

A man in a white shirt is looking down at his smartphone. He is wearing a yellow bangle on his right wrist and a silver watch on his left wrist. The background is a blurred city street with a yellow and blue vehicle.

Re-imagining India's M&E sector

March 2018





Uday Shankar

Chairman

FICCI Media & Entertainment Committee

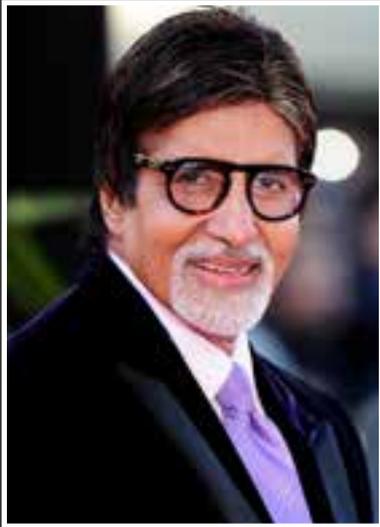
2017 has been an eventful year for the Indian Media & Entertainment industry. The macro-economic mood of the nation remained bearish for most part of the year, reflected in the economic pressures faced by industries across and media being no exception. We also saw strides towards several regulatory reforms, with GST finally becoming a reality to a near complete digitization of TV distribution. However, in an environment of volatility and dynamism, this industry has continued to grow at a rapid pace year-on-year. In the process it has also become a critical contributor to the economic and social narrative of the country. The sector today generates millions of jobs directly and indirectly, contributes to economic growth with a rate almost twice the GDP and provides an immeasurable ancillary contribution by serving a platform for the growth of several other industries.

All the segments of the M&E sector are showing growth, consolidation and innovation led by digital, both on the consumer side and through the content supply chain. The transition to embracing digital in this industry has perhaps been the smoothest. The increasing ubiquity of camera, internet and the availability of cheap computing power in one's handheld devices has democratized media consumption and production like never before. Digital has transformed the access to content and participation in media, and the consumers have shown affinity towards great content on newer screens.

As I look ahead, the next few years are poised to be even more exciting. The number of users on internet in India is expected to cross 500 Mn this year. M&E can play an increasingly stronger role in informing, empowering and inspiring the nation. As many more businesses as well as the regulators take cognizance of this, the time is now to reimagine what the new consumer experience should be, reimagine the boundaries of creativity and content, reimagine business models and even reimagine regulation to foster this new landscape. The time is also to invest in creating the requisite skills and institutions to serve the demand of the new digital consumer. The future of M&E is getting built on 3 pillars - engineers, designers and storytellers - and it has the potential to usher in a growth paradigm that couldn't have been imagined before.

Through this report, we aim to capture some insights into this the exciting and fast growing world of Indian media and entertainment. FICCI recognises the valuable inputs provided by the members of the M&E sector and all the associated agencies to create this report. We also take this this opportunity to thank EY, our knowledge partner, who have devoted significant time and resources into the development of this report. We do hope you find this report useful.

Foreword



Amitabh Bachchan

Actor

The Media & Entertainment sector has always been the most prominent global brand ambassador for India.

The creativity and knowledge of the nation, translated across television, film, print, radio and digital media creates a powerhouse of content which is unmatched in the world. India produces the maximum number of hours of content globally, across 2,000 films, 800+ television channels, 250+ radio stations, 100,000+ newspaper and magazine editions and thousands of live events.

The Indian M&E sector is in the midst of rapid change today. Reach is improving significantly, not only for traditional media like television, radio and print, but the digital revolution which is underway is enabling a move towards personalization of content and experience. More than ever before, Indians are consuming content of their choice, in the language of their choice, at a time and place of their choice. News and knowledge have truly been democratized.

This trend will only increase the demand for content, and provide the Indian M&E sector the opportunity to grow internationally, as a provider of news and escapism to billions. India's animation, VFX and post production facilities have moved up the value chain, and the world has recognized their potential as high quality service providers, with a cost advantage.

This report by EY and FICCI captures these and many more trends, and showcases the important role the Indian M&E sector plays in development of the nation. I'm sure you will find it insightful.

Has India's M&E sector reached its digital tipping point?

Welcome to the 2018 edition of the FICCI-EY report on the Indian media and entertainment (M&E) sector.

The Indian economy is growing and the M&E sector is a reflection of this. The year 2017 saw India recover from demonetisation only to face the new challenges and opportunities provided by the implementation of GST. However, the Indian economy continued on its growth trajectory and so did the M&E sector. Favourable demographics, a rise in consumer income and a huge demand for knowledge, escapism, sports and news aided the growth of the M&E sector in the country.

The reach of television increased to 64% of India, and with distribution now largely digitized, this has brought in more addressability. Bucking international trends, the print and radio segments continued to grow, as well as build their digital presence. Indian films - both Hindi and regional - grew their international appeal with several doing well at the global box office.

Increase in the demand for global content has resulted in growth of the animation, VFX and post production segment, where India has become known for its high quality and efficient capabilities. Digital subscription and online gaming are showing signs of exponential growth - albeit from a small base - on the back of rising per-capital GDP and falling data costs.

The Indian M&E sector now finds itself at its digital tipping point.

India is now the second largest smartphone market in the world, and more than half the country is expected to have access to affordable broadband by 2020 which could result in over 500 mn online video consumers. Rural and women audiences are expected to grow fastest, which will change the type and genre of content being consumed. The digital micro-payments ecosystem is also growing rapidly across both urban and rural markets.

These changes will grow digital content consumption significantly, and this presents M&E companies, both foreign and domestic, with an exciting opportunity to develop businesses and cater to the new generation of Indian digital consumers.

Through this report we aim to showcase this exciting and fast growing sector. We are certain you would find this report to be insightful.

M&E Sector Overview

08

M&E Sector 2017: Key trends

10

Indian economy and its impact on M&E

16

The global perspective on Indian M&E

20

Segmental trends

26

Television

28

Print

54

Filmed Entertainment

76

Digital media

104

Live events

132

Radio

144

Out Of Home media

150

Online Gaming

154

Animation and VFX

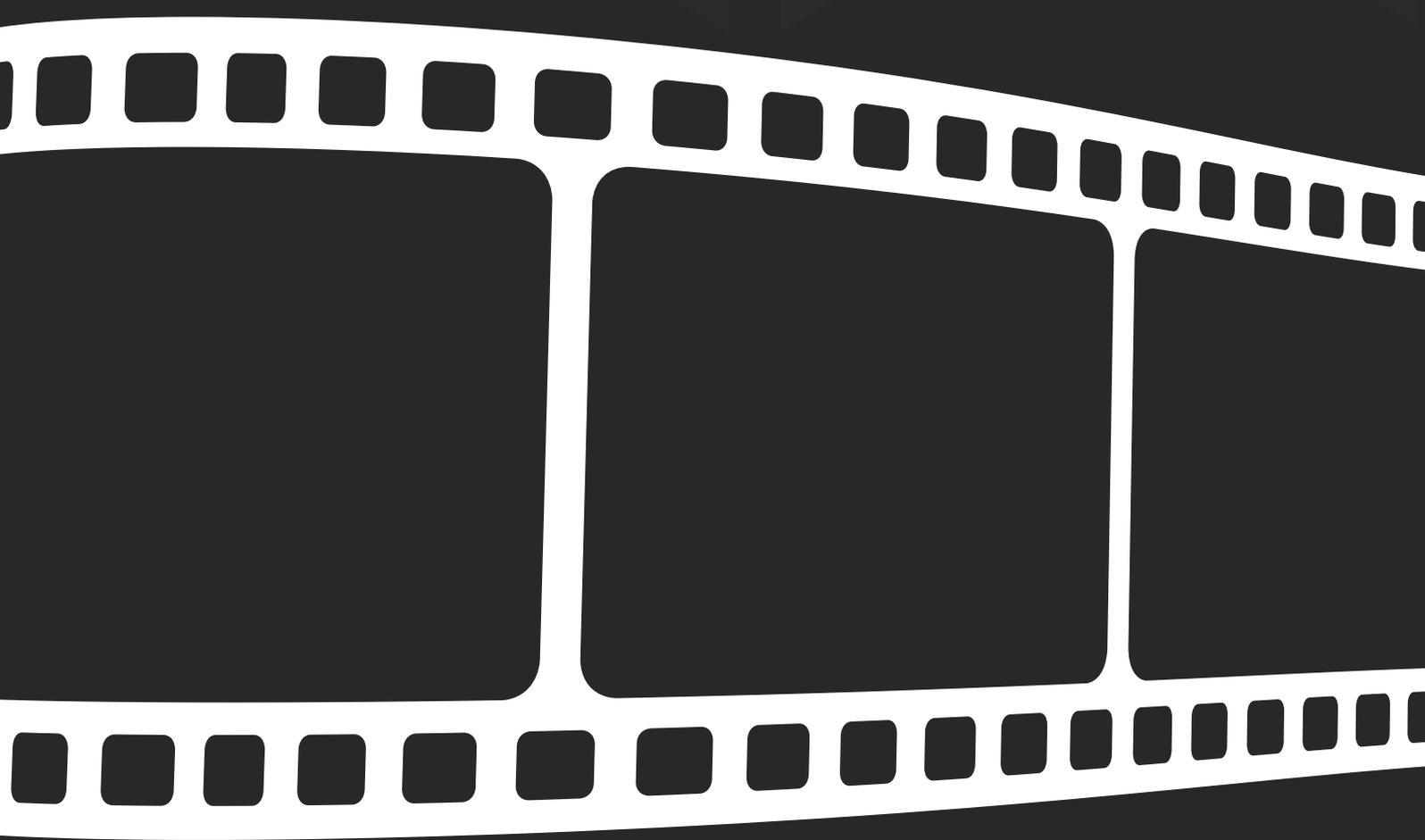
166

Music

182

Sports

192



M&A Activity	208
Impact of GST	218
Operating model 2020	232
Global M&E trends	242
About this report	252
Glossary	254
Acknowledgements	258
EY's M&E leadership team	260



Contents

M&E Sector overview





M&E sector 2017: Key trends

The sector grew to INR1.5 trillion

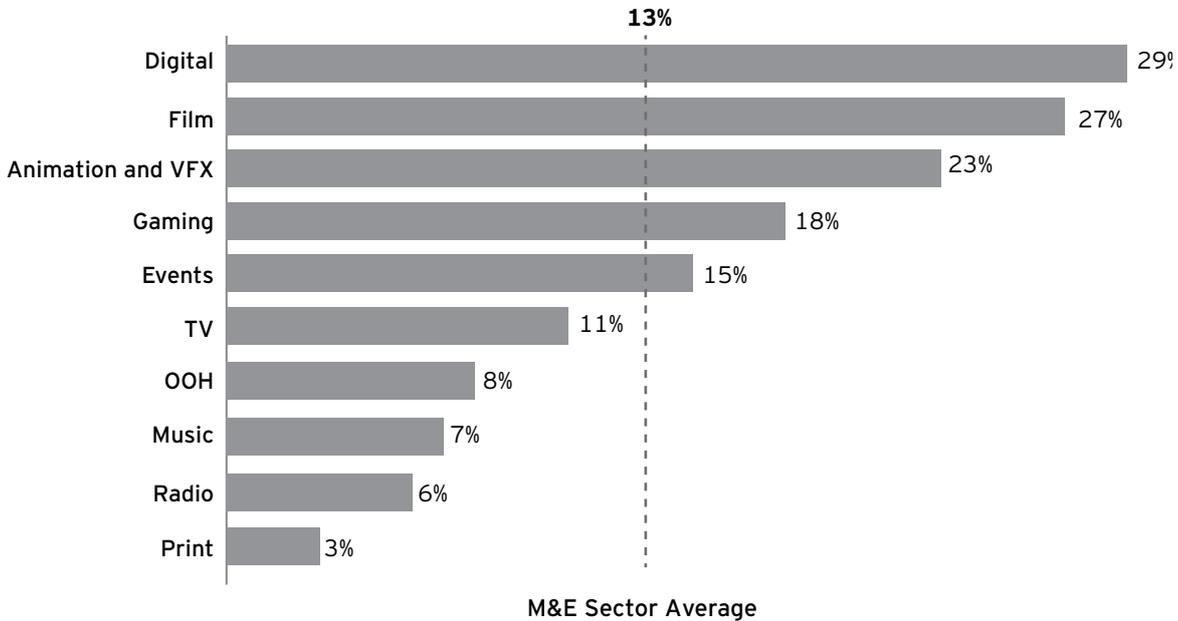
The Indian M&E sector reached INR1.5 trillion (USD 22.7 billion) in 2017, a growth of almost 13 percent over 2016. With its current trajectory, we expect it to cross INR2 trillion (USD 31 billion) by 2020, at a CAGR of 11.6 per cent.

Segment	CY2016	CY2017	CY2018E	CY2020E	CAGR 2016 - 20
Television	594	660	734	862	9.8%
Print	296	303	331	369	5.7%
Filmed entertainment	122	156	166	192	11.9%
Digital media	92	119	151	224	24.9%
Animation and VFX	54	67	80	114	20.4%
Live events	56	65	77	109	18.0%
Online gaming	26	30	40	68	27.5%
Out Of Home media	32	34	37	43	7.7%
Radio	24	26	28	34	8.6%
Music	12	13	14	18	10.6%
Total	1,308	1,473	1,660	2,032	11.6%

All figures are gross of taxes (INR in billion)

M&E sector's growth in 2017 was led by digital, film, gaming and events

Segmental growth in 2017 over 2016



Growth was led by the digital segment, showing that advertising budgets were following the changing content consumption patterns of consumers. As India's digital infrastructure matures, it has given a boost to gaming as a segment, which witnessed significant growth in 2017, albeit from a small base. The film segment also led on the growth front, mainly due to the international revenues generated by Indian films, and that - along with India regaining its stature as an efficient and high quality outsourcing destination - led to corresponding growth for the animation, VFX and post production business. The Events segment continued its strong run, supported by increased below-the-line spends across tier II and III cities, growth in sports events, premium properties and activations. Television continued its strong run, on the back of digitization of television homes, and tentpole properties like the IPL and non-fiction programming, particularly in regional languages. The local media of print, OOH and radio - which do rely more on local advertising - were impacted by demonetization and the introduction of GST in India, but showed a smart recovery towards the end of the year.

Subscription growth outpaced Ad growth in 2017...

Industry tailwinds favourably impacted subscription revenues, including:

- ▶ Wider implementation of cable TV digitisation
- ▶ Higher realisation from domestic and foreign box office collections of films
- ▶ Increased adoption of subscription OTT platforms and
- ▶ Increased in-app purchases in the gaming segment

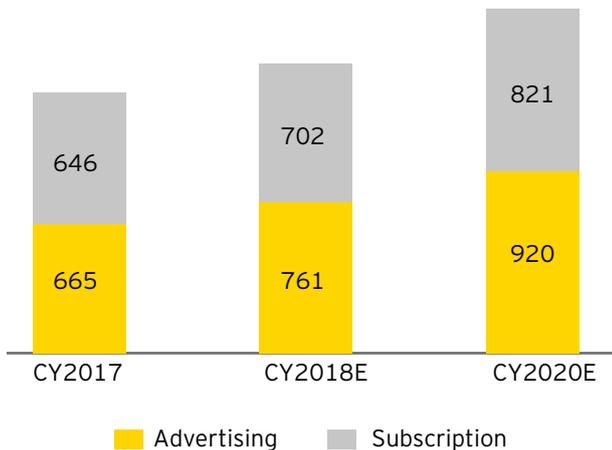
The above led to an almost 15 per cent growth in subscription revenues in 2017. Going forward, micro-payments, enabled through the UPI and BHIM app developed by the National Payments Corporation of India, will further accelerate subscription revenues for entertainment content.

In stark contrast, advertising revenues witnessed growth of just under 10 per cent, due to several macro headwinds such as:

- ▶ Spill over effects of demonetisation into Q1 of CY2017
- ▶ Impact of regulations like RERA on ad spends of the real estate sector
- ▶ Ad spend slow-down for between three to seven months across different segments of the M&E sector in order to manage inventories due to the implementation of GST in July 2017

...however, advertising growth will accelerate till 2020

Advertising and subscription revenues



Numbers in INR billion (Gross of tax)

Note: The above numbers exclude Animation, post production, gaming, events and VFX industry revenues

While the growth in the subscription market will continue in the years to come, we expect that ad revenues will recover in 2018, and continue to grow faster than subscription revenues till 2020. Ad revenues are 51% of the total today, and could reach 53% of the total by 2020.

Digital Advertising led the overall Ad industry growth

Growth in screens and internet broadband penetration, coupled with falling data rates led to more consumption of content and increased time spent on digital media. Advertisers shifted spends to the digital medium, which led to digital advertising now contributing 17 per cent of total advertising in 2017. The share of digital advertising is expected to grow to 22 per cent by 2020. This growth will make Digital the third largest segment of the Indian M&E sector by 2020, overtaking Filmed Entertainment.

Print advertising - better times ahead

Print industry witnessed some degrowth in English language advertising and moderate growth in the Hindi and regional language advertising segments. This was compensated by growth in subscription revenues as print increased its reader base and, in some cases, cover prices. 2018 promises to be better, with growth expected at around 10 per cent, given that there are five state elections, as well as the run up to the Lok Sabha general elections in 2019.

Global audience adoption of high budget Indian films driving faster growth

Indian film industry witnessed a growth of 27 per cent due to a combination of high growth in overseas theatrical releases (particularly in China), growth in satellite rights values and domestic box office collections. The growth would be 18 per cent if global theatrical revenues are restated based on what the Indian studios earned, and not at gross box office values.

While the overall growth in films is promising, it is not a linear business, and depends heavily on the number and type of releases. In 2017, growth was narrow - it was due to select movies like Baahubali and Dangal driving growth in both domestic and international markets.

While the success of Baahubali may result in increased focus on high budget and regional movies in years to come, the domestic box office collections need to support such higher investments, and our current screen density of less than 10,000 screens compares abysmally with developed media markets like the USA (40,393 screens for a third of our population) and China (40,000 screens for a comparable population). While the success in International markets indicates to a promising future, the growth in overseas markets may be limited due to the limited release of foreign films in China due to regulations.

Birth of the digital subscriber

Digital subscription made a strong impact in 2017, with a growth of 50%. As per industry estimates, there are around 2 million paid digital subscribers across application providers, and between 1 and 1.5 million customers who have moved entirely to digital media consumption. By 2020, we expect there to be 4 million digital only consumers which, along with millions of other tactical and mass customers will generate subscription revenues of INR20 billion. The key reasons for higher adoption is availability of niche content, global content, increased OTT-only content, sports and falling data charges.

Online gaming industry at an inflection point

Digital infrastructure and payments are expected to grow the Indian online gaming over 2x from INR30 billion in 2017 to INR68 billion by 2020. Growth will be driven by real money and social gaming on mobile devices. This estimate assumes status quo on the current set of permissions and regulatory environment.

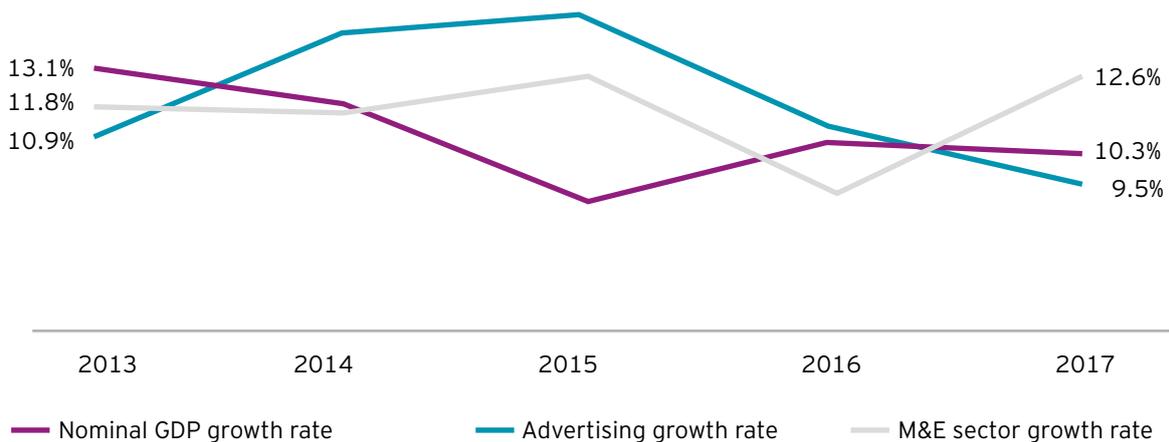
India increased its attractiveness as an outsourcing hub

The animation, post production and VFX segments are expected to grow at a CAGR of 20 per cent till 2020, to reach INR114 billion, led by the growth expected in the domestic film, TV and digital segments, as well as the outsourcing by international studios on the back of increased content creation for digital and TV, and more sequel-based action and animation films.

The M&E sector grew faster than GDP

The M&E industry continues to perform along with the Indian economy, which is a reflection of the growing disposable income led by stable economic growth. Per capita GDP is growing at over 6 per cent since 2012², and this has led to increased spends by consumers. The overall increased need for escapism is enabling a situation where subscription revenues are not being impacted by economic shifts and slowdowns, as was seen in 2017. The quality of subscription revenues is high, and will provide a stable source of income growth till 2020. Ad revenues will increase from 0.41 per cent of GDP in 2016 to 0.43 per cent of GDP in 2020.

Sector growth vs. nominal GDP growth



Source for GDP: Central Statistical Organisation

1. Central Statistical Organization\Haver Analytics via Oxford Economics
 2. www.tradingeconomics.com

The new customer segmentation

The proliferation of digital infrastructure will enable shifts in consumption patterns which will be based not as much on geographic, gender and age criteria, but more on the ability to pay.

Customer Segments in India by 2020

	2017	2020
Digital only	1-1.5Mn subscribers	4Mn subscribers
Tactical digital consumers (Pay TV+ Pay OTT)	6Mn subscribers	20Mn subscribers
Mass consumers (Pay or Free TV + Free OTT)	200+Mn subscribers	500+Mn subscribers

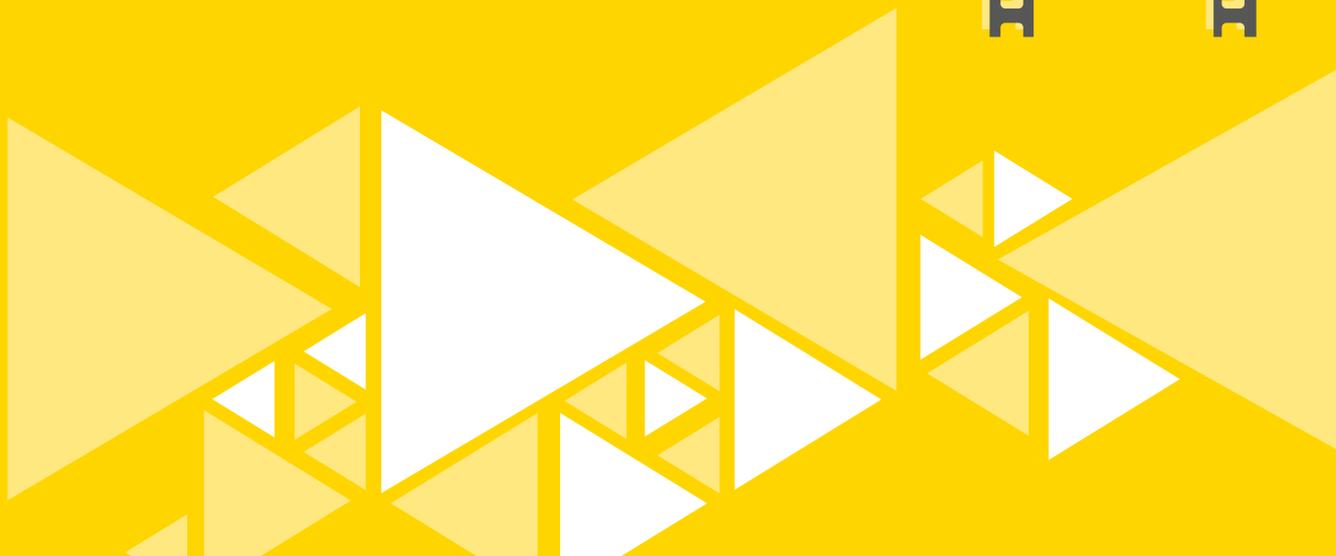
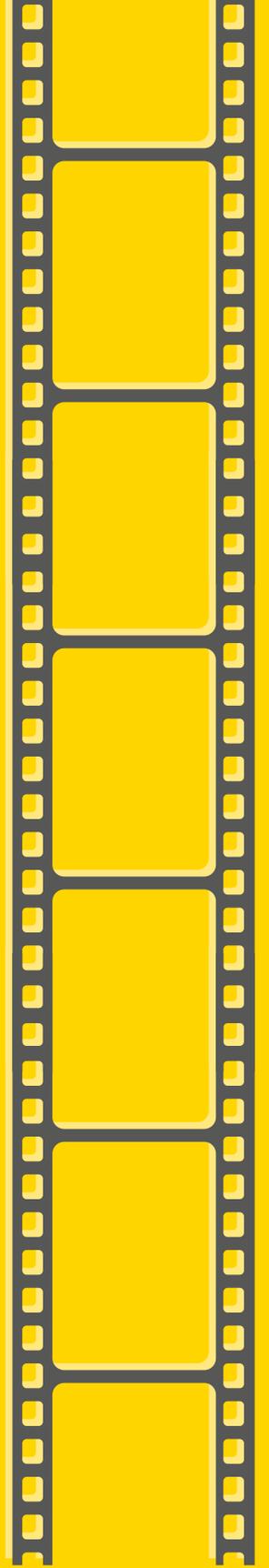
We estimate that there are around 1 to 1.5 million **digital only consumers** in India today, who would not normally use traditional media, and we expect this customer base to grow to around 4 million by 2020, and generate significant digital subscription revenues for the M&E sector.

