control' defined to mean one or more persons resident in India, individually or collectively, directly or indirectly, holding shares carrying not less than 50% of the voting power or capital of the company, and
  - Such foreign company is a resident of a country with lower level of taxation, i.e. the amount of tax payable in foreign country is less than 50% of the corresponding tax payable under the DTC.
- CFC provisions not triggered in case the foreign company is listed on a stock exchange or is engaged in active trade or business (subject to certain conditions) or specified income does not exceed INR 2.5 million.
- Thus, it is pertinent to keep in perspective the CFC provisions while making any outbound investments, considering that underlying foreign tax credit (corporate tax paid by the overseas subsidiary in that country) mechanism is currently not provided in DTC.

Key proposals relating to entertainment and media

Enlargement of the scope of royalty to now also include the following:

- Use or right to use of transmission by satellite, cable, optic fibre or similar technology;
  - Transfer of all or any rights (including the granting of a licence) with respect to:
    - cinematograph films or work on films, tapes or any other means of reproduction;
    - live coverage of any event.

In light of the enlarged scope of royalty, various payments made in the broadcasting sector (e.g. payment made by foreign telecasting company to a non-resident satellite company for hiring of transponder, etc.), in the film sector (e.g. payment for film or theatrical rights, etc.) , in the sports sector (e.g. payment by foreign company for acquiring broadcasting rights of live events, etc.) , can now be taxed as royalty in the hands of payee and can trigger withholding tax obligation on payer.

- The definition of the term 'royalty' in the Act included 'secret formula or process', interpreted by assessee to apply the word 'secret' even to the word 'process', resulting in an argument that only if a secret process was involved was the payment liable to tax as royalty. However, the definition of 'royalty' under the DTC provides for 'secret formula, process', which essentially tries to negate the aforesaid argument of the assessee.
- The Act specifically provided exemption to non-residents for income through or from operations confined to the shooting of any cinematograph films in India. However, the DTC does not provide such an exemption. Thus, foreign/Hollywood film producers shooting cinematograph films will now be subject to taxation in India under the DTC unless the provisions of the tax treaties are more beneficial than to the provision of DTC.
- The scope of fees for technical services (FTS) has been enlarged to include payments for the development and transfer of design, drawing, plan or software, or similar services which was not provided in the Act. This may adversely impact the animation and gaming industry, etc.
- Tax rates on royalty and FTS (gross basis) earned by a non-resident have been increased from 10% in the Act to 20% under the DTC.
  - However, DTC provides that the beneficial provisions under the tax treaty shall prevail over the DTC.

Limited liability partnership (LLP)

LLP is a hybrid entity which combines the key advantages of partnership and limited company and is a widely-used vehicle for doing business globally.

Recently, the Cabinet Committee on Economic Affairs (CCEA) gave the green signal to allow FDI in LLPs in a calibrated way. As per the new FDI policy for LLPs, FDI in LLPs will be allowed upto 100% in sectors/activities, that are currently eligible for 100% FDI under the automatic route and which do not have any sectoral or other FDI-linked conditions.

With FDI being permitted in LLPs, this can be a suitable and viable entity form for several businesses, considering its advantages over the company from tax and ease-of-operation standpoint. Some of the key tax advantages are as follows:

- Profits exempt in the hands of partners
- No dividend distribution tax (DDT)
- No wealth tax on LLP and on the partners' interest in the assets of LLP
- Alternate minimum tax (AMT) introduced but:
  - Total income as base and not book profits
  - More liberal computation of taxable income base (dividends, exempt long-term capital gains not liable for AMT)
- No cash trap on account of statutory transfer to reserves and depreciation provision that a company is subject to prior to dividend distribution

Entertainment and media sectors such as animation, gaming, advertising, films and music can benefit from LLP as an entity option.

The detailed procedural guidelines are awaited for notifying the necessary amendments in the FDI policy, as also clarity on the open areas and various limitations such as restrictions on raising foreign currency loan (ECB), restrictions on making downstream investment, etc. The calibrated approach is understandable given the unique nature of investment in a LLP.

Annexure 1

TRAI's revised recommendations on policy issues relating to uplinking and downlinking of TV channels in India

On 22 February 2011, TRAI submitted its reconsidered recommendations based on suggestions forwarded by MIB. The table highlights the views expressed by TRAI and MIB on the subject:

Particulars	TRAI's initial recommendations (on 22 July 2010)	Views of the MIB (on 2 Feb 2011)	TRAI's reconsidered recommendations (on 22 Feb 2011)
Cap on number of satellite broadcasting channels and mandating a particular digital technology	Not recommended	Not recommended	Not recommended
Networth for uplinking of non- news channels and downlinking of channels	Rs 25 crore for the first channel and Rs 10 crore for each additional channel	Rs 5 crore for the first channel and Rs 2.5 crore for each additional channel followed by an additional Rs 1 crore performance bank guarantee (PBG) valid for two years. If channel operationalised: 0.Within one year, PBG to be refunded. 1. Within two years, half of PBG to be refunded 2.After two years, PBG forfeited	Rs 15 crore for the first channel and Rs 5 crore for each additional channel followed by an additional Rs 1 crore PBG valid for one year. If channel not operationalised, channel permission to be cancelled.
News channels net worth uplinking of news channels	Rs 100 crore for first channel and Rs 25 crore for each additional channel	Rs 15 crore for the first channel and Rs 5 crore for each additional channel followed by an additional Rs 2 crore of PBG with conditions as specified under non-news channels above.	Rs 75 crore for the first channel and Rs 15 crore for each additional channel Followed by an additional Rs 2 crore of PBG with conditions as specified under non-news channels above.
Net worth for operating teleport	Rs 5 crore	Rs 3 crore for the first teleport and and Rs 1 crore for each additional teleport followed by an additional Rs 25 lakh PBG and one year to operationalise	Rs 5 crore and an additional Rs 25 lakh PBG and one year to operationalise
Net worth for kids/ scientific/ educational channels	Rs 5 crore	Rs 5 crore for the first channel and Rs 2.5 crore for each additional channel	Rs 5 crore
Net worth for universities starting educational channels	No net worth criteria for recognised universities to start educational channels	Permission to universities only if they can own companies, which then apply for starting channels	Permission may be granted to societies/companies sponsored by universities for setting up educational channels. However, the net worth requirements for TV channels, set up by such societies/companies, may be dispensed with.
Top management experience	Ten years for news and five years for non-news channels	Three years experience in relevant channels, for both news and non-news channels	Five years for news and three years for non-news channels
Period of permission for uplinking/downlinking of channels	Uniform at 10 years	Accepted	Accepted
Transfer of permissions	Not to be allowed	MIB agrees. However, in case of merger/ demerger/ amalgamation, following due processes or transfer of permission from one group company to another, the permission may be transferred with the approval of MIB	Accepted
Teleport hub	India should be developed as a teleport hub	Accepted	Accepted

Source: TRAI

Chapter 12

Technology

Riding on the wave of 'digital consumerism', the key trends that have emerged for technology in the media industry have been about taking digital content to the next level. The major thrust areas for players have been across the value chain of content on the new media-content packaging, delivery frameworks, access devices and monetisation models.

Key trends and impacts

With the economy back on track, media consumerism is expanding rapidly across platforms. Beyond traditional platforms, the fastest growing area for the media industry has been around the digital space. Consumer demand for digital content is now the norm. This evolution has happened primarily around platforms to access this content as well as the specific formats in which this content is consumed.

A large part of this demand comes from the younger generation that is hungry for content and consumes about 30 to 35% of an average day worth of digital content consumption across platforms.

Consumption patterns, delivery frameworks as well as reach have shown advancement. Smartphones, portable devices and the nascent tablet market are pushing content generators and providers to cater to this growing demand. These trends, driven by the growth in the telecom sector, especially in wireless communication, are driving content generators and publishers to create 'byte-sized' content across genres. This content is being consumed by urban youth, as well as in Tier 2 and Tier 3 cities.

The 3G story has seen most operators roll out services on track, especially in the metros. We are yet to to see strong uptakes among subscribers, since acceptance in the trial runs were low. The right packaging focused on specific customer-intent areas may see traction, as in other value-added areas

Driven by these trends globally, the media ecosystem in India too will see key change areas in the technology landscape for managing content across stages.

Content packaging

With new-generation media channels increasingly occupying a big share of the consumer's time spend, it is becoming critical for players to serve a variety of content on these channels. The capability to package content to cater to these segments might be the next necessity.

Content management solutions which are an essential part of any organization, , typically in various applications like web content management (WCM), enterprise content management (ECM) or pure-play digital asset management (DAM) solutions are now considered as the basis towards moving into content packaging. The next step comes in the form of using this sliced-and-diced content to create channel-specific packages.

Firms are exploring options across off-the shelf packages or custom solutions. With on-demand business models on the rise, especially in the technology infrastructure area, pay-as-you-use-based end-to-end solution providers may emerge as a strong alternative model.

Content packaging | **Delivery frameworks** | **Access devices** | **Monetisation**

Role of HTML5

With the advent of multiple newer media channels like smartphones and tablets, a critical challenge for any content generator, distributor or publisher is the ability to have a standard means of packaging the content so as to provide accessibility across the extended ecosystem.

Why HTML5

Though HTML5 has been in the developer community for a while, it has come into prominence after the clashes between device and platform companies and proprietary technology providers.