Tactical digital consumers - those who consume both pay television and have at least one OTT subscription, and / or are driven by sachet pricing of content - would provide a high volume-lower value subscription base to content distributors. This segment could - on the back of digital and micro payment systems being rolled out in the country - reach as high as 20 million households by 2020.

Mass consumers would form the largest segment of the M&E sector in 2020. These consumers would consume traditional media (either pay or free) and free OTT content, on the back of falling data charges and growing free Wi-Fi access. We expect these consumers to cross 500 million by 2020. Over time, a portion of these consumers could start paying for small bites of content using their UPI and BHIM mobile apps.

The M&E sector continues to show great potential, and we expect it to grow on the back of India's need for escapism, knowledge and social acceptance. Media and entertainment has become a necessity of life, and provides exciting opportunities for existing and new companies as it heads towards an INR2 trillion (USD31 billion) industry by 2020.

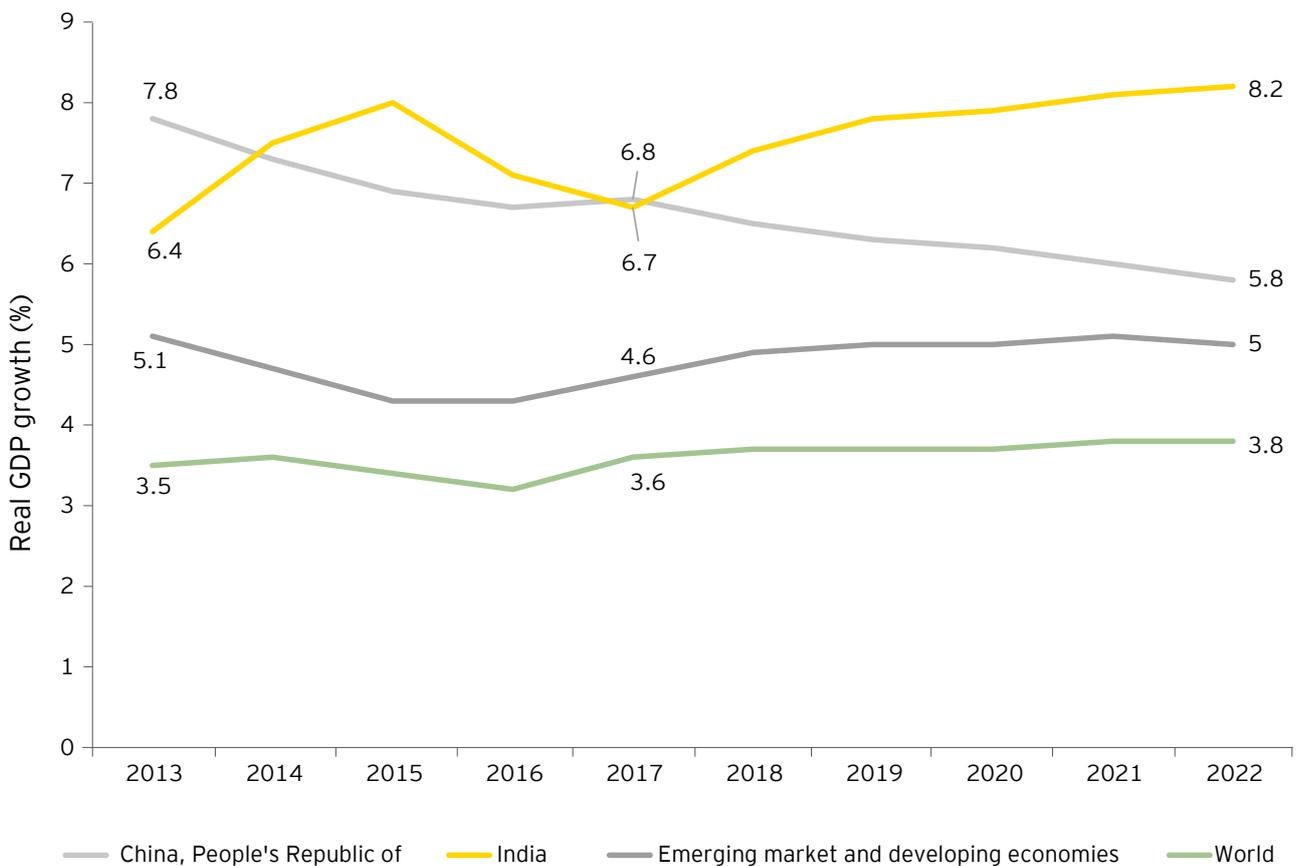
Indian economy and its impact on M&E



The Indian economy remains healthy

The calendar year 2017 was a great year for the Indian economy. Retail inflation was the lowest in almost four decades, the rupee strengthened against the US dollar for the first time in seven years and several reforms such as the Goods and Services Tax (GST), recapitalization of banks and the Insolvency and Bankruptcy Code were implemented. Backed by the potential of the reforms to strengthen the economy, Moody's upgraded India's bond ratings from Baa3 to Baa2 and changed the outlook from stable to positive.

However, most multilateral agencies, including the International Monetary Fund (IMF), World Bank and Asian Development Bank (ADB), lowered India's GDP forecast for fiscal 2018 as a result of demonetization and initial hiccups around GST implementation. After enjoying the status of the world's fastest-growing major economy for a couple of years, India was overtaken by China in FY18.



Source: IMF

The M&E sector grows with the economy

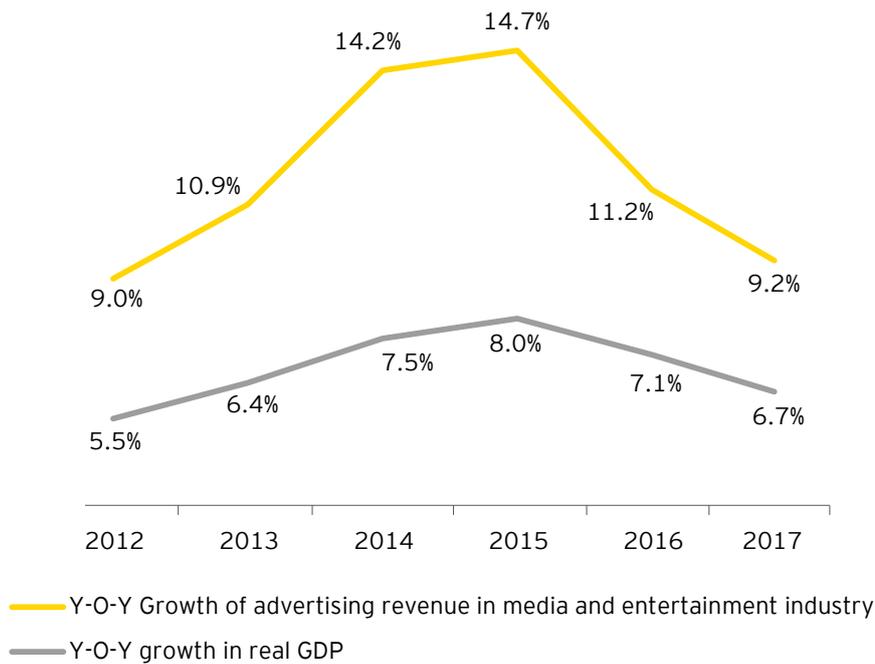
The forecasts will only have a temporary effect on India's M&E industry. Most multilateral agencies see India grow above 7% in the medium-term. While the World Bank forecasts India to grow by 7.5% in both 2019 and 2020, IMF forecasts suggest the growth rate to be 7.4% in FY19 and further increase to 7.8% in FY20¹. The M&E sector grows with the economy albeit at a higher pace, and its medium-term outlook is bright.

The global economy is expected to grow at 3.9% this year, faster than the 3.7% forecast by IMF in October 2017². Global growth is expected to boost India's exports, which have been facing a slowdown in recent years.

The medium-term outlook for the economy will have a positive effect on India's M&E industry as advertisements account for around 50% of revenues. More so, export-led entertainment companies are expected to gain from global growth.

Largely driven by sentiment, ad spends by companies are expected to increase in FY 19 and beyond. A booming economy witnesses higher spending of various industries on advertisement as sales grow.

The graph below shows the movement of ad revenues in tandem with GDP. Further, the year-on-year growth in circulation can be seen with a stable trend of per capita growth in GDP.



Source : **Advertising Revenue:** Lok Sabha Starred Question No. 56, dated on 19.07.2017, Lok Sabha Unstarred Question No. 3204, dated on 24.04.2012, Lok Sabha Unstarred Question No. 4648, dated on 23.04.2013, Lok Sabha Unstarred Question No. 853, dated on 24.07.2015.
GDP Growth rate: International Monetary Fund

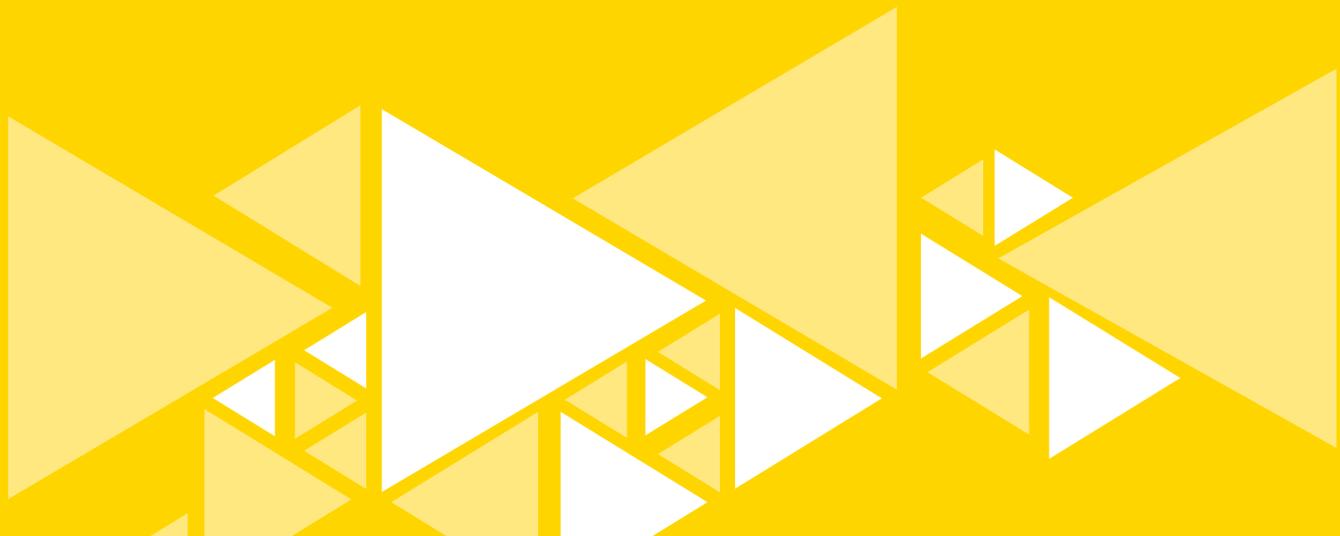
1. IMF January update of the World Economic Outlook: Brighter Prospects, Optimistic Markets, Challenges Ahead
2. Ibid

- ▶ The rise in crude prices, however, needs to be watched carefully, with the Brent ruling at US\$70 a barrel– its highest since December 2014. Crude prices have started firming up and could remain high. This may fuel inflation and reduce the chance of a potential rate cut as well as affect market sentiment. The fear of inflation may negatively impact corporates' willingness to spend, particularly on advertising.
- ▶ However, since the Government is committed to managing inflation at the 4% band (+/- 2%), the chances are that rising crude prices may have only a partial impact on the sector.
- ▶ The industry therefore seems to be well poised in the medium term. In FY2021–23, the Indian economy is set to grow by 8% and more, which may result in a more vibrant M&E sector.



Sangeeta Singh
Economic Advisory, EY India

The global perspective on Indian M&E





John Harrison
Global M&E Leader - EY

M&E sector in India: Seizing new opportunities

From an outside-in perspective, global M&E companies view India as a highly attractive market today with huge potential going forward based on demographic and economic factors. With growing middle class, young demographic, uptake on digital and a rise in the consumer's income, the propensity to spend on media and entertainment is growing faster than the economy itself. India's conducive regulatory environment and high volume of content consumption hold significant potential for foreign investments in the M&E sector. Many global M&E conglomerates have been present in India for more than a decade, and others continue to make forays. At the same time, a vibrant domestic entrepreneurial community is powering the development of content and technology.

The opportunity for global M&E companies to ride this "emerging wave" of growth in India is significant, as is the cost of missing out. Reacting to the speed at which opportunities in India present themselves requires agility. M&E companies need to both anticipate the rewards as well as appreciate the risks.

While there are many opportunities to tap, there are also unique differences and challenges to operating in India compared to other media markets around the world. Diverse content preferences, a very low price point and the distinct regional sub-markets across the country are some of the critical dynamics that global M&E companies need to assess when entering the Indian market. Rampant piracy is also a factor. Companies that understand and adapt to the economic and social fabric of the Indian operating environment and that invest in tailored content and services are likely to maximize their success.

Ultimately, M&E companies considering India must determine the optimal market entry strategy and the path to scale and compare the necessary investment requirements to other capital allocation priorities and growth opportunities available around the world.

All media sub-sectors are currently growing in India. In fact, media sectors regarded as “sunset” industries in mature markets are flourishing in India. For example, the newspaper sector, which is facing declining readership in many international markets because of competition from digital media, continues to thrive in India, driven by increasing literacy rates, consumer spending and the growth of regional markets.

Global M&E companies have an exciting opportunity to leverage the India growth story. Amidst this, there are pockets that are seeing increasing interest from foreign players.

OTT

- ▶ By 2020, India is expected to become the second largest online video viewing audience globally. Driven by the exponential growth of video consumption over digital media, video OTT platforms have been a key focus area for the leading media conglomerates and start-ups alike. The market is also observing the entry of large global digital video players. At present, India has over 30 OTT players, including many global players. The OTT segment in India spans companies from across the media ecosystem including broadcasters, studios, DTH operators, telcos and content aggregators.
- ▶ To gain a foothold in India's highly competitive OTT segment, global players are increasingly signing content licensing deals with local players to expand their content library. They are investing in original short-form content to meet audience demand, especially from consumers of regional content (most Indian OTT users consume content in their native language).

Sports

- ▶ The sports sub-sector in India is slowly changing from being cricket-focused to supporting multiple professional sports leagues. On the back of the Indian Premier League (IPL), the country witnessed the emergence of over 10 leagues such as the Hockey India League (HIL), the Pro Kabaddi League (PKL), the Indian Super League (ISL) and the Premier Badminton League (PBL). Sports viewership has also undergone a transformation, with sports other than cricket contributing to viewership growth.
- ▶ Simultaneously, growing digital consumption and viewership of sports on various platforms such as OTT and social networks is further increasing the overall sports audience. Over 50 million Indians are actively consuming sports content on digital.
- ▶ Global companies clearly recognize India's potential and have been investing in various initiatives such as launching premium sports channels and acquiring broadcasting rights of sports leagues. The 2017 auction of IPL digital media rights likely set a new normal in terms of digital rights acquisition in the country. The auction saw interest from several global players, with bids for digital media rights as high as US\$600 million. Correspondingly, sports sponsorship is increasing, too, generating interests from global players. Global leagues, federations, clubs and sports companies are also setting up their office in India to leverage the growing sports opportunities.

Film co-production and distribution

- ▶ India is witnessing a rise in collaborations between Indian production houses and foreign studios. International studios are spending heavily in their effort to gain a foothold in Bollywood and have established their domestic divisions in collaboration with small production houses. Further, to give impetus to co-productions and collaboration between Indian and overseas filmmakers, the Indian Government has entered into co-production treaties with various countries such as China, Canada, France, Germany, Brazil, Italy, New Zealand and the UK.

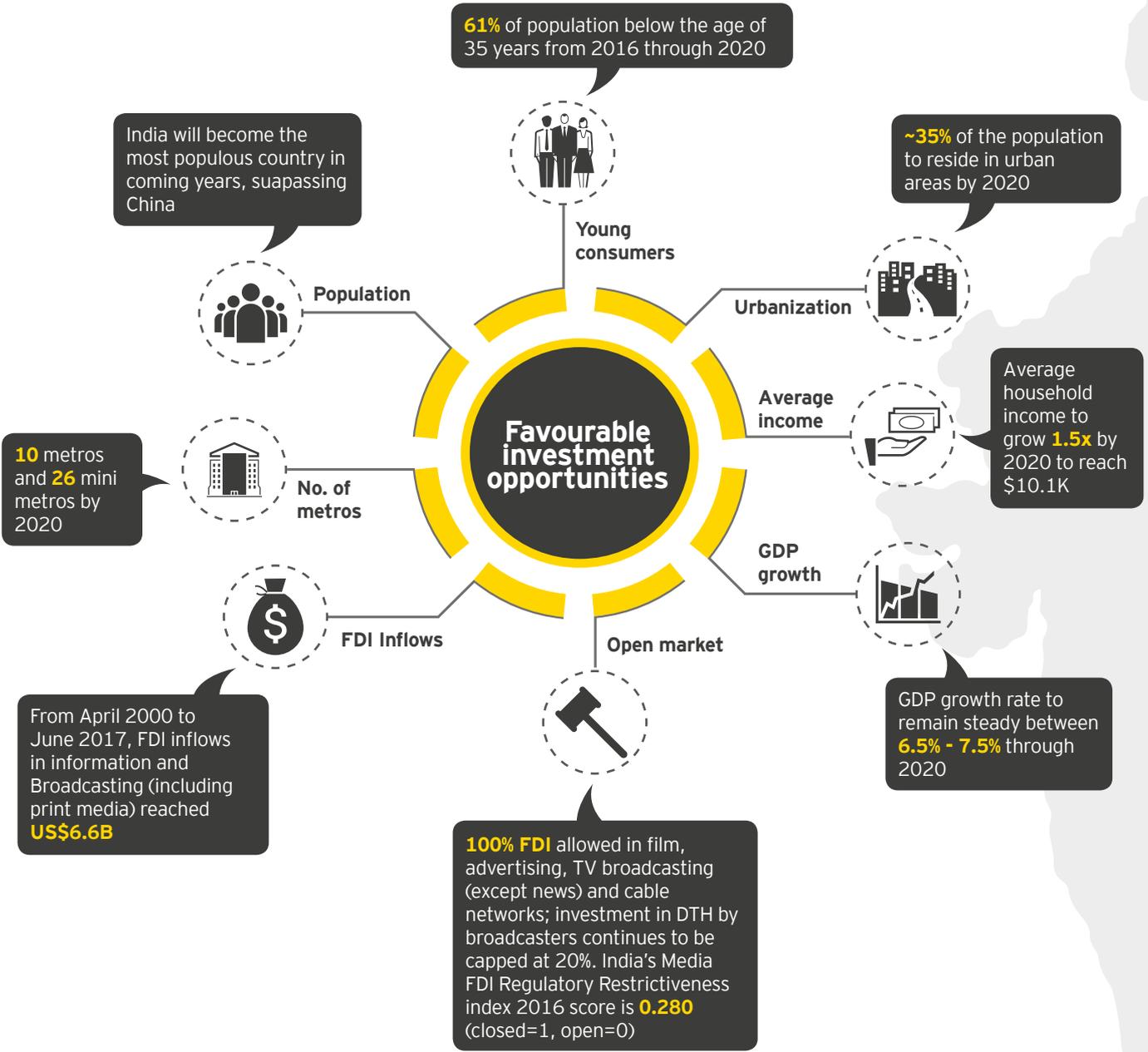
Offshoring

- ▶ Globally, players are leveraging India's demographics, technology and low-cost dividends to offshore elements of their core business as well as back-office operations to India. Media conglomerates have already made it big in the Indian market by leveraging the country's talent pool for animation/VFX, gaming, publishing and media advertising measurement.

M&E sector in India -seizing new opportunities



India is going to become the third largest economy by 2030 backed by strong demographic, economic factors and conducive regulatory environment.



Growing digital infrastructure presents immense opportunities for M&E sector

■ 2nd largest smartphone market by 2017	
■ High speed broadband penetration to breach 53% by 2020	
■ 15x increase in mobile wallets in last 5 years	
■ As of November 2017, average download speed was 8.80Mbps and average fixed broadband download speed was 18.82Mbps	
■ Data consumption has grown to an average of 3.9 GB per month	

While there are many opportunities to tap, there are also unique challenges in the areas of pricing, piracy and ease of doing business

Piracy

M&E sector is plagued by a serious piracy problem. Film sub-sector alone, annually loses **US\$2.8 billion** of its total revenue to piracy. Also, the movie theatre business model is threatened by a rise in digital downloads by consumers and easy availability of inexpensive rental options.

Digital media sub-sector in India has not been able to fully monetize their content due to rampant piracy in India. Weak IP regulations and ineffective enforcement has been a deterrent to produce original content and IP. Also, with the growing global reach of Indian M&E industry and the growth of Indian diaspora abroad, international piracy of Indian content has also emerged as a key challenge.

Low price point

Indian market is highly price sensitive and is majorly advertising driven. Sectors such as Print, Digital, Television and Radio get **revenues from advertising**.

Average subscription cost for Cable/VoD in India is \$1-3 and average film ticket price is around ~\$2. Currently, only 1-2% of the consumers pay for media content online.

Ease of doing business

India's ease of doing business 2018 ranking improved 30 spots to reach **#100**. The country is recognized as one of the top 10 improvers, however, it still lags in areas such as starting a business, enforcing contracts, and dealing with construction permits.

In fact, the time taken to enforce the contract is longer today, at 1,445 days than it was 15 years ago (1,420 days), placing the country in #164 on the indicator.

Segmental Trends

The background features a complex geometric pattern of overlapping triangles and lines in various shades of gray and black, creating a sense of depth and movement.

Television



Overall performance

The TV industry grew from INR594 billion to INR 660 billion in 2017, a growth of 11.2% (9.8% net of taxes). Advertising grew to INR267 billion while distribution grew to INR393 billion. Advertising comprised 40% of revenues, while distribution was 60% of total revenues. At a broadcaster level, however, subscription revenues (including international subscription) made up approximately 28% of revenues.

	2016	2017	2018E	2020E
Advertising	243	267	304	368
Distribution	351	393	430	494
Total	594	660	734	862

Gross of taxes (INR in billion)

EY estimates that while advertising is 41% of industry revenues today (72% of broadcaster revenues), it would grow to 43% of total revenues by 2020 (75% of broadcaster revenues). There are several households in India (over 30%) which are yet to get television screens, but, being bottom of the pyramid households, would tend to move first towards free and sachet products.

The number of licensed private satellite TV channels reached 877, of which 389 were news channels and 488 were non-news channels. 300 channels were pay channels, while 577 were free to air. 11 fresh channel licenses were issued during 2017. There were 1,469 registered MSOs, six DTH operators, two IPTV operators, one HITS operator and Doordarshan's Free Dish free satellite service operating in India. The number of local cable operators is estimated to be over 60,000¹.

Advertising

Television's ad revenues grew 10.1%

Despite an eventful 2017, ad volumes grew

In 2017, the number of advertisers on TV grew to 12,964 and ad volumes grew to 70 million insertions, as reported by BARC2. Ad volume growth was dependent on several factors such as cricket, elections in several large Indian states, penetration of regional channels, launch of new channels, and marquee non-fiction programming, which continued to attract advertisers, irrespective of the impact of demonetization or GST.