The other perspective was around native applications (apps), which are tailored to devices and platforms and have a strong dependency on them. These applications, that reside on devices often tap into websites for information in all manner of things but cannot be searched or linked to one another in the way web applications can. This has driven the need for a new open platform and led to the creation of HTML5.

This new standard helps create 'cross-platform digital content' with no restrictions, dependencies or monetary obligations to abide by. It helps create visually rich and lively web applications that can be accessed through a browser, similar to native applications. Regardless of what device a site or app shows up on–smartphones, laptops or tablets–the code will not be impacted greatly, to serve different platforms. This will help companies and developers reduce their time-to-market and repetition of effort to cater to versions of the same content for diverse platforms.

The other benefit for the industry will be the monetisation avenues, which are explained in detail in the sections below.

The acceptability of this medium among leading platforms has been high. Google, Apple, Microsoft and other application developers have adopted HTML5. Apple has started using HTML5 for the development of its apps across products and platforms. Google has been providing users the option of running earlier technologies as well as allowing users to run videos in native HTML5. Microsoft has been planning to update Internet Explorer 9 to support HTML5. We might see the adoption of HTML5 as an integral development tool for Windows 8, since Microsoft has started demonstrating Win 8 with HTML5 apps.

The movement of print media onto the tablet is being recognised as one of the big trends in the digital media space. HTML5 will be a key enabler in this transition, particularly from the consumer experience perspective. On the flip side, there is still room for clarity around digital rights management (DRM) solutions for HTML5.

An interesting dimension to this is the growing presence of a strong developer community across the country, especially Tier 2 and Tier 3 cities. Deploying key technology platforms with the right user experience for mobile-based access is an area which is seeing traction in the freelance space. This might be a channel for many content generators as well as offline publishers to explore, from the perspective of kick-starting their presence on the mobile.

The language is still awaiting a final approval as a common standard. HTML5 is still growing and it will take some more time and money in order to make sure that the right user experience comes with robust support.

Delivery frameworks

Content delivery forms the next step in the emerging digital media supply chain and plays a critical role in ensuring the delivery of different formats of content across channels. With users demanding content through an increasing number of channels, it is practical for media companies to explore consolidated solutions.

The application of content delivery networks (CDN) in this context leads to the presence of on-demand solutions that allow efficient media distribution. As the market grows, media companies will see delivery solutions being provided in an infrastructure-as-a-service (IaaS) model, reducing the upfront investment and moving to revenue-dependent models.

Broadcast companies and cloud services

A key challenge faced by media companies is to adapt their digital content services to a new landscape of changing market demand. Digitisation and consolidation are the two major drivers of this growth, changing the way people consume media in India.

Consumers have demonstrated a growing comfort with social networks, internet-based radio and television services, streaming and on-demand video, mobile music and applications in tandem with personalised or user-generated content. Their willingness to try out new and traditional content online and on-the- go creates a large generation of digital media content wherein industry estimates suggest that up to 500 billion hours of content will be available for digital distribution by 2015[1].On the supply side, digitisation propelled growth for the industry. Film studios sold more digital prints than physical. DTH subscribers added 12 million clocking a growth percentage of 75 in 2010[2]. The Telecom Regulatory Authority of India (TRAI) has suggested an increase of FDI limits across platforms in radio, TV, DTH and cable.

1 ISupply Youtube 2008

2 Government of India: Press Information Bureau 22 March 2011

In India we see an evolution towards a media world that is a combination of TV, movies, music , games and information services clustered around the 'personalised experience'.

Media cloud solution and architecture

The 'media cloud', a specific application of the cloud model to the industry of media and entertainment presents multiple opportunities to content generators, broadcasters and other media players. A broadcast-focused cloud solution can be adapted to four key potential areas:

- Minimising the upfront adoption costs
- On-demand capacity, with charges linked to volumes and revenue
- Shared costs model for an integrated plug-and-play ecosystem
- Ability to deliver across end-nodes: Mobile, TV, laptops, tablets

There has been a strong uptake for such solutions by mainstream players. ESPN broadcasted the T20 World Cup over the internet, live. Netmagic Solutions powered this. Similarly, Google broadcasted the 2011 IPL over YouTube with a minimal time lag, allowing users to access it over their computers as well as mobile devices. The Indian market will also see 'white-labelled' operators providing cloud-based solutions to allow firms across the spectrum to leverage these advantages and cater to the long-tail of user demands. With Apple also launching the iCloud across key markets globally, it is a trend that will help the media industry focus on the digital value chain without the inhibitions of a high investment barrier.

The education sector has been a direct beneficiary of these services and will continue to be a loyal one in the future too. Connected campuses with online courses have a strong demand in the market, primarily due to geographic barriers and the supply-demand gap for quality education.