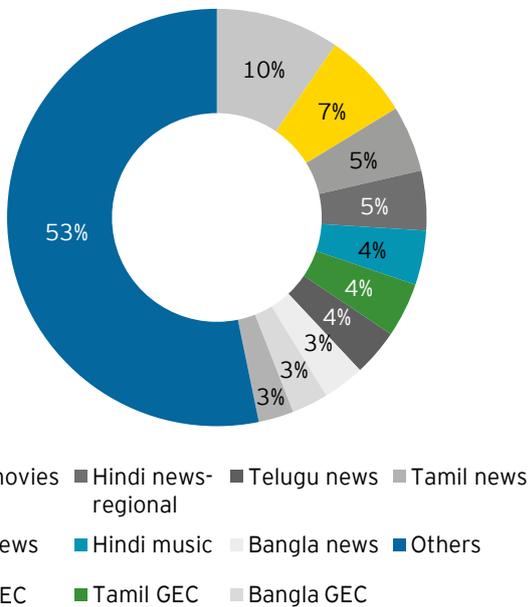
Ad revenue growth was led by volumes and premium properties

Total ad revenues grew from INR243 billion to INR 267 billion, an increase of 10% (8.7% on a net of tax basis). This was largely driven by volume growth as more channels were launched, particularly in the free to air genre. This could indicate that television continues to move towards its core of being an efficient mass medium. Premium properties viz. sports, prime time content, film premieres and reality TV also grew their advertising rates.

1. Source: TRAI website, industry discussions, EY Analysis

2. BARC

Hindi channels continued to lead in ad volumes



The top 10 channel genres accounted for 47% of total ad volumes. Of these, 30% of all ad volumes were on Hindi channels, while the balance 17% were from Tamil, Telugu and Bangla. Hindi Movies as a genre had the most advertisements, assisted by the launch of several free to air movie channels on DD Free Dish.

Regional channels are outpacing many other genres in terms of growth and all large broadcasters have or are planning to enhance their regional channel bouquets. Most are entering markets not with just a GEC, but with a combined offering across entertainment, movies, kids and / or music.

Advertising from Free Dish crossed INR20 billion

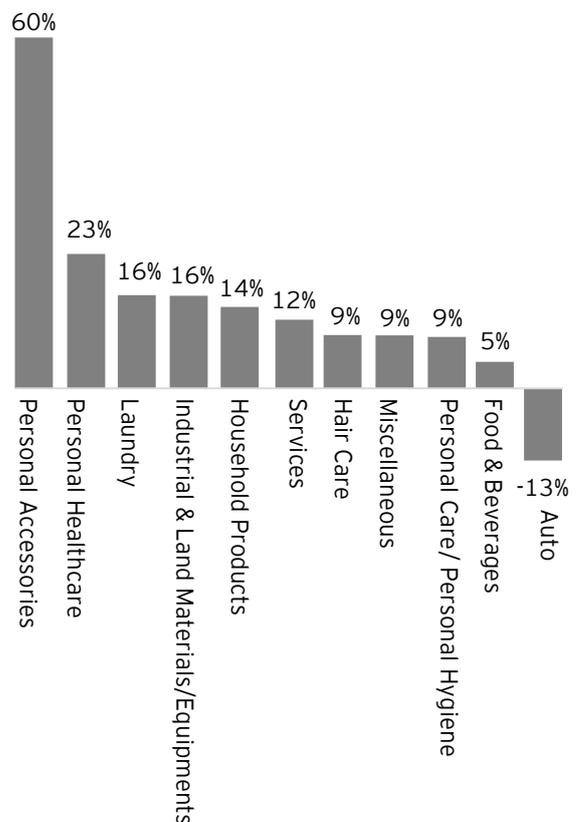
Advertising revenues of large private broadcasters has grown to over INR20 billion from their Free Dish offerings, on the back of the fast growth of Free Dish, and increased rural weightage used by BARC³. While rates are far lower than their pay equivalents, these channels have a large reach, and are often in the list of most viewed channels in the country. Since the audience catered to by such channels is unduplicated with pay TV, they provide an attractive proposition for advertisers wishing to use television to reach out to lower NCCS audiences, particularly in rural areas.

Key Free Dish channels of broadcasters

	Star	Zee	Sony	Viacom18
GEC	Star Utsav Star Bharat	Zee Anmol Zee Hindustan	Sony Pal	Rishtey
Movies	Star Utsav Movies	Zee Anmol Cinema	Sony Wah	Cineplex
Sports	Star Sports First			
Music			Sony Mix	MTV Beats

Except for auto, all top advertising categories showed growth

FCT Growth in 2017 vs 2016 (in seconds)

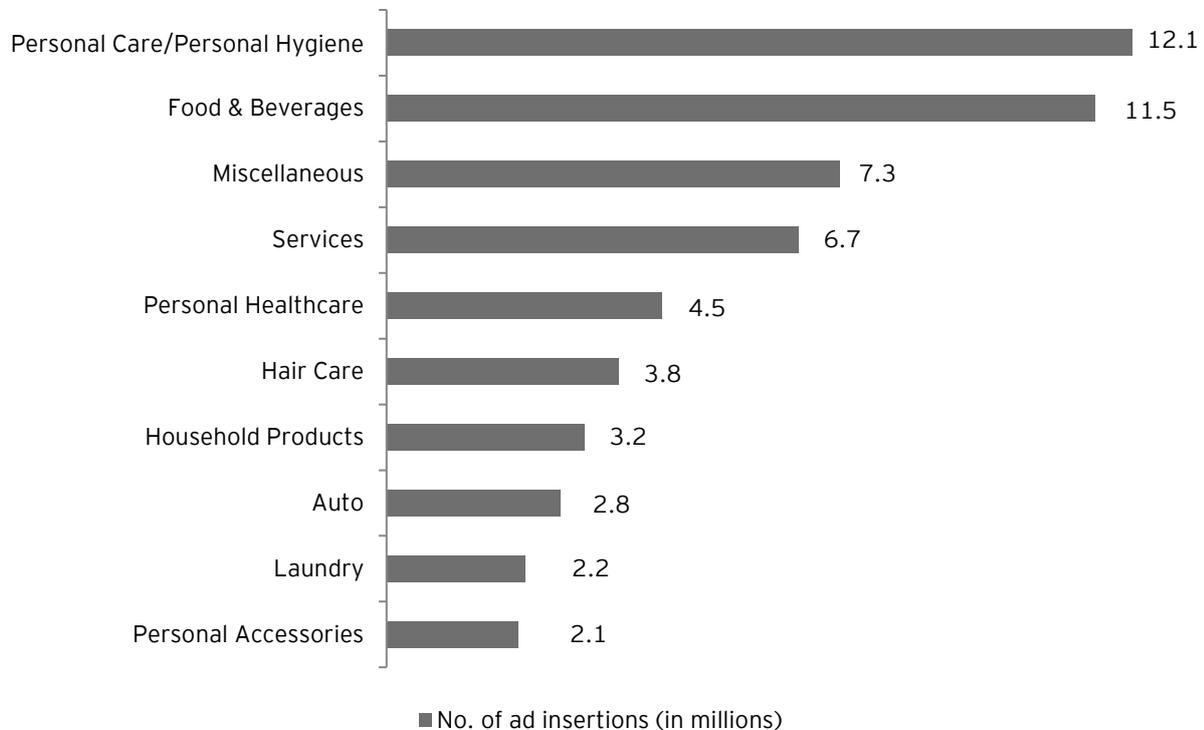


Source: BARC

While auto showed a 13% decline in secondages consumed, the top advertising categories grew by an average of 15% by volume. The fact that the largest categories continued to increase their spends on the medium during a difficult year is a reflection of the health of television in the Indian advertising market.

3. Source: Industry discussions, EY analysis

At the end, looks and hygiene did matter



Source: BARC

Personal care and hygiene products were the largest category of advertisements on television with over 12 million insertions, followed by Food and Beverages, Services and Healthcare. No surprise then that the largest advertisers were FMCG companies.

Events played an important role in revenue generation for news channels

Events and activations counted for as high as 40% of revenues for certain channel genres, particularly business and regional news⁴. The number of awards, contests, etc has been steadily rising over the past few years, and the space is quite cluttered now, with over 650 events estimated to be telecast on news channels in India annually⁵. The bundling of sponsorship with advertising time is a formula that provides an effective cost per contact for sponsors.

Slot sales to advertisers

The volume of slot sales to advertisers has continued to hold for many channels. The launch of additional FTA and pay channels in the news, GEC and movies genres - which have high distribution in HSM and regional markets - has created inventory availability, and generate estimated revenues of between INR 5 to 8 billion⁶.

When BARC revised its rural weightage, it impacted certain genres

2017 saw the full impact of BARC's enhanced rural panel weightage, with genres like infotainment, English news and English entertainment seeing a reduction in their viewership. The increase in weightage to rural India had a positive impact on the kids genre which saw a jump in absolute terms of viewership numbers compared to the previous year.

News channels, too, now appear to be firmly entrenched in many cases as free to air offerings, with several of them on DD's FreeDish platform.

4. Industry discussions
5. EY analysis
6. EY analysis industry discussions

Distribution

The market remained highly fragmented

The distribution segment in India has an estimated 60,000 local cable operators (LCOs) and more than 6,000 multi-service operators (MSOs). As on Oct 2017, 1,469 of these MSOs were registered with the MIB. There were six pay direct-to-home (DTH) operators and Doordarshan's free satellite service in operation. In addition, there was one Headend-in-the-sky (HITS) operator⁷. The DTH companies and 10 largest MSOs dominated the market, serving around 65% of pay TV homes⁸.

TV viewing households grew to 183 million

Of the estimated 286 million households in India, TV penetration reached 64% taking the total number of TV viewing household to 183 million in 2017, which is a 3.5% growth over 2016. This accounted for approximately 780 million viewers. 83% of the total TV households were paying households⁹.

	2016	2017
Cable	100.5	98.5
DTH*	49	52
HITS	0.5	1.5
Free TV	26	31
Total	176	183

(Television households in millions)

* Net of temporarily suspended subscribers, which if included, could grow the subscriber base to around 65 million.

Digitisation resulted in increased customer ARPUs

Digitisation led to increased collections from end customers, across all DAS markets. While the increases varied by location approximate ranges are provided in the table below.

Phase	Customer ARPU range (in INR, gross of tax)
I	250 - 350
II	200 - 325
III	150 - 225
IV	125 - 200

Source: Industry discussions, EY analysis

Increased collections from end customers has resulted in an increase in revenue received by MSOs and broadcasters. The impact can be seen in the table below:

Stakeholder	Before digitisation	After digitisation
Consumer ARPU	100%	100%
LCOs	65% - 80%	45% - 55%
MSOs	10% - 20%	15% - 25%
Broadcasters	10% - 20%	20% - 30%

Source: Industry discussions

In the analog regime, MSOs suffered from revenue leakages since LCOs used to under report the actual number of subscribers and earn higher margins. However, with digitization, transparency has increased and MSOs have increased clarity on number of active consumers with each LCO. This has led to increased bargaining capacity with MSOs. Disbanding of channel aggregators and distributors has also resulted in higher bargaining power with MSOs.

MSO collections from digitized LCOs in DAS I and DAS II markets now ranges from INR80 to INR125 per subscriber per month. In DAS III markets, collections grew significantly to INR50 to INR80 per subscriber per month from the earlier range of INR 30 to INR 50¹⁰.

MSOs moved to a prepaid model with LCOs

EY noted a concerted push towards implementation of a prepaid model by several leading MSOs. MSOs have invested in implementing B2B online portals and are pushing LCOs to transact online on a prepaid basis. Currently, though the prepaid models are implemented by a handful of large MSOs and that too not in all markets, there are definitely compelling reasons for other MSOs to also move towards its implementation as it streamlines billing and reduces collection efforts significantly.

DTH subscribers grew, but ARPUs were under pressure

The number of active DTH subscribers in India grew by over three million during 2017, primarily driven by digitization in DAS III and DAS IV markets. However, due to demonetization, implementation of GST and introduction

7. TRAI website, MIB, EY analysis

8. EY analysis

9. BARC

10. Industry discussions

of low value packs for rural markets and to counter the competition from Free Dish, ARPU has been flat at around INR220 per month as compared to previous year, despite muted increases in package prices.

Investment crunch in DTH remains as the artificial vertical integration restrictions continue despite the fact that FDI policy allows 100% foreign investment into such platforms.

HD subscribers crossed 10 million

As per industry estimates, HD grew with digitization and has been estimated to cross 10 million, on the back of increased sale of large television screens of 40 inches and above, where the viewing experience requires higher quality content. In addition, many distributors are providing over 60 HD channels, including sports, which is a large incentive for subscribers. HD audiences contribute to higher revenues for distribution companies due to the premium pricing that such channels command.

Growth of OTT viewership poses a threat to linear distribution platforms

With the fall in broadband pricing triggered by Jio, the gap between the cost of watching an hour of TV on broadband and traditional cable or DTH has significantly reduced. Given that an average TV household watches over three hours of content a day, it is currently still more expensive to watch TV using broadband, particularly if watched on a large television screen.

However, the fall in broadband prices could pose a threat to the cable and DTH industry. It could lead to increased viewership of TV content on larger screens, for more affluent customers, second television connections and nuclear families, who can move to OTT platforms for their TV consumption. EY estimates that by 2020, there would be around 4 million people who primarily depend on OTT platforms for their content. A number of distribution companies are investing in broadband to mitigate this risk, leading to increased ARPUs and margins.

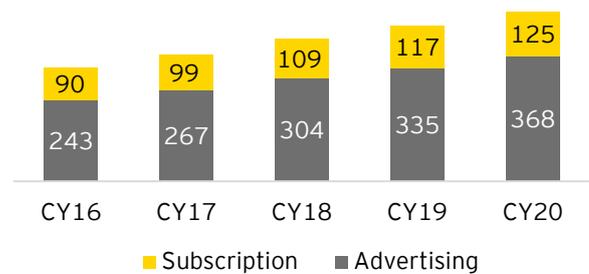
Individual content consumption will increase

With Jio's data packs now providing 1.5 GB per day for around INR5, viewers can watch their specific and preferred content at ease, on their smart phones. This would include content that they otherwise would not be able to watch on a common television set in the house, or content that they can now consume while on the go. This viewership is incremental to television, and provides an opportunity for advertising revenues. With the launch of low cost smartphones by Jio and Airtel in the sub INR2,500 range, consumption through OTT could take place across different audience segments.

Broadcasters have also witnessed growth in subscription revenue

Broadcasters' subscription revenue increased from INR90 billion in 2016 to INR99 billion in 2017. The growth in subscription income was a result of long term contracts with escalation clauses, digitization of TV households and increased transparency. Many broadcasters initiated subscriber audits to validate their revenues as declared by distribution companies. International subscription revenues faced stagnant rates due to increased number of bouquets being offered to consumers. International subscription revenues remained stable, and accounted for around INR20 billion in revenues in 2017¹¹.

Broadcasters revenue



(All figures are in INR billion)

Free TV continued to grow

DD Free Dish, the state-run DTH provider, is the largest TV distribution company in the country with over 24m estimated subscribers. This is considerably higher than large national pay TV companies, which average 8m to 16m each. With over 80 channels currently, DD Free Dish plans to eventually reach 256 channels by 2020. The implementation of the Tariff Order of 2017 could further push the Free TV viewer base to 46 million by 2020¹².

One of the key drivers for the growth of Free Dish was the overlap in the content played by leading broadcasters on their FTA and pay channels. The content played on the FTA channel was as recent as one to three months in certain cases. The key genres on Free Dish include GECs, movies and news. Star has launched a channel with exclusive GEC content for Free Dish, as well as a sports channel, Star Sports First. Broadcasters have now limited the quantum of recent content from their pay channels to Free Dish, after pressure from DTH and MSOs forced them to take this move. There is also a move to remove private pay channels from Free Dish, to protect ad revenues and viewership of Doordarshan's channels, which matter is currently being debated.

11. Industry discussions, EY analysis

12. EY report "India's Free Television", 2017

HITS launched with some scale

Hinduja Group's NXT Digital is the only operational HITS operator in India. In year two of its operations, it has managed to achieve a customer base of 1.5 million subscribers, and is available in eight states. HITS' business model enables thousands of entrepreneurial cable operators from across the country to make a transition from analog to digital while still holding on to their customer base, and provides a viable option to LCOs who need to digitise.

The TRAI Order on Tariff continues to remain sub-judice

The TRAI had released the Telecommunication (Broadcasting and Cable) Services (Eighth) (Addressable systems) Tariff Order, 2017 (No. 1 of 2017) which is currently sub-judice. As per our discussions with broadcasters and distributors, if the Order is implemented, it would have significant impact on broadcasters, distribution companies and consumers. According to this Tariff Order, broadcasters are required to offer their pay channels on a standalone or a-la-carte basis. They would have to declare the monthly maximum retail price (MRP) of each channel with the condition that no pay channel which is a part of a bouquet is priced above INR19. Free-To-Air (FTA) and pay channels would have to be segregated in different bouquets with the MRP of a pay channel bouquet being not less than 85% of the standalone cost of all the pay channels forming it. The key impact of the Order would be a possible reduction in channels to end consumers, closure of non-performing and under-performing TV channels, regulation of channel prices, level playing field for smaller distribution companies and more power to distribution companies to create bouquets.

Some broadcasters believe that regulating their right to price their channels could impact their competitiveness and their ability to invest.

Content

Interactivity is the new immersive

Colors and Sony implemented live interactivity with their audiences during the year. Kaun Banega Crorepati (the Hindi version of Who Wants to be a Millionaire?) Season 10, permitted viewers to play along with the on-show quiz on their smartphones through the Jio Chat app. Participants won points for correct answers, and there were daily prizes based on merit. The Jio Ghar Baithey Jeeto Jackpot contest which also ran, generated over 150 million responses for Sony Entertainment.

Not only did this enable millions of app downloads, but over three million people played each episode on average, which also generated advertising opportunities. Interactivity is possibly the most important trend the Indian TV industry has seen in 2017, as it can make TV content truly immersive. In addition, it increases audience stickiness and time spent on linear TV as well.

Cost of content is increasing

The advent of more TV channels, as well as several OTT players like Amazon Prime, Viu, Alt, Netflix, etc has increased the overall demand for content. While Indian broadcasters produce over 100,000 hours of content annually across languages and formats, newer players are investing higher amounts per episode (albeit for much smaller quantities of content) and are tying up with leading talent. The increase in cost is expected to impact cost of film acquisition more than costs of episodic content.

Some broadcast CEOs estimate that this can increase the overall cost of content by as much as 2-3% of their top line, and that they have no choice but to go down that route. Others maintain that while they are moving towards increased quality in their programming, if it cannot result in disproportionately higher viewership (which in turn can be monetized better), they may not pursue higher quality, but stick to current cost metrics.

Satellite rights values increased

The amount broadcasters paid for satellite rights increased by around 18% in 2017. Large increases were seen for blockbuster films, particularly in the regional language space. Movie channels generated 23% of total viewership¹³. In addition, movies on regional channels also generated significant revenues.

Content exports provide a new, global opportunity

Indian television continued to be exported to over 150 countries across the globe, led by broadcasters like Zee, Star, Sun, Sony and Viacom18, which provided Indian broadcasters with a steady stream of subscription revenues, as well as advertising revenues. News channels have also now become available in over 70 countries.

While these channels largely catered to Indian diaspora in Indian languages, the opportunity for growth in markets like Africa, Middle East, Eastern Europe, etc for dubbed Indian content has grown significantly. In addition, Zee has also commenced its original productions in foreign languages as it aims to penetrate the global market outside of the Indian diaspora, with a mix of local stories and remade Indian content.

13. BARC



Immersive interactivity

The Jio KBC Play Along game was developed to enable an immersive entertainment option for TV viewers. The ability of a viewer to play along with the content on television, in real time, resulted in a large second screen interactive viewing experience, unlike anything seen before on television. Peak viewers playing the game in an episode reached about 4 million, and the Jio Chat app, which integrated the Jio KBC Play Along game, saw over 30 million unique visitors during the season. Play along increased the engagement level, in turn increasing stickiness on the broadcast channel as well. Participation was seen from viewers across the country with some of the Hindi speaking markets witnessing the highest participation.

Sameer Mehta
Reliance JIO

The rise in global consumption of Indian content has also created the ubiquitous challenge of protecting this content in markets such as Canada, Australia and UK where circumvention devices such as Kodi boxes continue to be used to pirate Indian content especially in diaspora communities.

Growth in viewership was led by regional language content

Data from BARC indicates that growth in languages like Punjabi, Oriya, Bhojpuri, Assamese and Gujarati is almost twice the rate of growth of languages like Hindi, Tamil, Telegu, etc, reflecting India's continued pride in our mother tongue, and desire to watch content in the language of the audience's convenience. There has been increased interest across broadcasters to be able to provide better quality and fresher content to regional consumers. Successful sampling of fresher content shall result into higher ER for regional players.

Sports would originally be telecast on one or two languages, including bi-lingual feeds. Of late, as sports rights values have increased significantly, both Sony and Star have started broadcasting sports properties in different feeds. Sony broadcast cricket in three languages. Star plans to broadcast the IPL in four languages, subject to receipt of permissions. Language feeds now comprise 20% - 30% of viewership, while Hindi provides 60% - 70% and English is at just 10%¹⁴.

Quantum of content is reaching peak levels

Several channels have reached the optimum quantum of content. Many experiments were made in 2017 across FTA products, afternoon bands, weekend programming and late prime time, but increases in original content creation were subsequently scaled down. GECs continue to average around 3 to 3.5 hours of fresh content a day.

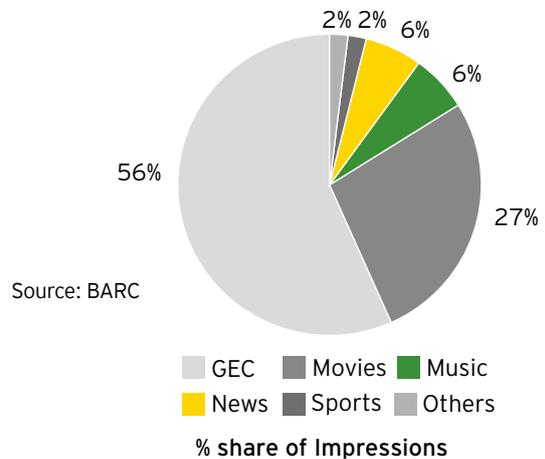
News TV changed its make vs aggregate mix

News television, depending on the type of format, focussed on from around 10-15 stories a day (depth of analysis) to 90 to 100 stories per day (width of coverage) across different products. The key change in 2017 appears to be an increase in the time spent on studio-based content which shows anchors and guests in conversation and debate. Due to a stress on advertising revenues, some news broadcasters

curtailed the amount of original news they generated, and focussed on aggregating news from non-competing channels, other media, digital, etc. The English news genre saw the launch of the much anticipated news channel Republic, which grew the genre, while taking market share from other players. The genre grew ratings between week 8 and week 38 of 2017¹⁵.

Kids watched a lot of non-kids channels

Kids viewership | All India | 2-14 yrs



14. Industry discussions, EY analysis

15. <http://www.indiantelevision.com/television/tv-channels/news-broadcasting/the-rise-and-fall-of-english-news-tv-viewership-171121>

87% kids in 2-14 age group watch non-kids channels while only 13% watch kids channels, according to a research report by BARC India titled 'A Peek into Kids Viewership'. According to BARC, the massive viewership of non-Kids channels could be due to co-viewing. The report stated that kids in the age-group of 2-14 years account for 20% of total TV impressions, which is the highest share across all age cuts. GEC and movie channels account for 80% of kids viewership on non-kids channels

Licensing and merchandising grew

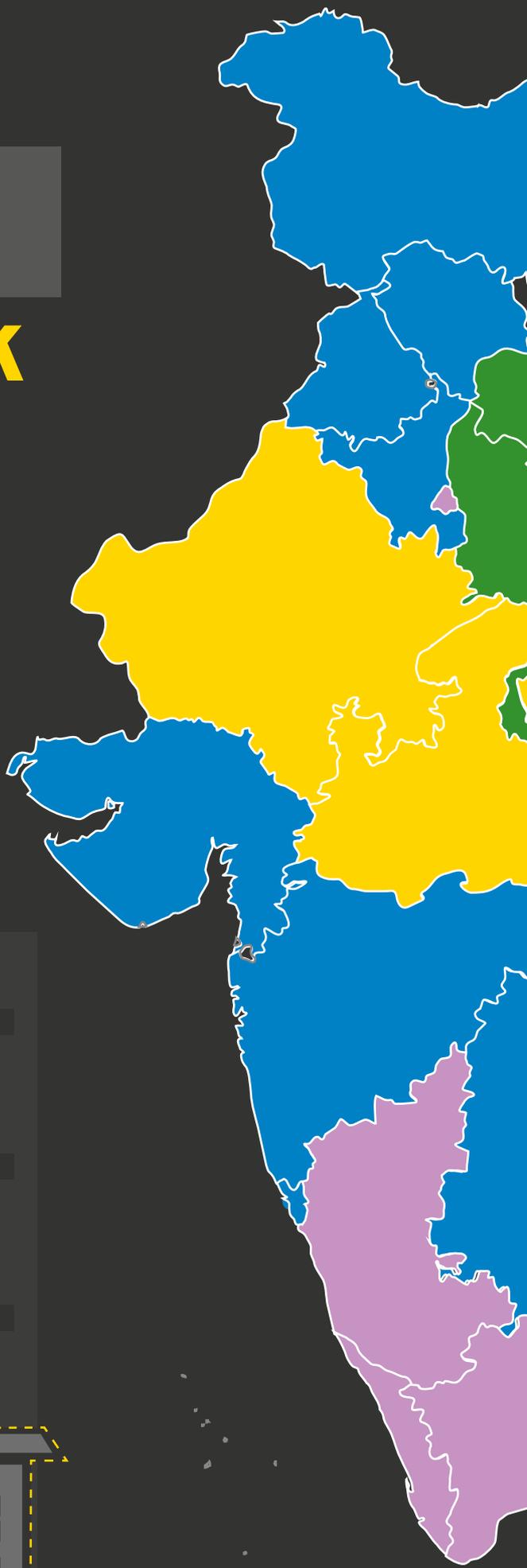
As the Indian middle class grows, and per capita income rises, the opportunity for licensing and merchandising of characters is increasing. Led by children's characters, sports leagues and innovation in brand licensing we expect this revenue source to continue growing, despite the menace of pirated products. Media companies are now providing products across multiple price points. Manufacturers and brands benefit from licensing characters as it enables them to take their existing price points higher by demonstrating a premium value, thereby increasing margins.

Merchandising is led by international characters from Disney, Viacom18 and Turner, but local characters like Chota Bheem, Motu Patlu, My Friend Ganesha, etc have also gained traction. The slew of action movies released in 2017 such as Thor: Ragnarok, Star Wars, Wonder Woman, etc captured the fancy of Indian audiences and correspondingly increased licensing opportunities.



India

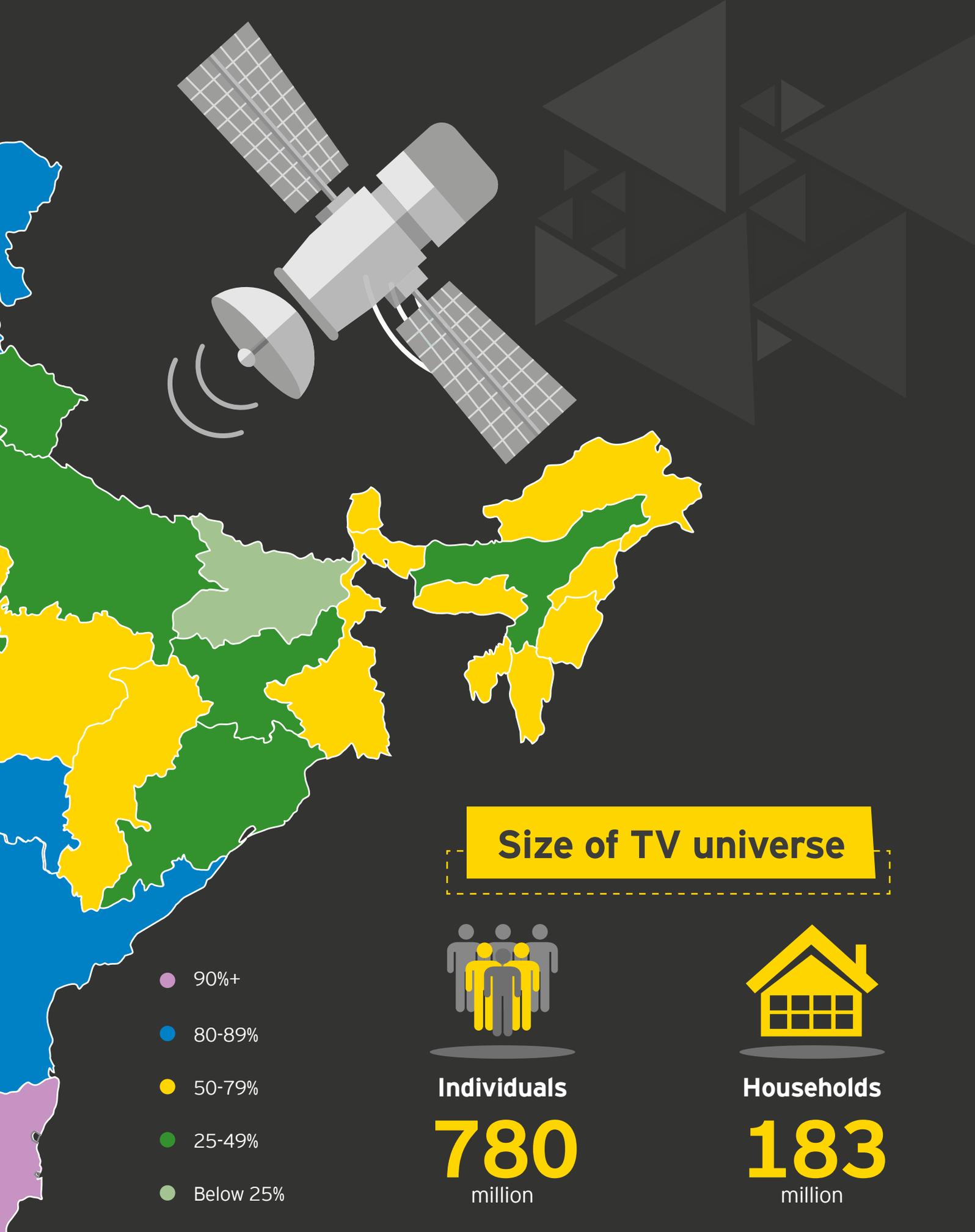
TV Trendbook



TV penetration
in India has
increased to

64%





Size of TV universe

- 90%+
- 80-89%
- 50-79%
- 25-49%
- Below 25%



Individuals

780
million



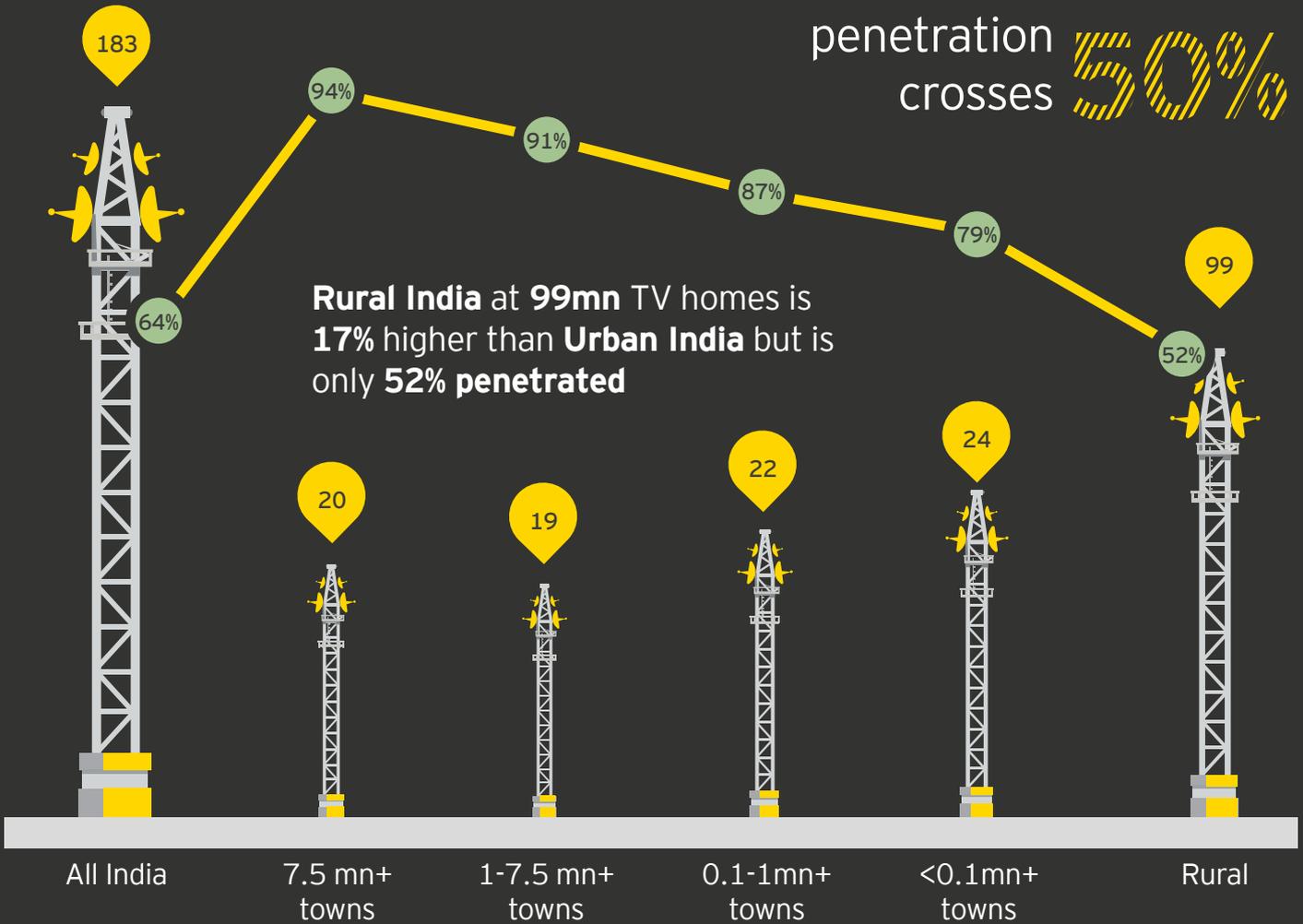
Households

183
million

*All data has been provided by Broadcast Audience Measurement Council and is based on their proprietary research. It has not been validated by EY, and presented in summary form for representation purposes only.

Rural TV

penetration crosses **50%**



TV owning homes in mn % TV penetration



All India Multiple TV penetration is only **3.4%**.



India is still a **Single TV** household market. Co-viewing is **high**.

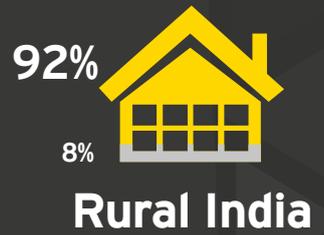
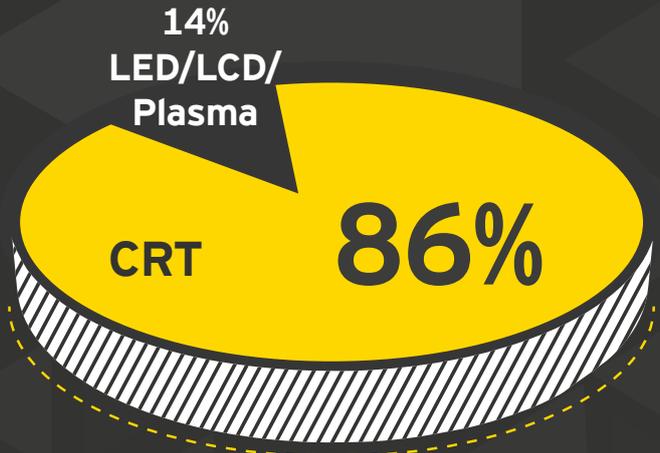
5.1%
Urban

1.9%
Rural

86%

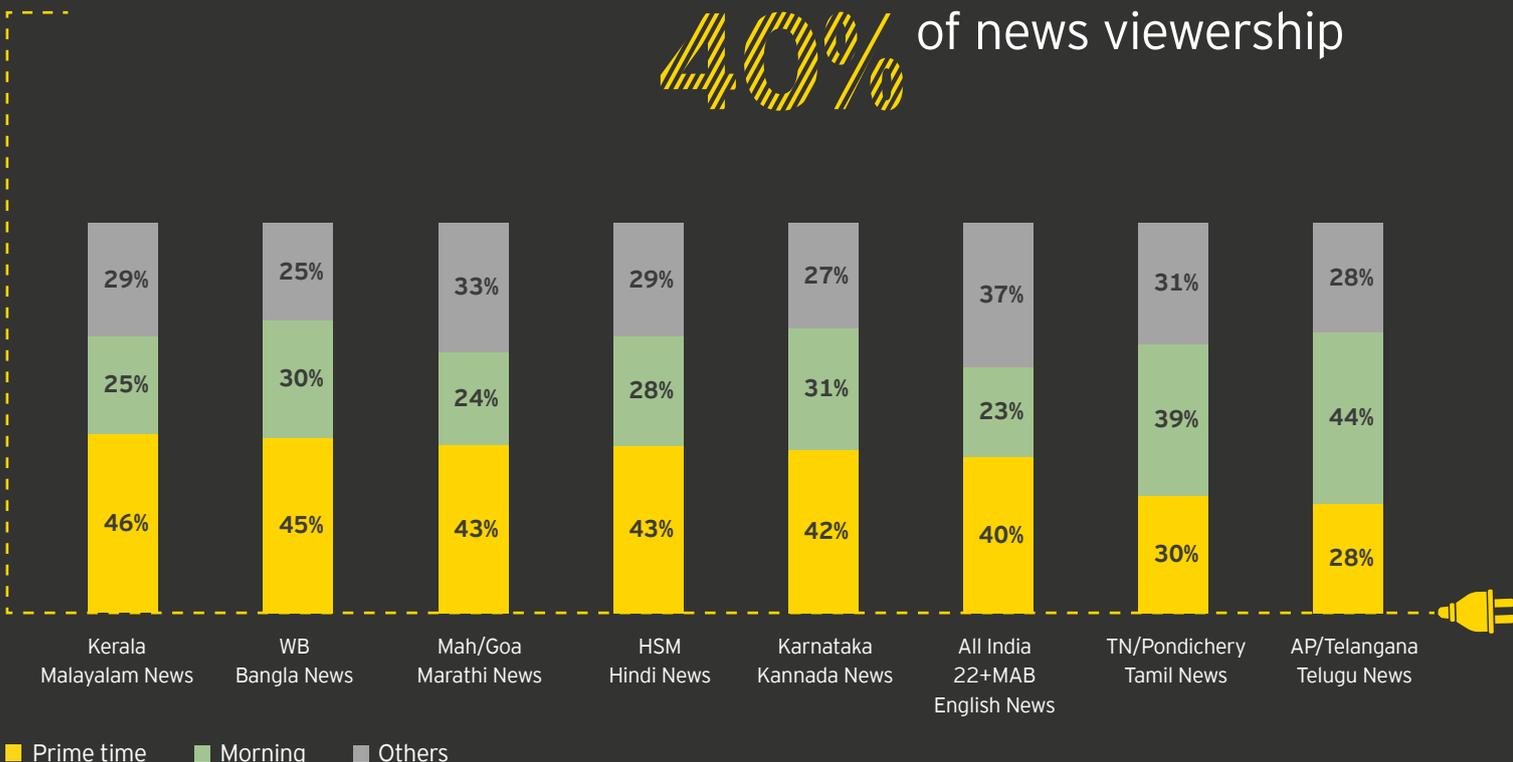
of Indian households still have

CRT Television sets



■ CRT ■ LED/LCD/Plasma

Evening **prime time** contributes to more than **40%** of news viewership

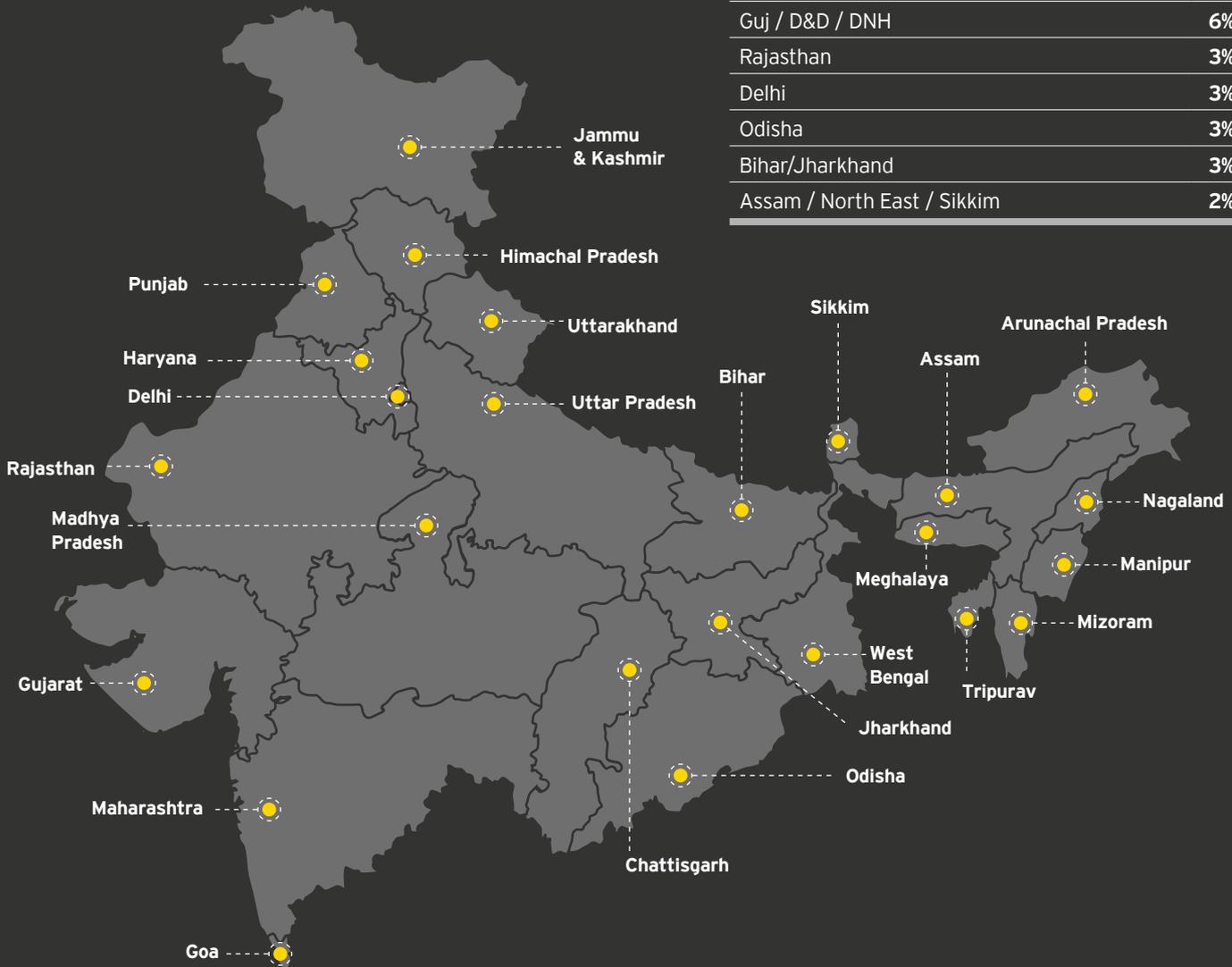


Impressions in '000s

Viewership by state

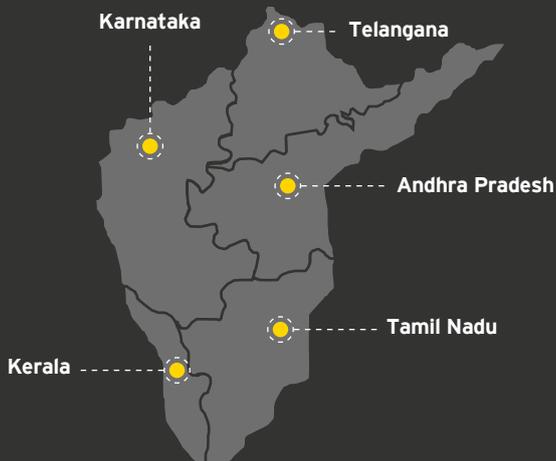
Hindi speaking market (HSM)

Mah / Goa	14%
UP/Uttarakhand	8%
MP/Chhattisgarh	7%
Punjab / Haryana / Chandigarh / HP / J&K	6%
West Bengal	6%
Guj / D&D / DNH	6%
Rajasthan	3%
Delhi	3%
Odisha	3%
Bihar/Jharkhand	3%
Assam / North East / Sikkim	2%



South market

AP / Telangana	13%
TN/Pondicherry	12%
Karnataka	9%
Kerala	4%



Source: All India/ Individuals/ Week 40- 52 2017

South India

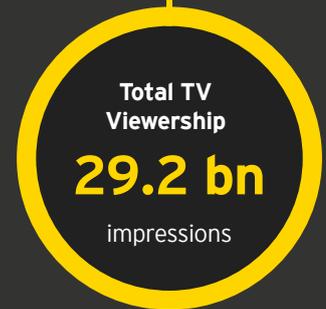
loves its

TV

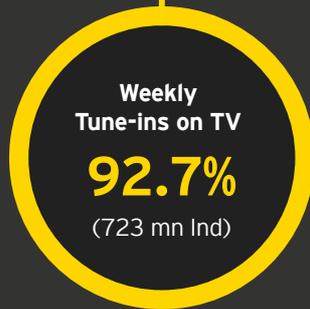
HSM: 03:31:36 | South: 04:09:25



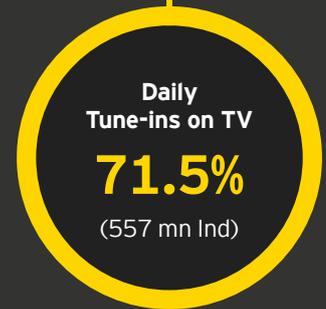
HSM: 18.1 bn | South: 11.1 bn



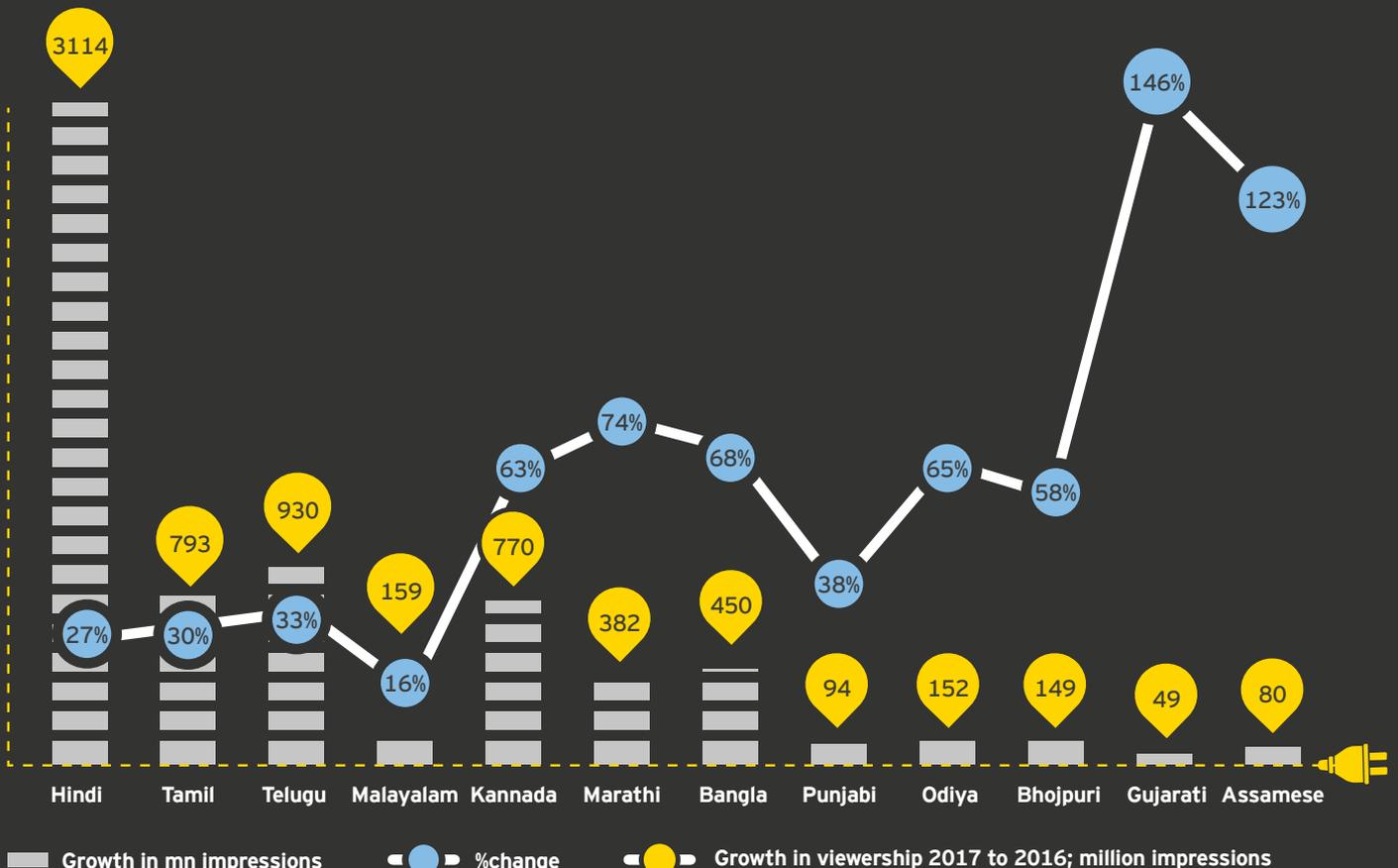
HSM: 91.8% | South: 94.8%



HSM: 68.4% | South: 78.3%



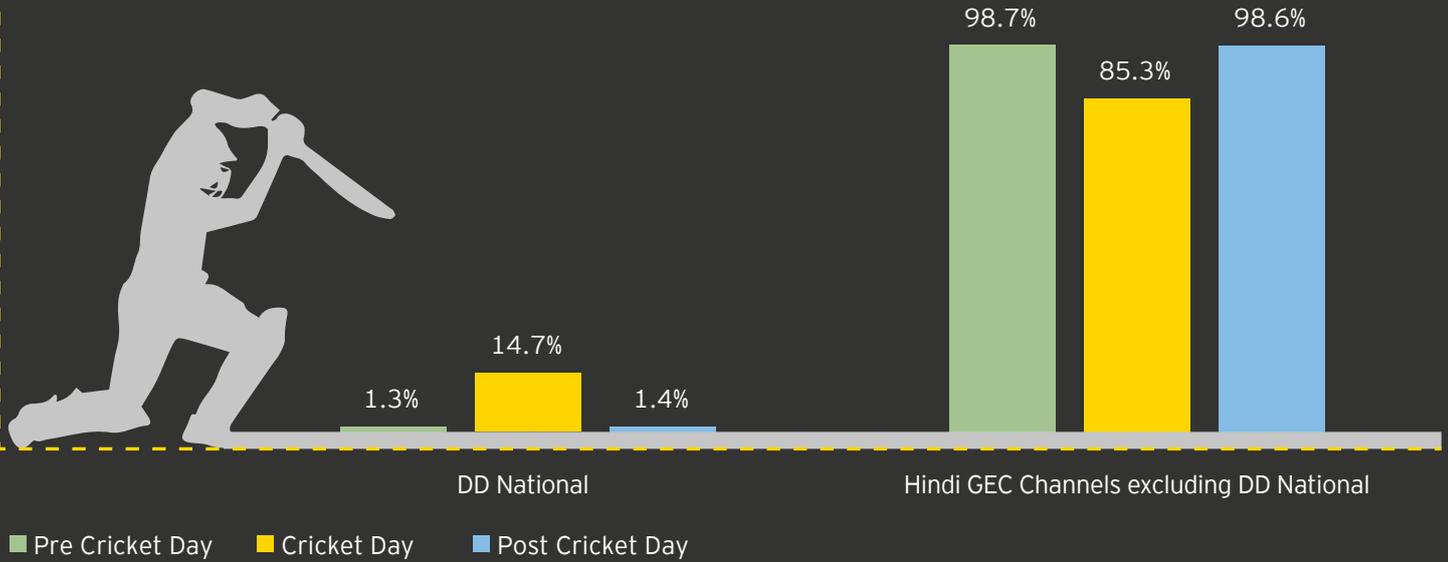
Hindi language remains the preferred language of consumption, but growth is led by regional content