IPTV

According to the Indian Council for Market Research (ICMR) survey 2011, though cable connectors in India enjoy maximum viewer preference, DTH and IPTV are slowly creating a space for themselves owing to superior video quality. Key issues for IPTV implementation in India however are related to content-readiness and cost. To compete with DTH and cable operators, IPTV service providers have to provide high-quality innovative content. Various costs are involved and it depends on which route the player opts for. Operators have to offer services like live TV, video on demand (VOD) and digital video recorders (DVRs). A typical media cloud architecture made available by companies such as Microsoft is capable of video services, pause live TV and time-shifted TV. Video is then flowed across media delivery channels to televisions, PCs and mobile devices.

The next application area for cloud solutions in the media space has been on-demand advertising solutions. These solutions allow firms to move their advertising solutions to the cloud and provide a more collaborative environment for their users and clients, reducing inefficiency in the monetisation process and minimising lost inventory.

Access devices

The key difference between the digital value chain as against any of the earlier channels is the spread of its user base and the multiplicity of access channels by the same user.

A large part of India's mobile content consumption happens in the Tier 2 and Tier 3 towns, with regional play being a significant part of the content. The nodes of the digital media network are defined by mobile devices which are varied, spread and evolving. Mobile phones–feature and smartphones, tablets, gaming devices, wi-fi-enabled handhelds--have started dominating the market.

The convergence of media is getting real-market deployment in the form of smartphones being available at less than Rs. 5000 levels (less than USD 100) and going lower. These devices drive the content consumption multiple times. Micromax, Samsung, Lava, HTC and Motorola have been the new leaders of the entry to mid-range phones.

One of the key factors for the growth of this segment is the growing standardisation of the operating platform for mobile phones. The barriers to establishing a strong platform in terms of costs, continuous innovation and user adaptability have been reduced, bringing the market closer to a level playing field. Android being a strong factor for prominence of mid-range 'all-in-one' devices has seen strong growth in India, with the market share reaching double digits soon. The Nokia-Windows marriage will drive a stronger case for Windows phones and serve as a potential boost to Nokia's falling market share.

The tablet market, presently in a nascent stage, is looking for strong growth riding primarily on the upward mobility for the tech-savvy as well as non-tech savvy crowd and the opening-up of the spectrum space. Indigenous firms such as Olive and NotionInk have brought affordable options to the market packed with features and fitting the customer's wallet as well as his/her wish-list.

Some factors which will shape this path for media distribution firms:

- Interoperability between platforms
- Shared access to a single instance of content across devices
- Personalisation of content and delivery to users

Monetisation

Monetisation of content and services has been a continuous path of innovation for media companies around the world. With the advent of newer devices, channels and formats, mapping changing user expectations will be a critical parameter to define robust revenue channels. The hurdle for players is freely available digital content on the web. Online users now expect free content and this has become the singlemost important cautionary factor for mobile publishers.

In the mobile space, third-party and white-labelled operators like Hungama and Flypp (Infosys) are playing a central role today. The approach has been to provide an end-to-end direct deployment platform for operators as well as content generators, translating into additional revenue channels. Various models are now being explored, like in a case wherein content providers and third-party operators can keep the share of the content whereas the operators focus on data usage.

To close this loop and book revenues, the market needs to have a common payment system, across key operators, mapped to the prepaid and post-paid accounts of consumers. Ticket sizes, download channels, rights management and pay-per-use models will be some of the parameters to structure this stage in the near future.

Targetting technologies

With advertising spanning multiple channels, it is becoming imperative for astute advertisers to use digital advertisement. This way they can target technologies to not only measure the effectiveness of their campaigns and do a spend analysis but also to plan future campaign strategies. This is to better negotiate the cost of advertising and thus, maximise the returns of adopting targeting technologies.

In 2011, India will see technologies and systems that make better targeting appreciate in value and gain universal acceptance. The industry has already been seeing increased funding for online audience measurement and ad spends benchmarking platforms early this year. An example of this is ViziSense, powered by Komli Media.

Targeting products gives advertisers a powerful new way to effectively reach customers, without tracking those using cookies and other invasive tracking technologies. Content is analysed via alternate means like the emotions, behaviours, motivations and purchase intent it elicits in the consumer. With precise geographic, demographic and psychographic targeting becoming increasingly valuable, broadcasters have an important road ahead of them in developing audience databases. Precise audience tracking is the first step in making targeting possible. As part of their technology roadmaps, companies should have a robust Customer Relationship Management system (CRM) in place followed by the targeting system.

The near future will largely test the mainstream feasibility for these technologies. The challenge will be to get them on to a scale so as to have a larger mindshare of advertisers and other stakeholders.

Notes

About PwC Entertainment and Media Practice

Everyday, around the world, 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 PwC has depth and breadth of experience across sectors. We understand how changes in the broader E&M industry are affecting our clients and we 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 PwC one of the leading advisers to the entertainment and media industry.

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