India loves **cricket**

Share of Viewership in Hindi GEC Genre

DD National's share of viewership increases **12 times** in Hindi GEC Genre on the day of cricket matches

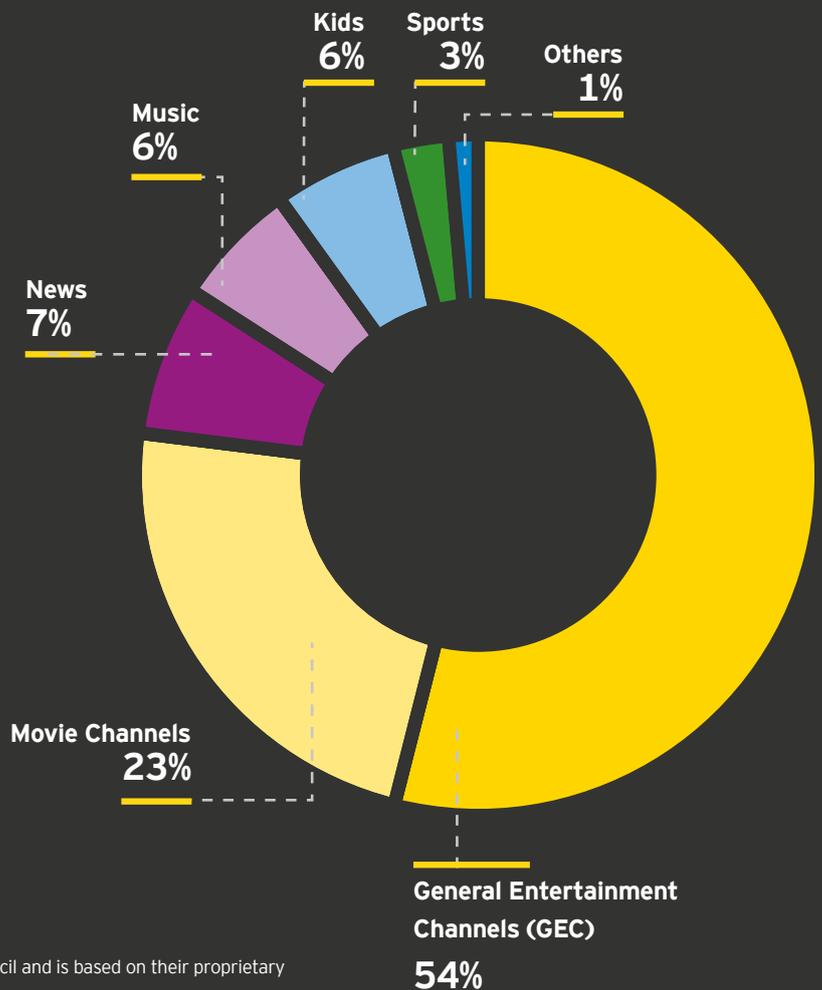


Viewership: HSM/ Hindi GEC/ 2+

Indians need their escapism:

77%

of viewership is **GEC and movie** driven



All India/ week 40 - 52; 2017

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TV viewership has grown by

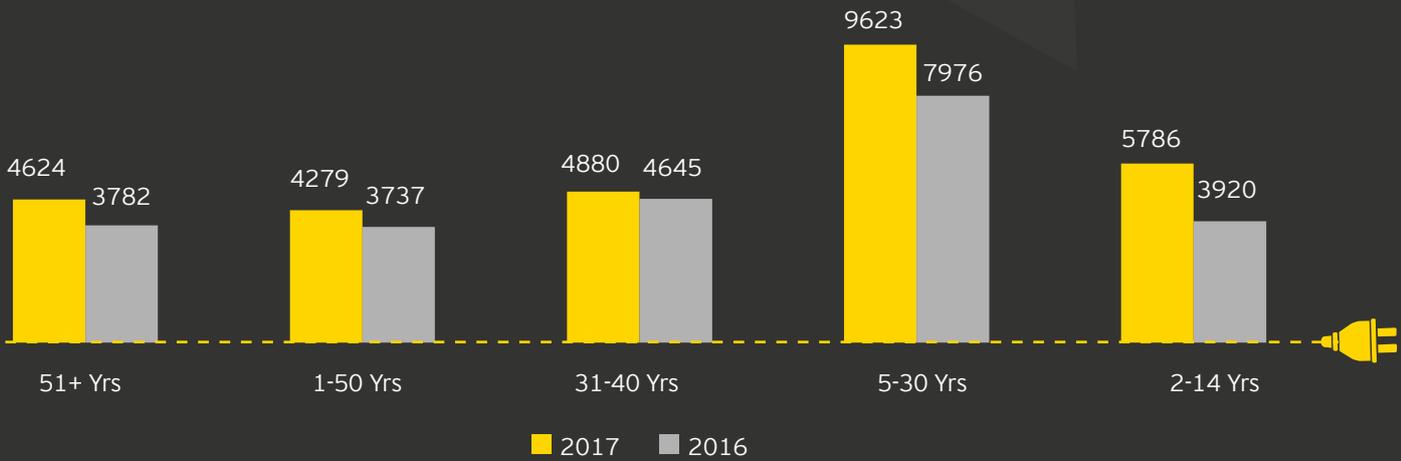
21%

and it has grown across all age groups

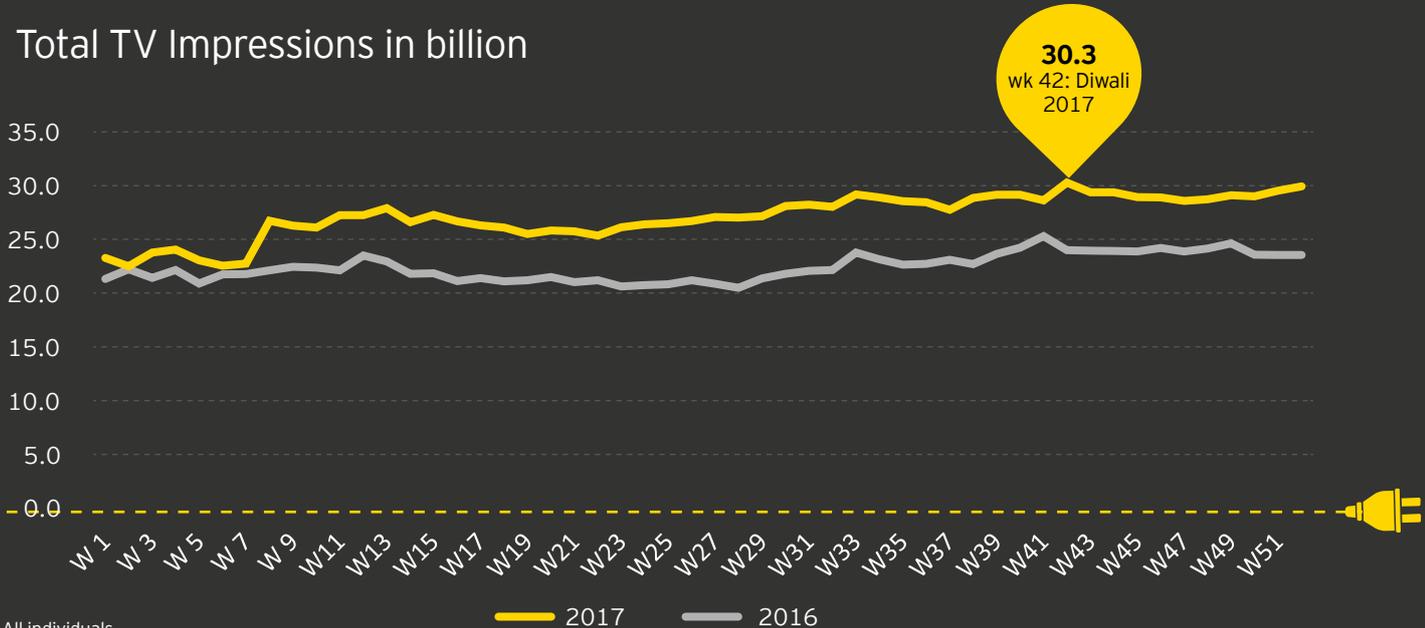


All India/ week 40 - 52; 2017

Viewership in million Impressions



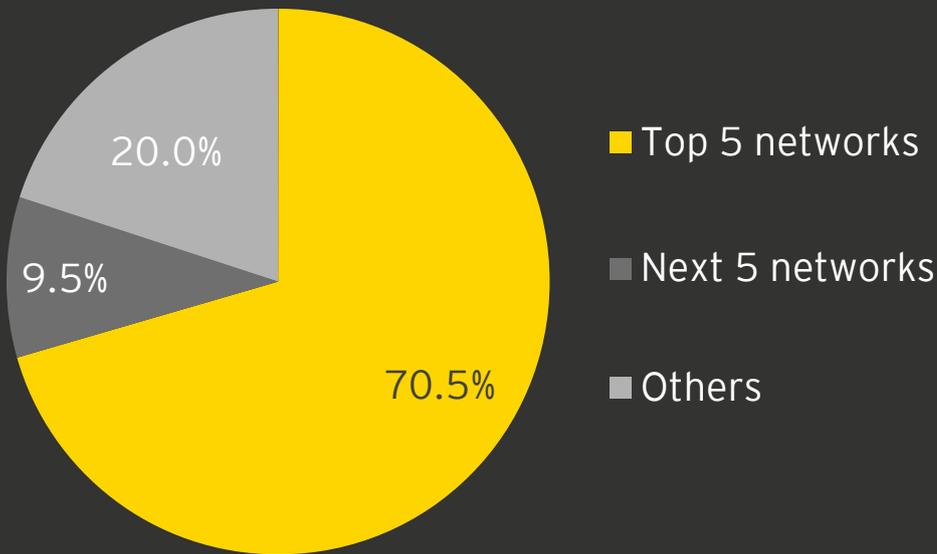
Total TV Impressions in billion



All India/ All individuals

10 networks enjoy **80%** of total viewership

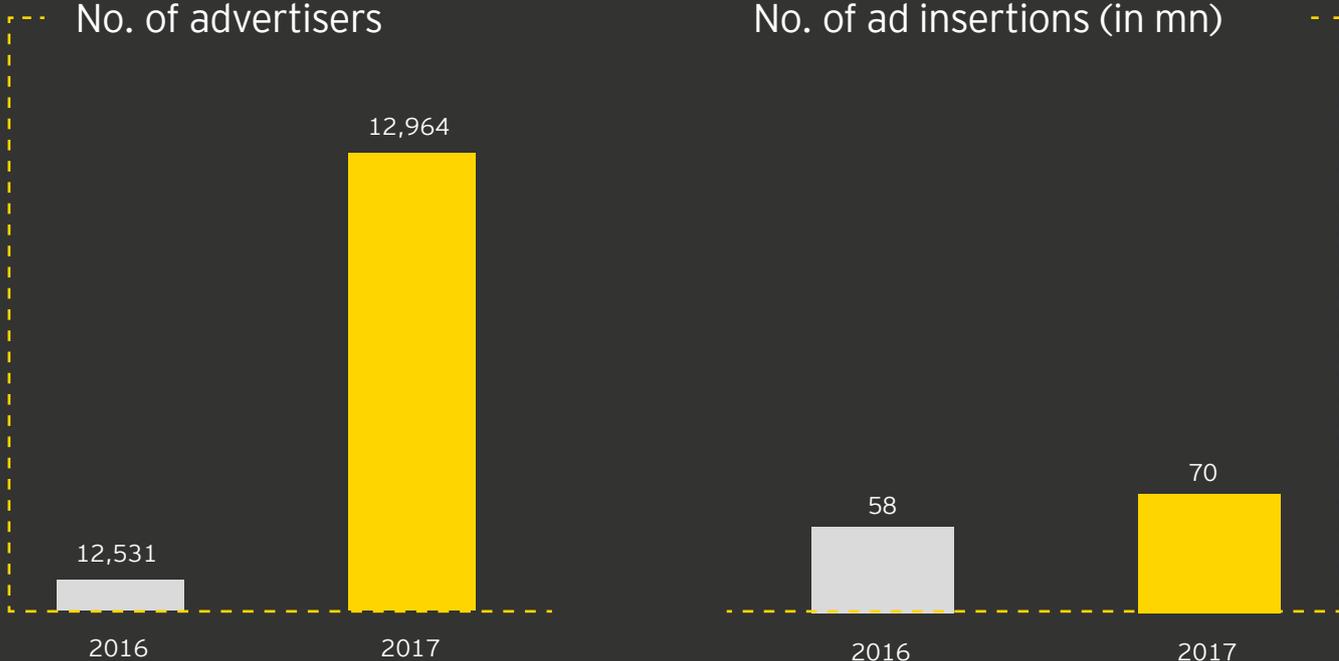
Viewership share of networks



There has been growth in the number of **advertisers** and **ad insertions**

No. of advertisers

No. of ad insertions (in mn)



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Partho Dasgupta

CEO, BARC India

Our Broadcast India study revealed a rapid growth of 19% in TV owning homes, which now stands at 183 million. The rural/urban ownership split, which was almost 50:50, tipped in favour of rural India. And yet TV penetration was only 64% - which meant one-third of India (and Bharat) was yet untouched by TV. A little later in the year, government mandated switch-off of Analogue as part of DAS-4. This "disruption" had a significant impact on number of channels available, and sampled by recently converted digital homes.

2017 saw some interesting trends emerge. One was the sustained and robust growth of news, with a significant contribution coming from female viewership. The other was emergence of sizeable non-cricket sports viewership and growth of regional markets. HD viewership is also growing at a fast clip

Clearly there is room for growth for all segments - free, pay and premium.

Expert speak



Sanjay Gupta

Managing Director, Star India

The regionalization revolution that happened in entertainment over the last few decades is now happening in sports. With sports content now being designed to be much more locally relevant, through languages, dedicated channels and regional events. India's engagement with sports is set to take the next leap.



NP Singh

CEO, Sony Pictures Networks India

Market Share within the right target group will be most important going forward.



Sudhanshu Vats

Group CEO, Viacom 18 Media

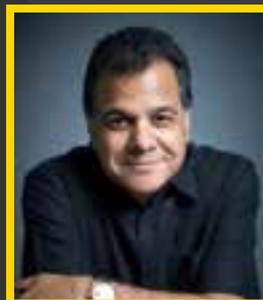
The next ten years for our industry will be very different from the ten years that have gone by. Given the explosion in the number and capacity of diverse pipes, IP owners will be able to unlock value at a much greater scale - if they get their product and business model right. With time, the tech edge that digital-only behemoths have over their legacy counterparts will begin to narrow. The endgame will be won by media organizations that are able to attract the best talent pool across industries and create a winning culture.



Harit Nagpal

CEO, Tata Sky

The pace at which Cable users have been converting to DTH, because cable digitisation was not made addressable, will reach a tipping point and accelerate in the next 12-24 months.



Raj Nayak

COO, Viacom 18 Media

Maximization of revenue from content, and not exclusivity of content, is the future for all media companies.



Ashok Mansukhani

MD & CEO - Hinduja Media Group

Media Convergence is no longer a buzz word but a reality in India today. People, not only devices, are driving convergence and though the industry has focused on bulk transmission model, the need of the hour is to cater to individual choice at a value for money price.



MK Anand

MD & CEO, Times Network

English news brands operate in the Opinion space for which the emerging Digital environment is most conducive. If managed right, English news brands will have digital businesses as big as their linear businesses in 3 years.



Amit Goenka

CEO, Zee International & Z5 Global

International television revenues have remained a stable source of income for Indian broadcasters, and we expect them to grow further on the back of digital media. The incremental opportunity is creating content for non-diaspora audiences, either original or dubbed, and this will open up additional revenue streams for India.

Rajan Gupta

Managing Director - Hathway Cable & Datacom

With all phases of digitalisation behind us, FY 19 will be about revenue growth management through driving opportunity to delight consumers at every micro segment level. On one hand rural revenue will continue to grow as consumers are first time enjoying more than 400 channels and much better picture quality, metros and other parts of urban India will see scale up of high speed broadband, HD boxes and Internet TV boxes. This is historic time for Digital cable sector as there is a surge in consumer appetite for high quality content and consumer is ready to pay for better picture quality and UI. It gives opportunity to each player in cable segment to participate in next disruptive phase of growth journey by investing in high speed broadband and Hybrid TV. Proliferation of cloud, AI and machine learning driven distribution platform will further enable Digital Cable sector to offer world class TV viewing experience to Indian consumers. FY 19 will also need much deeper collaboration among partners at all levels of value chain to co-create consumer friendly future of TV and golden era of streaming videos and other low cost and easy to use services.

Expert speak



Avinash Pandey
COO, ABP News

Worldwide, news makes more money for broadcasters than GEC channels. One of the reasons this is not applicable to India is the lack of audience measurement metrics that advertisers and media planners can study. In countries like Singapore, raw data from metered homes is available for rating agencies and advertisers alike to analyse and monitor. If this can be implemented in India as well, it would ensure that news channels are able to garner a lot more revenues, keeping in line with the genre's reach and popularity



Rajesh Sethi
CEO, Siticable

As a nation it took us a decade transitioning from analog to digital TV, but transition from Digital TV to Digital Media is expected to be far quicker. Technology is already ushering in Convergence of Linear TV, OTT and Broadband among the masses through low-cost solutions. We are witnessing widespread proliferation of app based content, which coupled with rise in low priced delivery choices (Smartphones/ 4G /Broadband) in the market, is shifting viewership from linear TV towards online mediums with multi-screen viewing. The content of future will have more and more interactive/engaging elements with delivery platforms / apps supporting such kind of offerings at a price which appeals to the masses. At SITI, we look all these changes in the environment as an opportunity and are geared up to harness innovations to better connect & deliver the entertainment which our customer desire.



Anil Khara
CEO, Videocon D2H

The main entertainment pipe for the living room will always be cable or DTH. Other OTT services will be complimentary to the main connection even in the long term.



Ritu Dhawan

Managing Director, India TV

There is a great opportunity in the news broadcasting market for the news channels to work together in the short-term to stabilize, and in the long term to grow advertising revenues. However, this can be achieved only by agreeing upon certain ad selling practices (like having base rates for inventory) and ensuring that competitors don't undercut each other for short-term gains.

Sunil Taldar

CEO - DTH Business, Bharti Airtel

The DTH industry has transformed the TV experience for customers in India with superior technology and products. Given the massive upside available for expanding digital television in India, the industry is well positioned to serve customers and provide reach to content providers. At Airtel Digital TV, we are committed to bringing exciting innovations to our customers and be at the forefront of this growth story.

Anil Dua

CEO - Dish TV India Ltd.

Our vision of the future of television service distribution is an amalgamation of customer centricity, reach and technology. Technological evolutions through the rapid proliferation of internet will be leveraged by us to maintain our supremacy by further building on our reach and customer connect. So as the ecosystem gets 'smart', we are determined to get 'smarter' using sustainable, complementing initiatives that enable Dish TV to continue enriching the lives of its subscribers.



Vynsley Fernandes

Executive Director, Castle Media

India has always played leapfrog when it comes to adapting new technologies in media. And 2018 will be no different. Whilst a few news networks have already broken ground with AR technology - seen in the last state elections; we'll see the AR "big picture" emerging in sporting events soon. Fintech, including blockchain and diverse new digital payment platforms will drive the new virtual economy. Coupled with new technologies, pay television firms are expected to continue focusing on increasing HD penetration, consolidation and leveraging multi-screen delivery.

Role of the public broadcaster



Shashi Shekhar Vempati
CEO, Prasar Bharati

Disruptions in the M&E industry are changing the way content is consumed and accessed across platforms. Technology is also evolving to refine formats, bring visibility of content libraries, monetize and integrate with new ecosystems. The next wave of innovation has to go beyond technology itself, leveraging human creativity. The US and China are already invested on areas such as automation and AI to enrich the media supply chain. We should aspire to become a creative powerhouse and churn out high-end content like we have already done with sports (IP creation of IPL, Pro Kabaddi League etc.). To do so, investment is required in fields such as talent coaching and content generation.

For a public broadcaster, it is very critical to reach out to the masses, aim to become a strong voice for India on global forums and produce more digital content for young digital natives. One way forward for this approach would be for public broadcasters to work closely with the private sector to create an Indian global brand. We must be cautious of preserving the culture of the public broadcaster, but at the same time move away from an only government-funded to a self-sustained model. This would require reinventing all platforms such as DTH and DTT and how they source content. Moving from a rigid rate card to a flexible model responsive to market demand would be an advisable move. Lastly, creating incentive structures for sales teams would also boost productivity.

What went well for M&E?

- ▶ *India, a large democracy, has provided a free world market in the M&E space*
- ▶ *Unlocking the potential of ease of doing business by ranking the states*
- ▶ *Increase in FTA penetration*
- ▶ *Focus on rural market/channels*

Current M&E gaps

- ▶ *TV penetration still not 100%, hence potential to grow in markets*
- ▶ *Theater screen penetration still low*

Looking beyond for M&E

- ▶ *Move ahead in the race on technology (robotics, AI) - The US and China already ahead of us*
- ▶ *Position ourselves as beyond algorithm and aspire to become a powerhouse of the creative economy (high-end content), like we did with sports (Khelo India, IPL, Pro Kabaddi league etc.)*
- ▶ *Invest in content, talent coaching and marketplace of talent*
- ▶ *Look at micro subscriptions and mobile payment wallets as the way forward*

Looking beyond for Prasar Bharati

- ▶ *Act as an anchor to preserve the culture*
- ▶ *Work closely with the private sector to create an Indian global brand*
- ▶ *Become a platform enabler for a strong voice of India on global forums, new English channel launch, and more digital content*
- ▶ *Public broadcaster to move away from only government funded to self-sustained model, which means:*
 - ▶ *Platforms must be based on revenue-sharing models*
 - ▶ *There should be a strong product strategy to produce fresh content*
 - ▶ *Moving away from a rigid rate card, make it responsive to market demands*
 - ▶ *There should be incentives to motivate ad sales teams*

Print is growing in India

Print accounted for the second largest share of the Indian M&E sector, growing at 3% to reach INR303 billion in 2017. Print media is estimated to grow at an overall CAGR of approximately 7% till 2020 with vernacular at 8%-9% and English slightly slower¹. This growth is expected despite the FDI limit remaining unchanged at 26% and therefore restricting access to foreign print players and the imposition of GST at 5% on the advertising revenues of the print industry for the first time in history.

	2016	2017	2018E	2020E
Advertising	214.8	216.2	238.0	262.4
Circulation	80.8	87.3	93.4	106.9
Total	295.7	303.4	331.4	369.3

Gross of taxes (INR billion)

While magazines contributed 4.3% to the total print segment, the segment was at largely status quo with not many significant new launches in 2017. Circulation was further advanced through app-based aggregation and discovery such as Daily Hunt, Magzter etc though it will take some years to translate into top-line growth.

	2016	2017	2018E	2020E
Newspaper revenues	281.7	290.4	317.2	353.5
Magazine revenues	14.0	13.0	14.3	15.8
Total	295.7	303.4	331.4	369.3

Gross of taxes (INR billion)

Print in India is very different from that in most developed markets, on account of four key reasons:

Cost advantage: Newspaper cover prices in India are very low, which make them very affordable. They cost no more than INR200 per month (roughly US\$3), which is close to the cost of a single newspaper per day in the US.

Home delivery: Most newspapers in India are delivered to customers' homes every morning, which makes them very accessible and convenient. In the West, people generally buy newspapers from the stands or the metro stations.

Credibility and habit: Most of the people start their day reading a newspaper; it has become a habit that is not easy to break. While the youth in a household might have shifted to digital media, members aged 35 years and above still prefer a physical copy. In addition, several surveys indicate that newspapers enjoy a significant perception of their credibility being better than other news sources.

Localization: Newspapers are the primary medium that caters to local neighborhood/city news. This, in addition to their credibility, helps them cater to a loyal and diverse set of readers.

Advertising revenues

Advertising grew 1%

Advertising grew by just 1% in 2017 because macro-economic factors of demonetization, the implementation of RERA and GST impacted the ad sales of the Indian print segment. Ad revenues were negatively impacted by the effects of demonetization in the January to March 2017 quarter, as classifieds dropped and especially retail advertisers saw a steep downturn in sales due to cash shortages. In addition, GST had an impact on advertising, which lasted for between five and seven months, based on our CXO discussions.

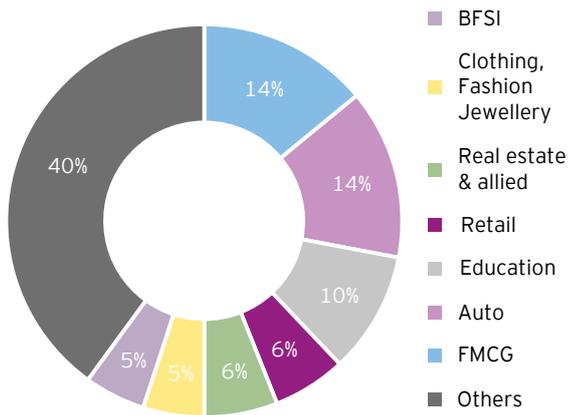
The second half of calendar year 2017 saw a recovery, led by increased ad spending by government and political parties during state elections, revival of spends during the festival season, greater focus on yield management by the industry and changes to the product and consumer engagement undertaken by many players. Overall, English language revenues grew in 2017, while Hindi and other language revenues grew marginally.

1. Industry discussions, listed print company results, EY analysis, Pitch Madison Advertising Report 2018

FMCG led the advertiser mix²

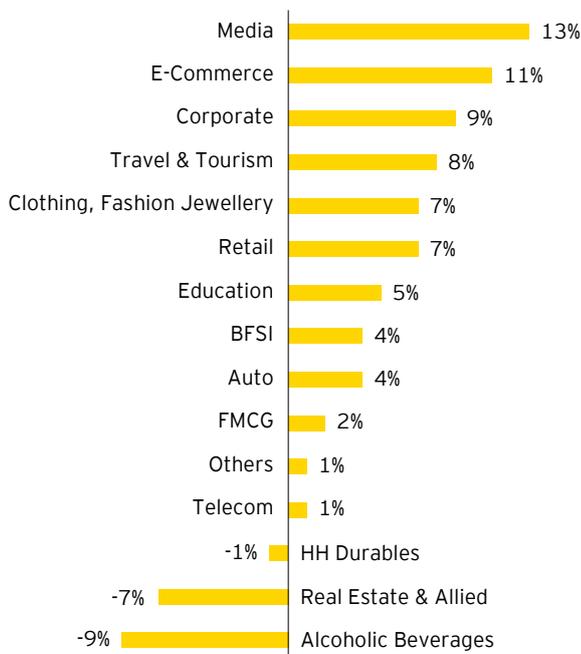
FMCG and Auto were the largest advertising categories in 2017 on print, followed by Education, Retail and Real estate.

Contribution %



Real estate and durables reduced their share of print advertising during the year, while the largest increases were seen in Media and e-Commerce.

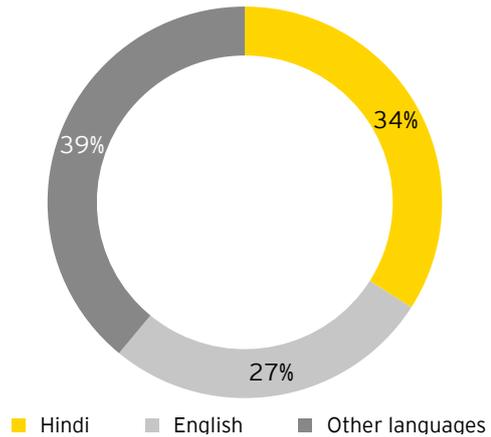
Change in ad spend 2017 vs 2016



Ad mix by language³

2017 saw 61% of total advertising volumes (in column cms) being commanded by Hindi and English publications followed by Marathi, Telugu and Tamil.

Share of column centimeters 2017



Move from reach to quality

An emerging trend among newspapers and their advertisers is wanting to know the audience they are reaching. Advertisers are not as obsessed with reach, but are slowly inching toward reach effectiveness, i.e., evaluating the quality of audience and the return on their print investments.

Print is one of the most commonly used mediums for localized/targeted advertisements. Brands wanting to engage audience in smaller cities and towns significantly leverage the print medium. Rapid growth in Tier II and III cities has created opportunities for national/regional entrepreneurs who have a localized offering and want to cash in on the boom in these markets. The combination of print with digital can demonstrate a high return on investment.

Events remained an integral part of revenue

Some of the largest event companies in India are print companies. Individual companies execute up to 400 events a year, across awards, rallies, contests, sports, seminars, exhibitions, concerts etc. The print plus live plus digital combination provides a cost-effective way to reach audiences. Print companies with defined target audiences - particularly magazines - are able to generate a significant portion of their revenues from events.

2. Pitch Madison Advertising Report 2018
 3. Pitch Madison Advertising Report 2018

Genre	Percentage of revenues from content solutions ⁴
News	10-20%
Non-news	20-30%
B2B	40-80%
Niche B2C	40%+

Our interviews indicate that some magazines generate as much as 80% of top line from events, and 150% of their profits. Compared to standalone event management companies, niche publishers have a distinct advantage of leveraging established IPs as events, branded activations, shows on TV and OTT platforms; which are also bundled with their existing media platforms, garnering average ROI of 25% - 35%. International publishing houses such as Conde Nast International have extended branded activations to branded education courses in UK and Shanghai in addition to events, exhibitions and conferences.

Subscription revenues

Subscription grew by 8%

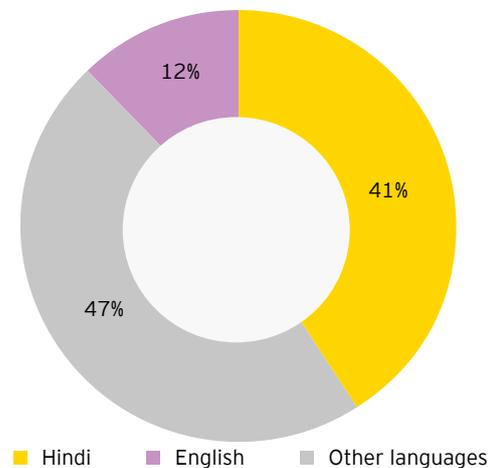
Subscription growth of 8% in 2017 was due to increase in circulation i.e., copies distributed, mainly in under-penetrated markets, on the back of micro-targeting of localities and increased reach of distribution. Launch of several circulation generating schemes (apart from bundling and discounting) were undertaken in 2017 as the industry focused more on subscription, which increased its share of revenues from 27% to 29% of total revenues. Digital editions of magazines saw growth in metros due to the larger screen sizes of smartphones and bundling with physical deals. Magazine subscriptions on average held their own and did not significantly change.

The year 2017 saw cover prices either remain the same or increase for most publications. India has among the lowest cover prices in the world, and the cost of printing and distributing the newspaper is usually much higher than the cover price. Given recent shortages in newsprint availability and rising price of crude, we expect this trend of increasing cover prices to continue.

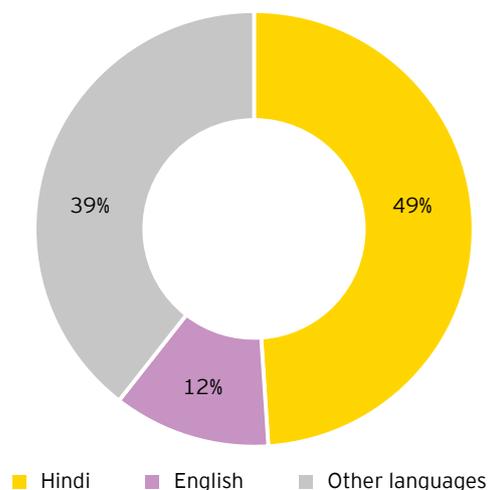
Hindi newspapers comprised 49% of total circulation⁵

As per the "Press in India 2016-17" report, an Annual Publication of the Registrar of Newspapers for India (RNI), the total number of registered publications in India as on March 31, 2017 was 114,820, of which 16,993 were newspapers. 4,007 new publications were registered during 2016-17, while 38 ceased, which was a 3.6% growth. The maximum publications across any language were in Hindi (46,587), followed by English (14,365).

Indian publications by language



Indian publications by claimed circulation



4. Source: Industry discussion

5. <http://pib.nic.in/newsite/PrintRelease.aspx?relid=174388> accessed Feb 22, 2018

Readership

Total Readership (previous month) grew to 395 million; Readership (yesterday) was stagnant

With the growing push on education, the literacy levels in Indian states are improving. And with improving literacy, the readership is also expected to grow. The latest IRS results - released after a gap of over three years - show a significant growth with Total Readership (previous month) which grew by over 110 million over the last three years, or around 11% y-o-y. The reader base has grown to 395 million Indians, who have read any publication during the previous month. 98% of readers read dailies, while 20% read magazines⁶.

It is important to note that Total Readership indicates a reader having read a newspaper at any time during the previous month. When compared with the immediate "Yesterday" Readership segment (i.e., a study of whether a person read the newspaper the previous day) - essentially the average issue readership - growth has been stagnant.

Therefore, a common concern in the print segment was knowing readers better with an aim to strengthen brands and market position. Readership knowledge is critical to achieve the following:

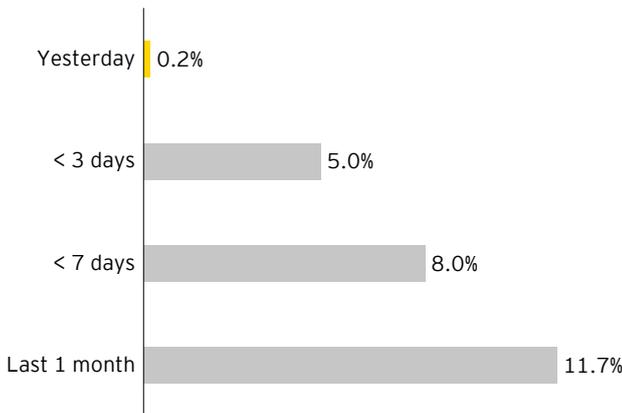
- ▶ Accelerated planning/delivering of new initiatives
- ▶ Categorization of target readership market and design customer/dealer growth strategy
- ▶ Events/citizen program launch for customer retention and satisfaction
- ▶ Digital integration to enable interactivity and build engagement

Readership changes varied by language and geography

Some significant differences are evident in regional markets when it comes to Total Readership:

- ▶ Bulk of Hindi readership (Total Readership) last one month continues to come from rural areas.
- ▶ Three-quarters of English readership is urban.
- ▶ Tamil and Gujarati products demonstrate high growth in urban markets.
- ▶ Rural areas exhibit faster growth at a macro-level for language products; urban regional language growth is slower, except for Urdu, which shows fast growth in urban markets.

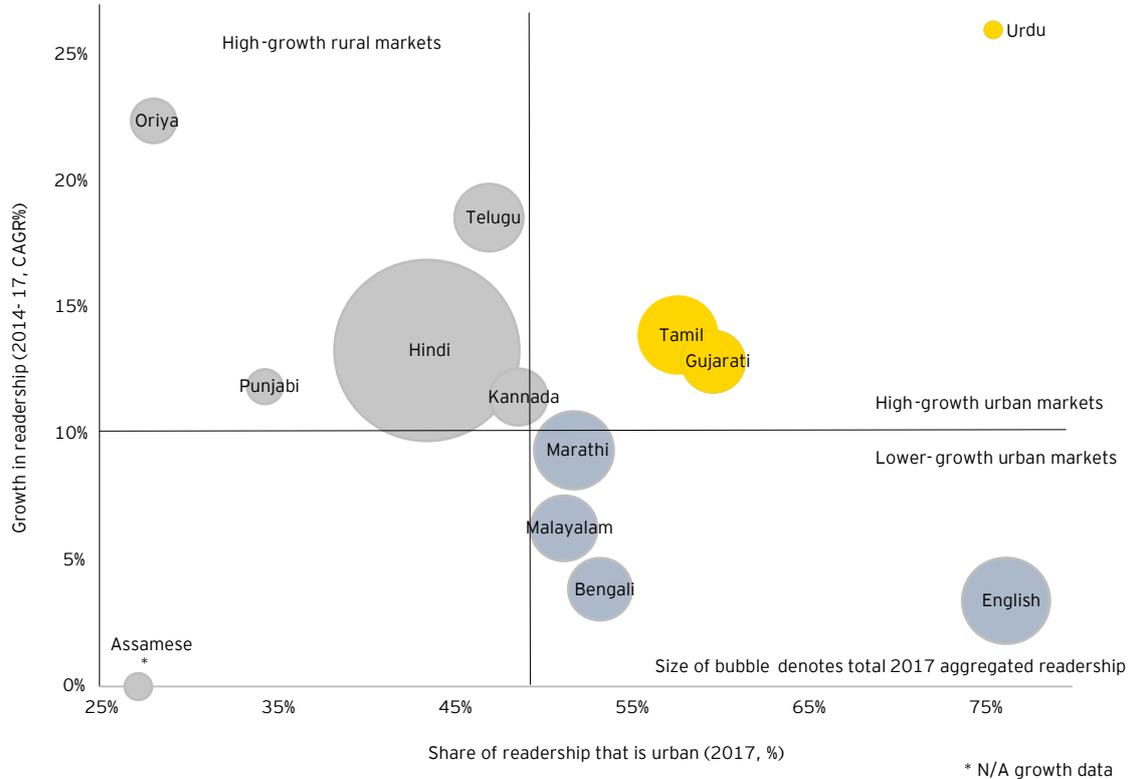
Dailies readership growth 2014-17 (12+years)



Note: IRS 2014 and IRS 2017 surveys had different methodologies, and may not be exactly comparable. This analysis is provided for representation purposes only.

Dailies readership growth 2014-17 (12+years)

Language -wise readership



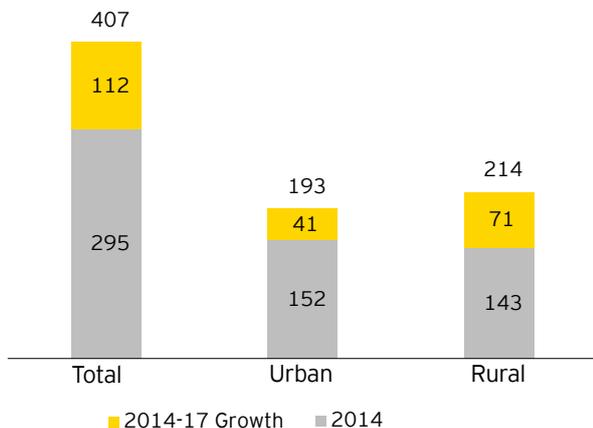
* N/A growth data

Note: IRS 2014 and IRS 2017 surveys had different methodologies, and may not be exactly comparable. This analysis is provided for representation purposes only.

Large untapped rural population⁷ drove the growth

Rural total readership growth was nearly double the urban growth - 14.4% vs 8.3%⁸- resulting in Rural's share of reach (but not revenues) overtaking the urban share to reach 52%. 52% of the readership of dailies was from rural markets, but only 43% of magazine readership came from rural markets.

Total readership of dailies (12+ years; mn.)



Includes readers for which mastheads were not fielded (mainly smaller titles)
 Note: IRS 2014 and IRS 2017 surveys had different methodologies, and may not be exactly comparable

English publications had a larger share of higher socio-economic audience classes

Additionally, there are structural differences between English and Hindi / vernacular newspapers as well as urban and rural readers. English newspapers are arguably read by higher socio-economic class of urban people, who use smartphones and have access to the internet. The threat of losing such readers to digital media is higher which has been the key reason for slower growth of English newspapers in the past few years. On the other hand, Hindi and vernacular newspapers have grown at a better rate and are expected to grow at higher pace for the next five years as well.

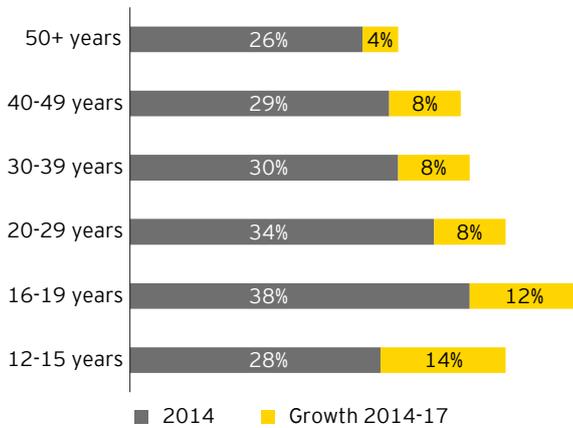
As the metros and larger cities witness intense competition, marketers, advertisers and publishers are trying to consolidate their presence in the regional markets through new launches and acquisitions.

7. "Office of the Registrar of the Newspapers for India," http://rni.nic.in/pin2015_16/pin-contents.pdf, accessed 01 December 2017.
8. "Print Media: India still waking up to newspapers," Equirus, Jan 2017, via ThomsonOne.

Youth readership grew

There has been growth in teenager readership (Total readership - Last 1 month). Despite the popularity of digital, this suggests 12-19 year old segment can drive publications' topline. As a result, publishers are constantly reinventing their product. Within this target group the needs of urban and rural youth vary and should be addressed accordingly.

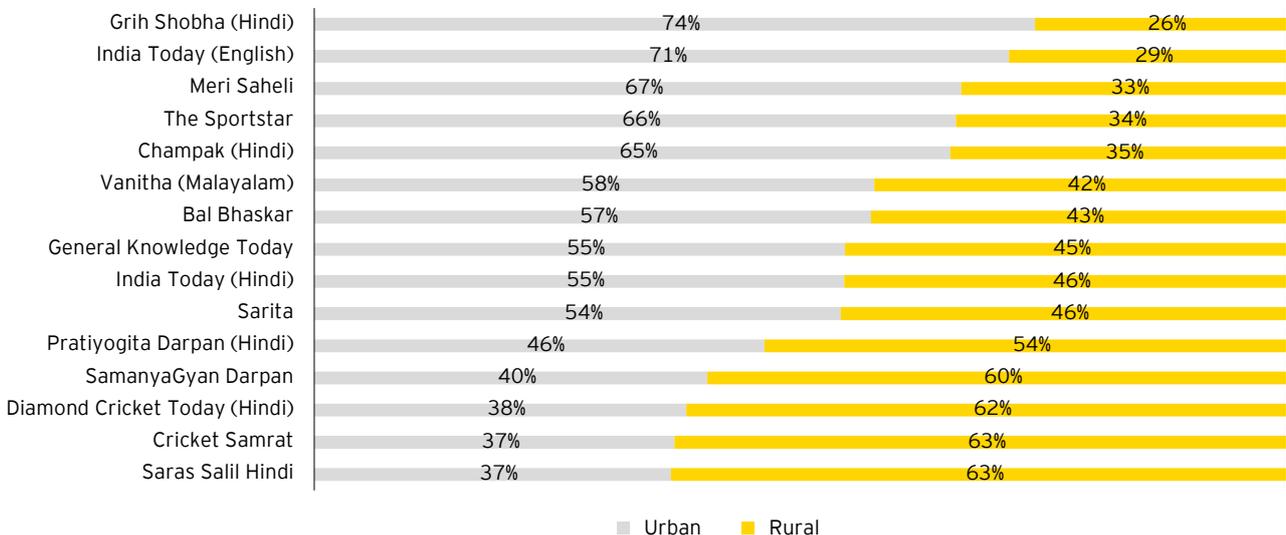
2017 hard copy dailies: % reach by age
(12+years; in last 1 month)



Reader growth was faster across lower NCCs

Most readers are becoming more interested in knowing about their local news. Accordingly, print companies are increasingly focusing on local and regional events to increase readership. Apart from growing readership,

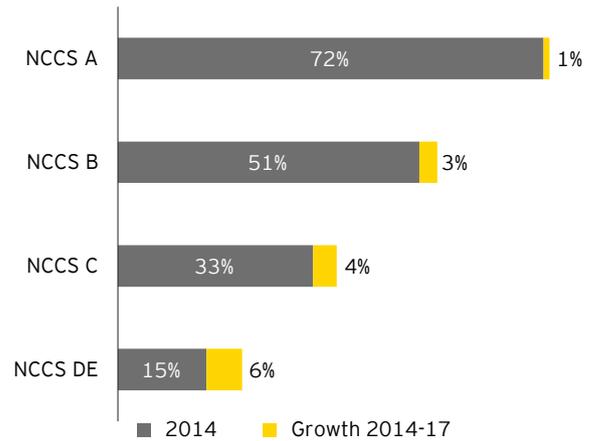
Urban contribution of top 15 magazines varies from 37% to 74%



Source: IRS 2017, Total Readership (Last 1 month)

local and niche content helps advertisers to target their customers better. Reach is expanding across every type of class, particularly for NCCS D/E readers (at 6%), NCCS C readers (at 4%) as compared to NCCS B and A readers, where it is 3% and 1% respectively. This is a reflection of the increasing education levels in India.

2017 hard copy dailies: % reach by socio-economic class
(12+years; in last 1 month)



Magazines saw growth in total readership

As per IRS 2017, magazines saw a readership growth of 95% over IRS 2014⁹, which many in the industry believe is not entire growth, but a correction of the readership number reported by the earlier studies due to a wider reach and change in methodology. 7% of Indians read magazines in 2017. Depending on the magazine, they catered to both urban and rural audiences, though 57% of their reader base was urban. 21% of NCCS A read magazines, and this percentage kept dropping till just 1% of NCCS E read magazines.

9. <https://www.businesstoday.in/current/corporate/irs-2017-india-today-most-read-magazine-in-the-country-business-today-no-1-among-business-magazines/story/268717.html> accessed Feb 23, 2018 CXO discussions, analysis of financial statements

Focus on efficiency and automation

Renewed focus on efficiency and sharing

Newspapers are increasingly focusing on improving processes that save important resources such as manual hours, and thereby reduce costs. Steps such as introducing automation in the newsroom or investing in technologies that make news gathering easier have proven to simplify everyday processes. Some common areas of focus are:

► Robotics process automation

Technologies such as optical character recognition, workflow tools and machine learning have now reached a stage where several manual, repetitive functions can be automated. Print companies can look to automate several functions such as release order scheduling, release order to printing to invoicing reconciliations and inventory consumption reconciliation.

► Integrated newsroom

An integrated newsroom enables any piece of news that is generated or gathered to be used across a news organization and across different media, including its syndication to other media entities. This prevents duplication of newsgathering efforts, tracking of each story and hence, improved scheduling on news gathering resources. The assignment desk can also prioritize news across locations, languages and genres, thereby saving costs and enabling better utilization of stories. Integration with stringer networks enables a more efficient mode of tracking utilization and payments.

► Self-care

Just as banks, airlines and insurance companies have implemented self-care portals to deal with their customers, media companies are now considering the implementation of such portals across employees, vendors and customers. Such portals enable stakeholders to interact and consummate transactions on their own, across several areas:

- Customers:
 - Classifieds
 - Smaller display ads
 - Subscriptions
 - Collections etc.
- Vendors:
 - Unsolds determination
 - Indenting
 - Invoice submission

- Payments etc.

- Employees:

- Payroll matters
- Submission of invoices
- Declarations and feedback etc.

- Analytics and loyalty

Print companies are increasingly focusing on developing a single view of their customers across print, digital, radio, events etc. This enables them to roll out loyalty programs that build on customer engagement and increase depth of the relationship, which, in turn, increases monetization opportunities, particularly around strong communities. Loyalty programs reduce churn significantly, particularly around digital and events.

- Cost management

Consumables (newsprint, inks, blankets etc.) comprise around 40%-60% of the total operating costs for newspaper companies. Like advertising revenues, newsprint costs are also cyclical and depend on macroeconomic factors.

Crude oil prices are the major drivers of newsprint prices as they influence the shipping rates as well as the cost of production (newsprint production being a highly energy-intensive process). Additionally, the recent changes to the policy in China have created a growing demand for newsprint in the country, creating a distorted equilibrium between global demand and supply. Cumulatively, this has led to approximately 20% increase in the price of newsprint, and this may affect the profitability of newspaper companies in 2018.

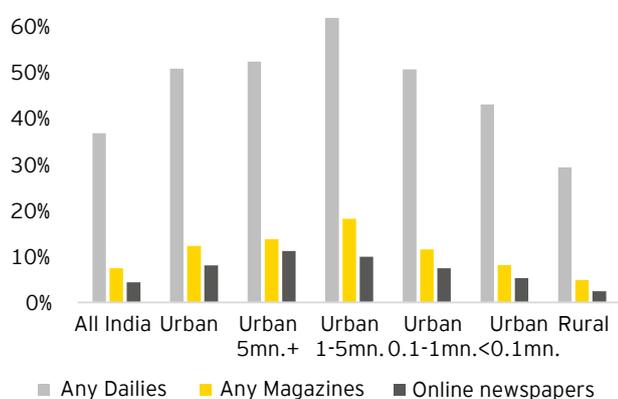
2017 saw a number of print companies re-look at several metrics like their ad:edit ratios, pagination, domestic newsprint mix etc in order to manage costs better. Focus was maintained on revenue generating functions while many support functions were rationalised.

Digital initiatives

Online news penetration grew

Newspaper reach is highest in urban areas and then starts declining when moving towards smaller urban centres and rural areas. Online newspapers have risen in popularity in the metros, where they have a 11% reach (~26% for NCCS A1 socio-economic classes) and partly reflecting the lower education levels in smaller towns and rural India.

2017 reach by geography (12+years; in last 1 month)



Source: IRS 2017, Does not include readers for which mastheads were not fielded

Almost all large print players have a digital business

Print companies are focusing on enhancing their digital footprint. Almost all the large print companies have established their news websites and/or apps. While most Indian publishers have created an online presence, digital content monetization is still significantly under-penetrated for many players. At an industry level, less than 5% of print companies' total revenues are driven from digital.¹⁰

Traditional newspapers faced competition from domestic digital-born startups such as Scroll, Quartz India and The Quint, also aggregators such as Inshorts, Firstpost and DailyHunt, as well as, perhaps more importantly, from large international non-news players such as Yahoo, Google and Facebook because of their large user base.

Some recent developments include:

1. India Today Group launched seven niche digital channels across six platforms under the umbrella of MobileTak.in, namely, News Tak, Sports Tak, Food Tak, Life Tak, Astro Tak, Tech Tak, and Yoga Tak. The online channels will provide users access to short and crisp news.
2. Dainik Jagran Group's digital wing, Jagran New Media launched a women-only website, Her Zindagi, in September 2017, specially targeting the middle-aged women audience.
3. The Indian Express Group is investing heavily in the digital space. The company recently launched InUth.com, a millennial-focused site, and Techook.com, a new site focused on gadget reviews. The next steps are to launch in five languages and it is working on products on lifestyle, health, specialized product for women, international products and some stealth e-commerce and services projects.
4. HT Media Ltd. has entered into a joint venture with sports media and technology firm Minute Media, the parent company of two football content sites 90min and 12up, to further diversify its digital content offerings. The deal will mark the launch of 90min in India with an app and a website providing football content.¹¹
5. Diversified media and information services company, News Corp completed the acquisition of Bengaluru-based GyanMatrix Services (GMX) in line with its global technology strategy. The new company has been renamed News Technology Services (NTS).
6. Times Internet is investing US\$100 million in developing a smart marketing technology platform, Colombia. The investment will enable marketers to leverage insights and data of ~200 million users across multiple marketing formats such as display, video and coupons.¹²

10. Industry discussion

11. "HT Media forms joint venture with football portal," Live Mint, <http://www.livemint.com/Companies/CYliRCAKOspF3ZDqR3ATAM/HT-Media-forms-joint-venture-with-football-portal.html>, accessed on 9 October 2017

12. www.livemint.com

Digital complemented overall news consumption

The exponential growth in digital media has enabled more routes for news companies to interact with and serve their audiences. Across TV and print, news companies are building out a slew of brands and products to connect with and serve the various needs of their audiences.

	Times Internet	NDTV	Network 18	DB Corp	Jagran	HT Media	India Today
News (English + Vernacular)	X	X	X	X	X	X	X
Business	X	X	X	X		X	X
Lifestyle	X	X		X	X		X
Sports	X	X		X			
Tech	X	X	X				
Auto	X	X	X				
Commerce	X	X	X		X		X
Entertainment	X			X	X	X	
Food/travel	X	X					
Education	X				X	X	
Jobs/ Careers	X					X	
Real Estate	X						
Women	X				X		X

Source: Websites and apps of the above news companies

Deep and wide digital strategies

Some companies are taking the wide approach, where they are launching their core news product across newer geographies and languages. This strategy provides cognizance to the brand's strength, and enables a quick growth in reader base for powerful brands. It relies on the fact that audiences trust a particular brand and will follow it on to the digital medium due to its credibility.

Other companies are focusing on depth, i.e., they are building stronger connects with their existing reader base through focused communities/products, which enable deep and regular engagement of audiences with people of similar interests. This model is more conducive for transactions and, eventually, for subscriptions.

Some key communities that are growing significantly, and will grow even faster as digital builds a vernacular and regional audience base are:

Specific purpose	Daily needs
▶ Education	▶ Auto
▶ Employment	▶ Banking and financial services
▶ Marriage	▶ Gaming
▶ Taxation	▶ Gadgets
▶ Real estates	▶ Business news
	▶ Entertainment
	▶ Fantasy sport

Move to digital video

2017 saw a number of print companies start or build out their video offerings. Many news platforms now offer a mix of text and video based news services. Video helps in generating higher ad revenues, as digital video rates are often more than 2x to 3x digital display advertising rates.

Way forward

We expect print to continue its growth trajectory till 2020, growing at a CAGR of 6.8%. Circulation revenues will grow by 7% annually on the back of cover price growth, which would be required to sustain profitability given that inflation is expected to grow by at least 4% to 5% over the next few years. Advertising growth could be 10% in 2018 on the back of several state elections, and 2019 would have national elections. Advertising revenues are expected to grow faster for regional languages. Events will continue to play an important role in driving growth, both at a national and regional level, led by sports and awards. Magazines could reach INR16 billion by 2020. Digital platforms will help the print segment significantly increase time spent on news as digital news apps are accessed far more often during the day. The key will be monetising the additional time spent on the news platforms.



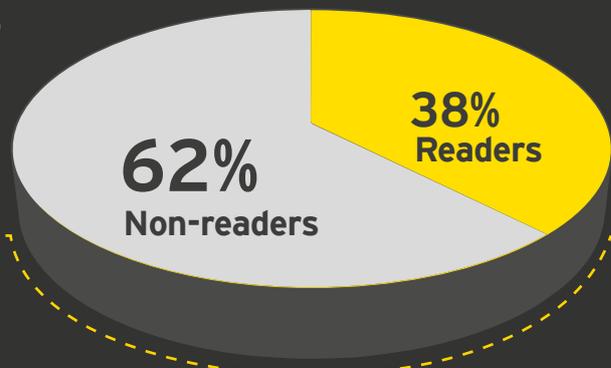
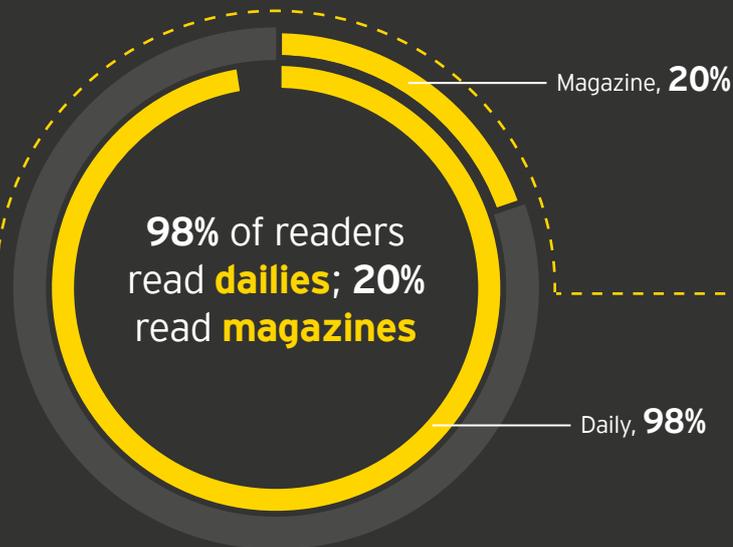


Powered by
Indian Readership Survey (IRS) 2017

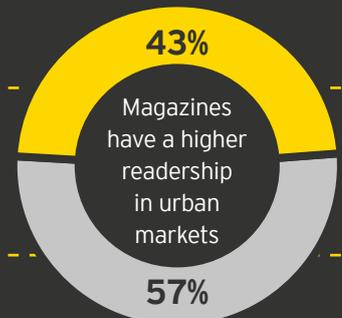
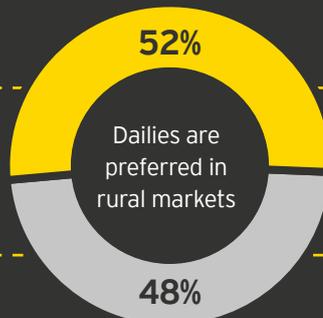
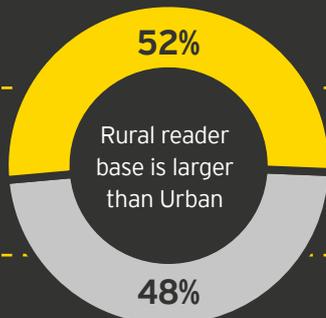
India print **trendbook**

How India **reads...**

Reader base is **395 million**,
or **38%** of the population



The **urban rural readership** divide...



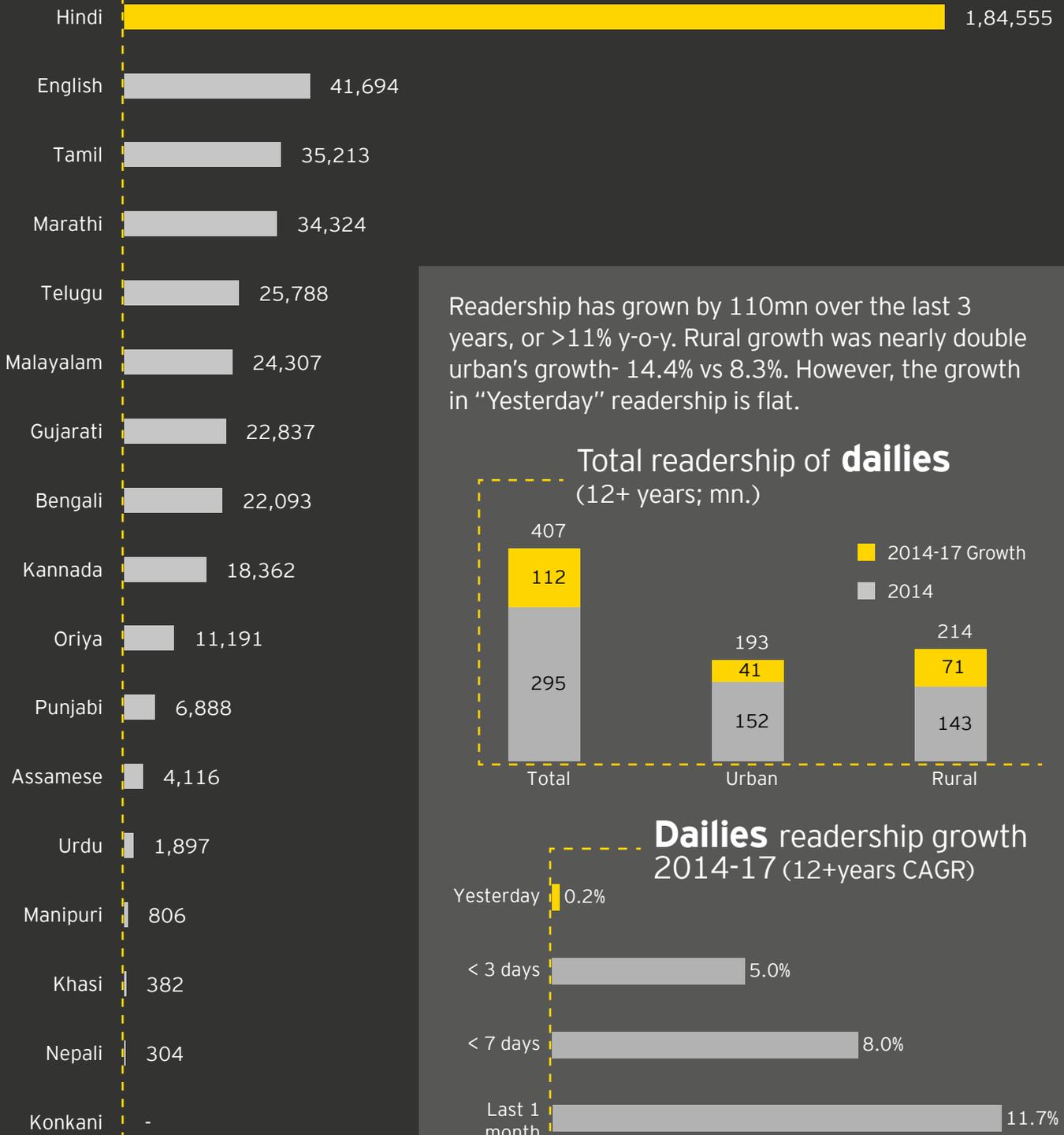
Data courtesy IRS 2017 of the Media Research Users Council. It has not been verified by EY and is presented in a summary form for representation purposes only.

All Data is Total Readership (last 1 month) unless otherwise specified

Indian readership profile

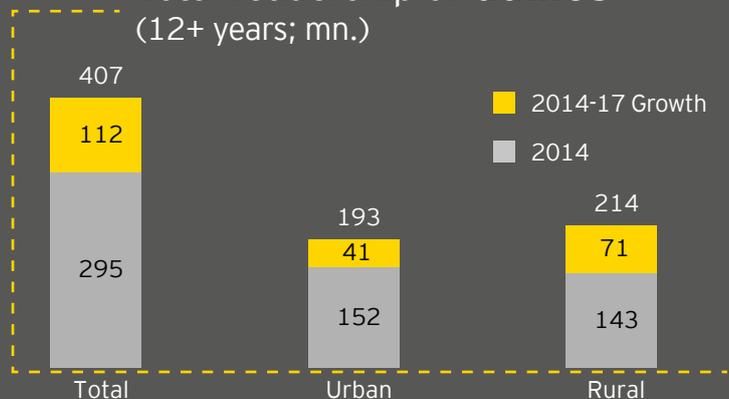


Hindi leads the pack on total readership (TR)

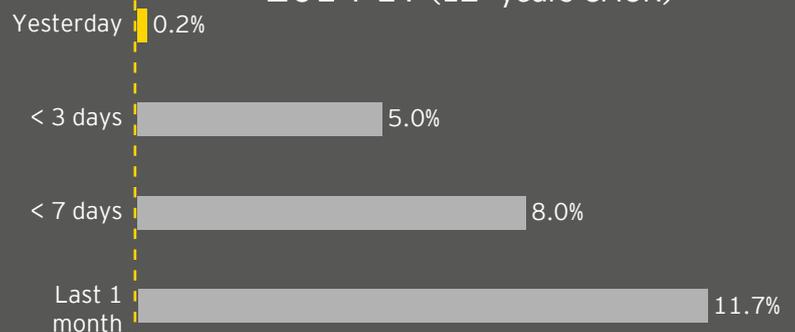


Readership has grown by 110mn over the last 3 years, or >11% y-o-y. Rural growth was nearly double urban's growth- 14.4% vs 8.3%. However, the growth in "Yesterday" readership is flat.

Total readership of dailies (12+ years; mn.)



Dailies readership growth 2014-17 (12+years CAGR)

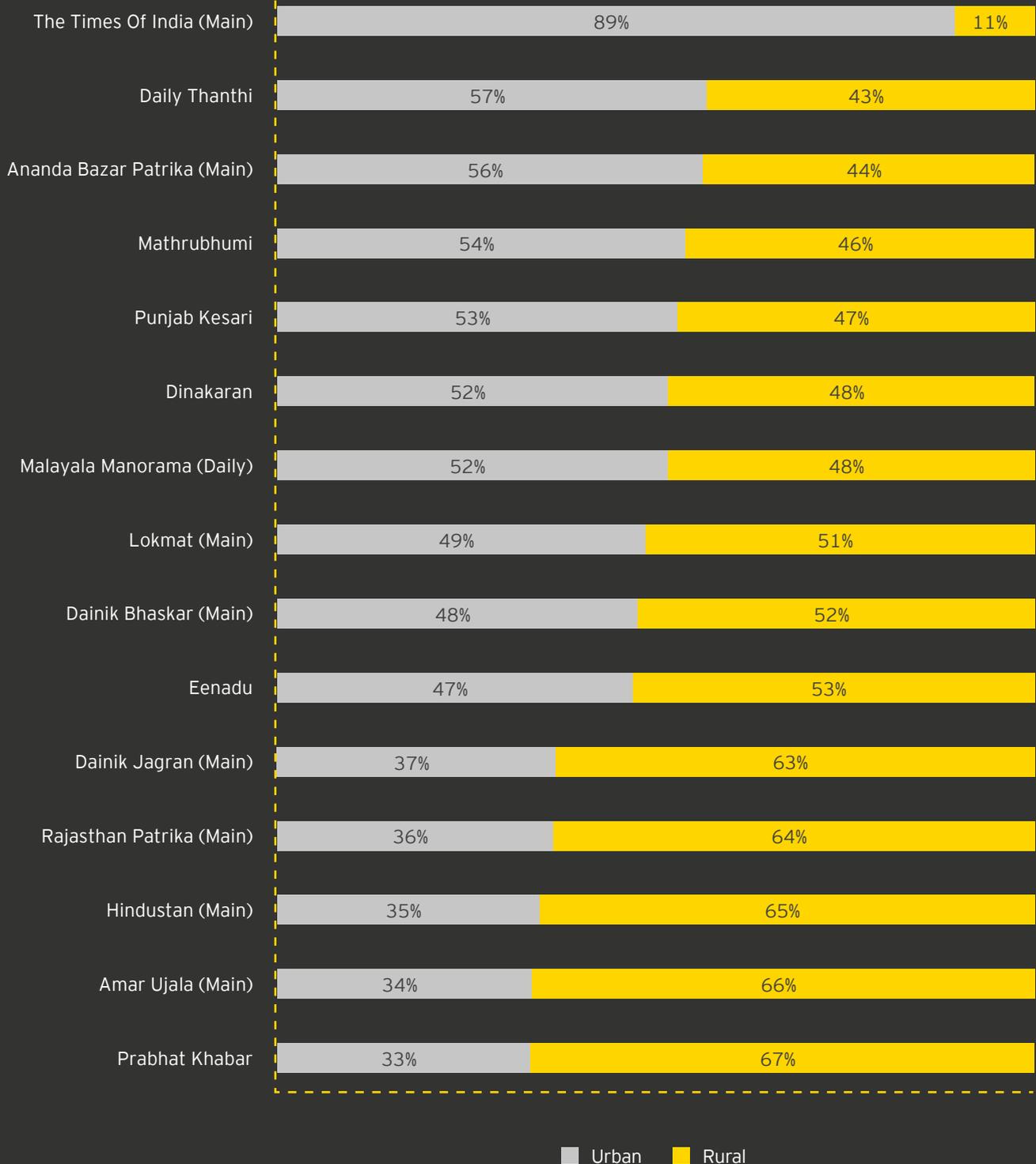


Includes readers for which mastheads were not fielded (smaller titles)

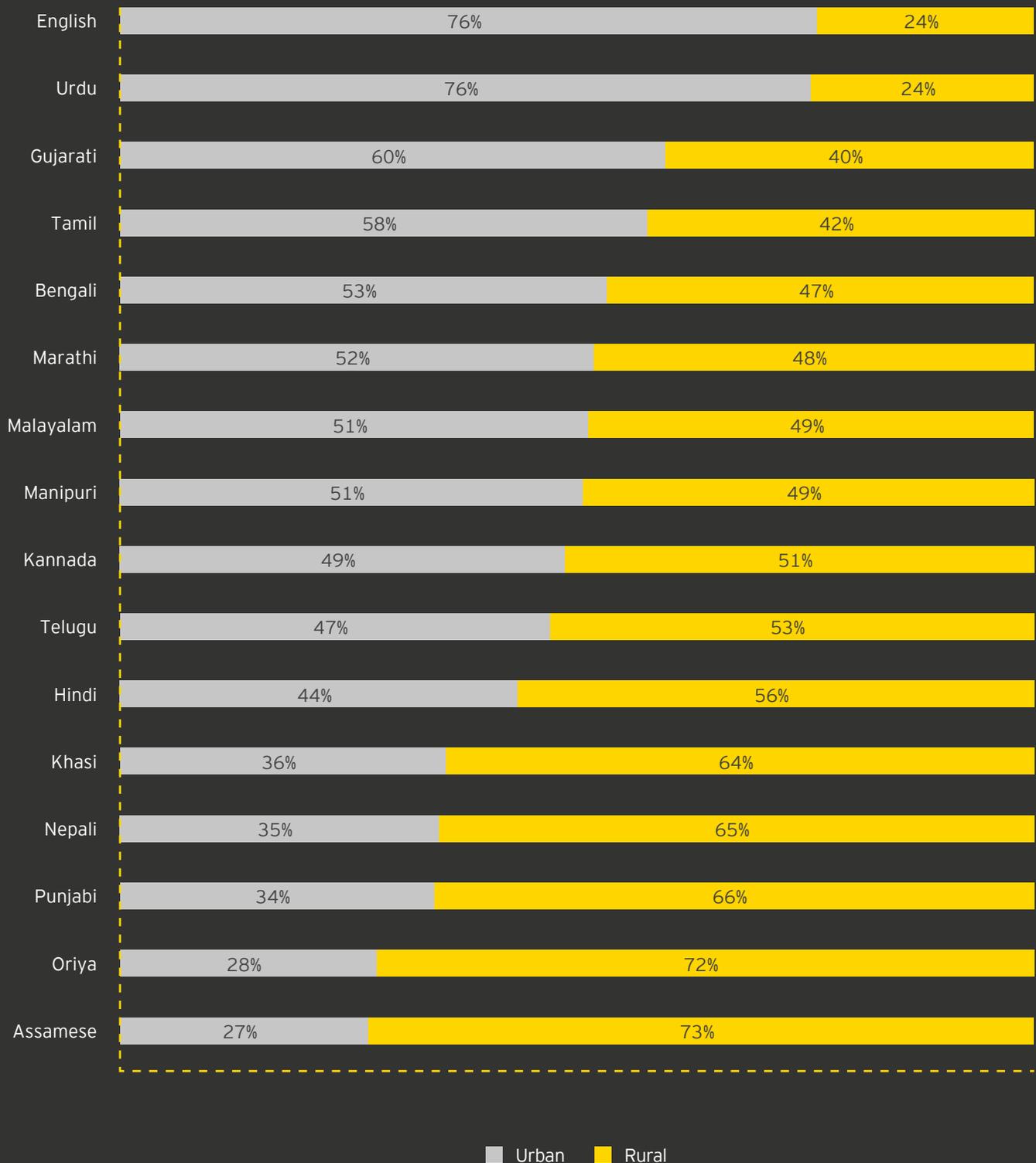
Note: IRS 2014 and IRS 2017 surveys had different methodologies, and may not be exactly comparable

Dailies and language readership

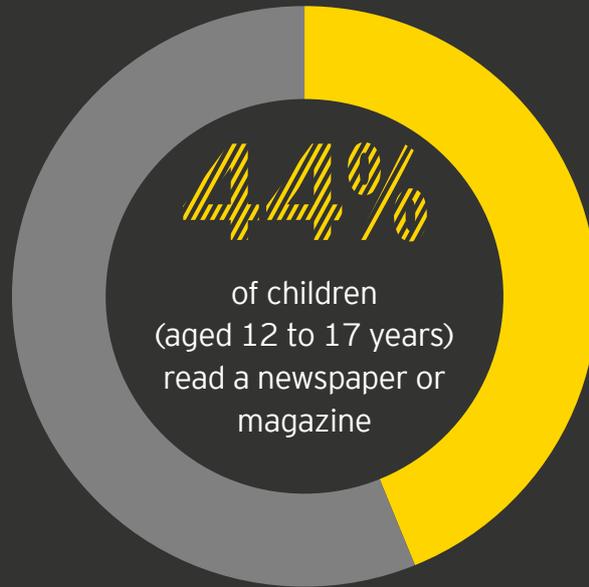
Urban: Rural split of top 15 dailies varies significantly



English and Urdu have high urban preference



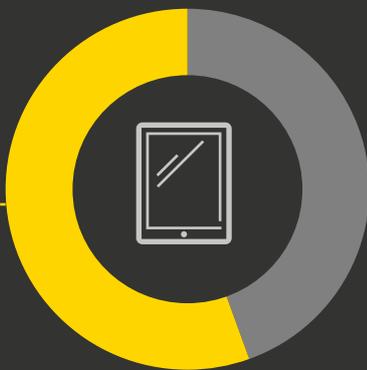
Kids
read too!



■ Publication
(aggregated TR)
Any publication

■ Non-readers

56% urban children
read a publication

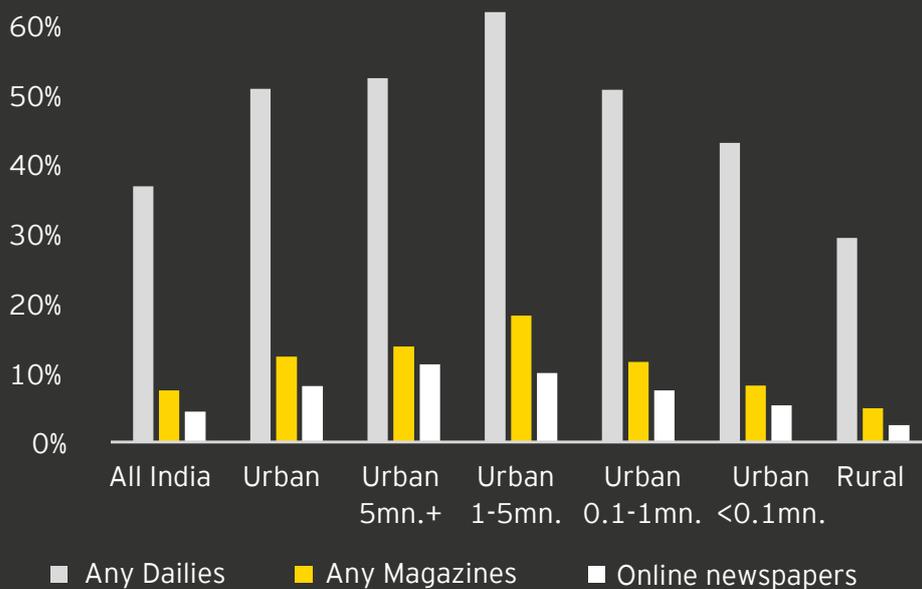


39% rural children
read a publication

■ Kids ■ Others

Online newspapers

are rising in popularity in mega metros, where they have an ~11% reach (~26% for NCCS A1 socio-economic classes)

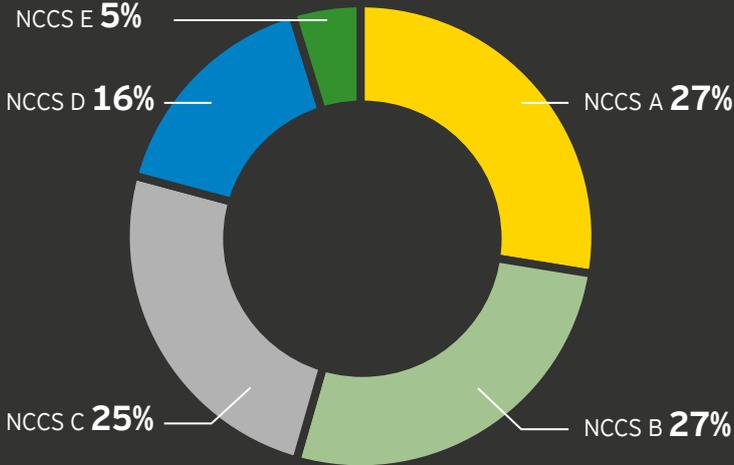


2017 reach by geography (12+years; in last 1 month)

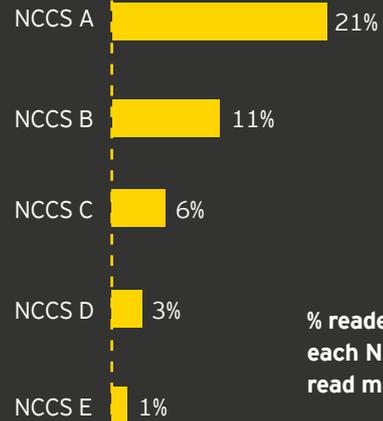
IRS 2014 & 2017 use different methodologies and are not strictly comparable

*Does not include readers for which mastheads were not fielded (smaller titles)

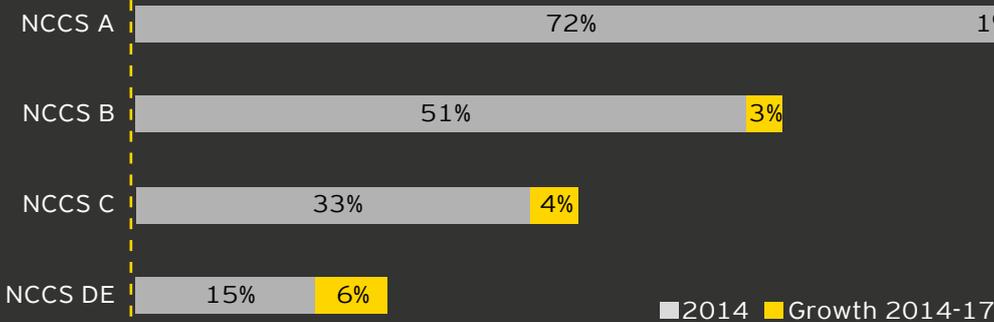
27% of readers are **NCCS A**



Magazines are read more by the affluent



Lower **NCCS** reader base is growing faster



Hard copy dailies:
% reach by socio-economic class
(12+ years; in last 1 month)

Expert speak



Girish Agarwal
Promoter Director, DB Corp

The recent IRS data has revealed that India has been bucking global trends in newspaper readership - a fact that we have been always been confident about. The interesting aspect of the huge growth is that it has been driven by semi urban and rural readership. Evidently, there are untapped markets with a growing literate audience for hyper-local products, and I believe Indian language especially Hindi newspapers can capitalize on this opportunity. It is also extremely encouraging that youth readership reflects an increasing trend and all of these aspects will contribute to enabling advertisers to focus more on print media. Although smaller, internet and radio both have also shown rising trends, showing good potential. Dainik Bhaskar Group continues to leverage these opportunities especially through our hyper-local presence and we believe, there is still scope to increase penetration of print in India in a significant way.



D. D. Purkayastha
Managing Director & CEO, ABP Pvt. Ltd.

Nowadays news is available on such numerous and attractive platforms, that the print industry really has to work on Audience Development. A growing trend is to expend effort and technology in getting to know your readers, whether it is physically or by using Big Data. Improving engagement with the reader is certainly becoming a key challenge and prime focus in the industry



Raj Jain
CEO, Bennett, Coleman & Co. Ltd.

While learning from the West is important, contextualizing to the paradigm of India is critical. While print may have declined in the West, given our poor literacy, it continues to grow in India. More recently there is a lot of "fake news" online, and increasingly people will rely on newspapers for credible news and insightful stories which interest them.



Anant Goenka

Executive Director, Indian Express Group

Digital has become a focus for us in the last few years. Being conscious of the clutter online, we have put dedicated effort into building credibility and becoming a trusted source of news. This has helped us command premium rates anywhere between 18-50%.



Sanjay Gupta

CEO & Director, Jagran Prakashan

While the IRS survey is promising on most fronts, the most important one is to establish a currency of measurement for the print industry. Going forward, the focus for big brands like ours will be to tap unserved markets by continuously increasing penetration & ensuring a leadership position to command a lion's share of the advertiser's wallet.



Rajiv Lochan

Managing Director & CEO, The Hindu Group

The industry has traditionally focused on "reach effectiveness" - the number of copies sold and opportunity to see have been the primary objective. However, we believe "spend effectiveness" that balances quantity with quality of readership is the way forward. Our high cover price approach ensures that only genuine readers purchase our publications - across markets we command a 30% to 200% premium over our peers. Equally, knowing your readers is important, which is why we have created a KYR database of 2+ million readers and are now attempting to link our print and digital readers systematically. Focusing on delivering value to both our readers and advertisers is the only way to remain relevant and influential in the long run, in our view.



Devendra Darda

Managing Director, Lokmat Media Pvt Ltd.

2017 was the year of variants. Newspapers launched many variants to differentiate themselves, penetrate the market, and create a more affordable option for readers and smaller retail advertisers. This trend is likely to continue given the scope of penetration and the demand for hyperlocal products. Further market and product segmentation by slicing and dicing the readership would serve the industry well.

Expert speak



Pradeep Dwivedi
CEO, Sakal Media Group

The industry is experiencing a significant digital thrust both in terms of internal operations being digitized as well as enhanced business focus on digital publishing through apps, portals and social media. On the internal side, we have observed that improved automation in production and even outsourcing IT and related developments gives us a wide range of services at efficient price points with state-of-art capability, and ultimately helps in overall cost management and manpower productivity gains. On the publishing side, the internet traffic to regional language websites has increased exponentially in last three years, thereby providing a blue ocean opportunity to print majors. Indian regional language content consumers are now mature enough to differentiate entertainment and news sources, and demonstrate tempered engagement with social media. They also demand news in pure form through trusted and credible brands such as ours and entertainment as an add-on. Hence, we are investing in building a sustainable ecosystem and business model around the same.



Jayant Mammen Mathew
Director, Malayala Manorama

There is intense competition and the market is rapidly changing. Successful newspapers will continue to deliver value to the reader and advertiser if they focus on exclusive content and delivery. Credibility is supreme in the digital era



Sandeep Khosla
CEO, Mid-Day Infomedia Ltd

In today's rapidly changing environment, it is necessary to continuously revamp the product while keeping the reader as the focus. Innovation in areas of customer engagement is inevitable. A good strategy is to build a community and a sense of belonging within customers via various events, such as our Dandiya Bonanza in Mumbai.



R K Agarwal

Jagran Prakashan Ltd.

Given the low rate of realization per copy, it will become critical to focus on increasing cover prices. This additional revenue generated will also help offset some of the cost incurred due to increased price of newsprint



Karthik Balakrishnan

Chief Executive Officer, The Printers (Mysore) Pvt. Ltd.

Building a strong media brand is a journey that begins inside a company. Laying a strong foundation is critical, which essentially means creating a culture that helps attract and retain the best talent. Get talent and culture right - business success and longevity will follow automatically.



Anant Nath

Director, Delhi Press

I hope going forward there will be more sanity around advertising, as there is too much romanticism around digital. Print will continue to deliver value for years to come.



Shreyams Kumar

Joint Managing Director, Mathrubhumi

Despite pressure on top line, the bottom line has grown largely due to reduction in depreciation and interest cost as we invested in modernization in a timely manner. We introduced automation in our newsroom, scheduling and the like, to save on people operationally leading to increased efficiency. Downsizing clerical staff enabled employment of more people in sales and marketing functions and further professionalizing these departments have helped us to significantly improve market coverage and thus revenue.

Filmed entertainment



Segment growth came from newer revenue streams

The Indian film segment grew 27% in 2017 on the back of box office growth - both domestic and international - coupled with increased revenues from sale of satellite and digital rights. All sub-segments, with the exception of home video grew and the film segment reached INR156 billion in 2017.

Revenues	2016	2017	2018E	2020E
Domestic theatricals	85.6	96.3	103.0	118.0
Overseas theatricals	8.5	25.0	25.0	28.0
Broadcast rights	16.0	19.0	20.0	22.0
Digital / OTT rights	6.0	8.5	10.0	14.5
In-cinema advertising	5.9	6.4	7.5	9.0
Home video	0.4	0.3	0.2	0.2
Total	122.4	155.5	165.7	191.7

(Gross of taxes, INR billion)

Domestic theatricals

1. Content Consumption trends

The Hindi films comprise the majority component of the Indian film segment. They contribute almost 40% of the net domestic box office (BO) collections annually, despite comprising only 17% of the films made. Films in 29 other Indian languages account for approximately 75% of the films released but they contribute approximately 50% to the annual domestic box office collections¹. Hollywood and international films comprise the balance.

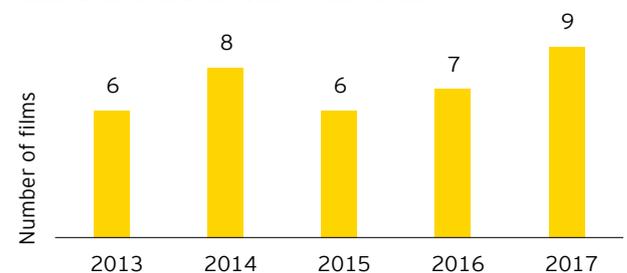
a. Bollywood

Nine films joined the INR1 billion club

The biggest grosser for the year was **Baahubali 2: The Conclusion** which was a Tamil-Telugu bilingual dubbed in Hindi. This film emerged as one of the greatest blockbusters of all time selling 52.5 million tickets at the box office for its Hindi language release. Tiger Zinda Hai, Golmaal Again, Judwaa 2, Toilet Ek Prem Katha, Fukrey Returns and Badrinath Ki Dulhania were the big hits for Bollywood in 2017². The top 50 films contributed approximately 97.75 per cent³ of the total net box office collection. Box office collections of the top 50 films grew by 11.60% in 2017⁴. Further, the number of films crossing

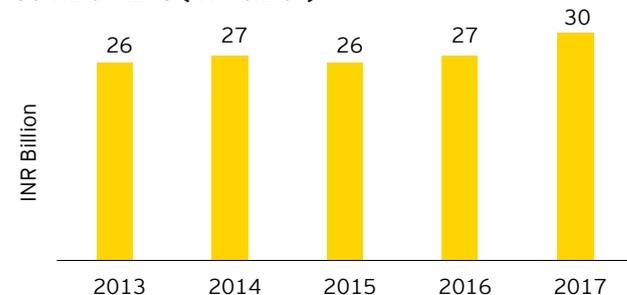
the INR1 billion mark in terms of net box office has also increased in the year 2017 as compared to the previous years⁵.

Number of Hindi films crossing INR1 billion in their domestic box office collections



Source: http://www.boxofficeindia.com/net_box_office.php?year=2017, accessed on 11 February 2018

Domestic net box office collections of the top 50 Hindi films (INR billion)



Source: http://www.boxofficeindia.com/net_box_office.php?year=2017, accessed on 11 February 2018 and Box Office India analysis

1. EY analysis
2. <https://boxofficeindia.com/report-details.php?articleid=3608>, accessed on 11 February 2018
3. Box Office India
4. http://www.boxofficeindia.com/net_box_office.php?year=2017, accessed on 11 February 2018
5. http://www.boxofficeindia.com/net_box_office.php?year=2017, accessed on 11 February 2018

Relatable and niche content driving success at box office

2017 proved, beyond reasonable doubt, that content was king and it was the story, above everything else, that made a film successful. From *Lipstick Under My Burkha* to *Newton*, issue-based cinema triumphed over mediocre films. Save a few exceptions, in 2017, cohesive story-telling took precedence over mindless cinema. The year also shifted focus from dreamy locations abroad to the hinterland to contextualise their stories in tier-2 and tier-3 towns such as Varanasi, Lucknow and Bareilly, which added depth and familiarity to the script and characters. It reflected the lives of the majority of middle-class audiences who unarguably enjoyed, but could never really connect to, the glitz and glamour of big cities. 2017 could very well be the year that sets the trend for times to come with cinema not driven solely by stars but as much by relatable and real content.⁶

b. Regional⁷

The spectacular success of *Baahubali 2: The Conclusion*, a Tamil-Telugu bilingual dubbed in Hindi, took regional cinema to new heights in 2017. Online ticketing platform BookMyShow reported average occupancy of 45-46% for regional films last year, compared to around 39-40% in 2016. Within the regional space, Gujarati films registered a 44% increase over 2016 in terms of transactions on the site, followed by Malayalam films registering a 38% rise. Malayalam, Bengali and Marathi cinema in particular have been known to for their keen focus on content-driven cinema and they did not disappoint this year as well. A very significant revenue for the regional language films, with the exception of Tamil and Telugu to some extent, still accrues from theatrical window while the growth of vernacular television and OTT make incremental contributions.

Tamil and Telugu

Tamil and Telugu cinema are a potent mix of content-driven and star-centric projects. What also differentiates the South Indian cinema is god-like devotion of the fans towards their superstar idols and their passion for cinema which drives repeat audience to the cinemas like no other. The segment also benefitted from remake rights value as well as increased consumption of its dubbed films on Hindi film channels.

The Telugu film segment clocked a 47% growth. Its net domestic collection in 2017 was INR15.33 billion, up from INR10.42 billion in 2016. However, a big chunk,

INR 2.85 billion, was contributed by one film, *Baahubali 2: The Conclusion*. Total footfalls for Telugu cinema saw a 37% growth, from 175 million in 2016 to 240 million in 2017. *Baahubali 2: The Conclusion* alone accounted for 43 million footfalls. Surprise success of 2017 was a blockbuster romantic drama *Arjun Reddy*, a modern Telugu language take on Devdas about a man whose failed love affair leads him to drink to self-destruction. The film earned in its first week double the INR120 million it cost to make. Telugu films like *Pelli Choopulu*, *Ghazi* and *PSV Garuda Vega* have also enjoyed box office success.

The Tamil film segment, however, showed a de-growth, with net domestic collections falling by 5%, from INR9.96 billion in 2016 to INR9.46 billion in 2017. For Tamil cinema, footfalls also dropped from 140 million in 2016 to 126 million in 2017⁸.

Malayalam

2017 was a very successful year for Mollywood. Malayalam films are now essentially made by the stars and for the stars, with satellite revenues being a material consideration.

The top 5 Malayalam films during 2017 were *Thondimuthalum Driksakshiyum*, *Angamaly Diaries*, *Take Off*, *Parava* and *Mayaanadhi* and Lijo Jose Pellissery's acclaimed Malayalam crime drama *Angamaly Diaries*.

Bengali

Kamaleswar Mukherjee's most awaited Bengali film *Amazon Obhijaan*, under the banner of SVF Entertainment was released in 2017 in various languages such as Bengali, Hindi, Oriya, Telugu, Tamil, and Assamese. *Amazon Obhijaan* is the 100th production under the SVF Production banner and went on to become the highest grosser for the Bengali cinema till date, by grossing over INR486.3 million from worldwide collections⁹.

Apart from cinema exhibition, digital streaming platforms such as Hoichoi helped in taking Bengali content to wider audiences and offered a new release window.

Punjabi

Punjabi Film segment has continued with its growth trend. 2017 saw a number of successful Punjabi films and many of those films were being dominated by singers turned actors.

The year had films on diverse topics and a wide variety of genres. *Amrinder Gill's Sarvann* was an action packed

6. Industry discussions and <https://www.thequint.com/entertainment/bollywood/bollywood-hits-and-flops-in-2017>

7. http://www.livemint.com/Consumer/6tn1zl84rp8aLk78fn3wnN/How-regional-cinema-trumped-Bollywood-in-2017.html?utm_source=scroll&utm_medium=referral&utm_campaign=scroll, accessed on 11 February 2018

8. <http://www.thehindu.com/entertainment/movies/the-latest-bollywood-numbers-are-no-good/article22671383.ece>

9. <https://padhoneews.com/amazon-obhijaan-box-office-collection/> and <https://www.thestatesman.com/entertainment/bengali-cinema/amazon-obhijaan-becomes-highest-grossing-bengali-film-ever-1502565557.html>, accessed on 11 February 2018

thriller, while Vekh Barataan Challiyan was a typical Punjabi comedy film. The biggest hit and one of the best Punjabi film of 2017 was Gippy Grewal's Manje Bistre. The film collected a staggering INR150 million net at the box office in India and INR450 million+ business worldwide, which is a huge figure for Punjabi films these days (as it is difficult for most Punjabi films to cross INR100 million). The film was made at a budget of INR50 million. Vekh Barataan Challiyan was another huge box office hit of 2017 as it managed to collect INR110 million at the Indian box office and around INR240 million worldwide. Amrinder Gill's Lahoriya, romantic drama film, did INR90 million in India and INR180 million worldwide and was very well received by both audience and critics.

Other notable Punjabi films of 2017 were Jindua, Lahoriye, Saab Bahadar, Thug Life, Super Singh, Sarvann, Sat Sri Akaal England, Sargi, Arjan, Krazzy Tabbar¹⁰.

Marathi

Marathi film segment releases on average about 100-120 films every year. The segment has found recognition as content-driven cinema whose films have earned critical acclaim at the international festival circuit. This year, films such as Lapachhapi, a horror film, and Kaccha Limbu, a drama, were well received at the box office and also found acclaim at film festivals. Muramba, Varun Narvekar's debut directorial was a comedy whereas Baapjanma was an unusual story about a father's strained relations with his kids and his efforts to right the wrongs. Some of the notable successes for the year were: Faster Fene, Boyz, Kaasav and Dashakriya (National Award winner).

Gujarati

Gujarati film segment releases about 50-70 films a year. Over the last few years, the segment has been undergoing a transformation, moving away from traditional/ folklore / mythological settings and subjects, to the more modern ones, including those touching its vast NRI population. 'Chal Man Jeetva Jaiye', a release towards the end of 2017 that recounted the riveting saga of a business family was immensely successful at the box office and also received critical acclaim.

c. Hollywood

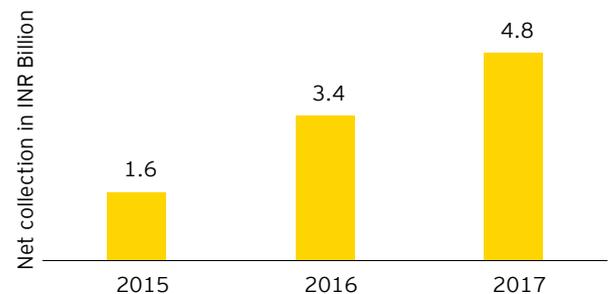
Be it Wonder Woman, Spider-Man, Thor, Hulk or Justice League, stories about superheroes battling supervillains in a fantasy world turned out to be the hit formula for Hollywood at the Indian box office this year¹¹.

These titles have changed the game with highly anticipated franchise films and sci-fi/action spectacles offering stiff competition to Indian releases, especially in the Bollywood demographic, often doing better than Indian films which released alongside¹².

The box office collections of Hollywood (inclusive of all the Indian language dubbed versions) in India remained stagnant in 2017, totalling INR8.01 billion, as against INR7.95 billion in 2016. This comprises around 13% of the total theatrical box office. After three consecutive years of healthy growth since 2013, Hollywood footfalls in India remained stagnant at 75 million last year, marginally down from 78 million in 2016¹³.

Notably, 2017 also witnessed release of Baywatch starring Priyanka Chopra and xXx: Return of Xander Cage starring Deepika Padukone.

Box office collection of top 10 Hollywood films in India



Source: <http://www.bollywoodhungama.com/box-office-collections>, accessed on 11 February 2018

10. <https://bestoftheyear.in/top-lists/best-punjabi-movies-2017/>, accessed on 12 February 2018

11. <https://www.thequint.com/entertainment/hollywood-films-box-office-in-india>, accessed on 11 February 2018

12. "Highest-Grossing Hollywood Movies Of 2017 In India," Movified website, <https://www.movified.com/highest-grossing-hollywood-movies-of-2017-in-india>, accessed 06 February 2018.

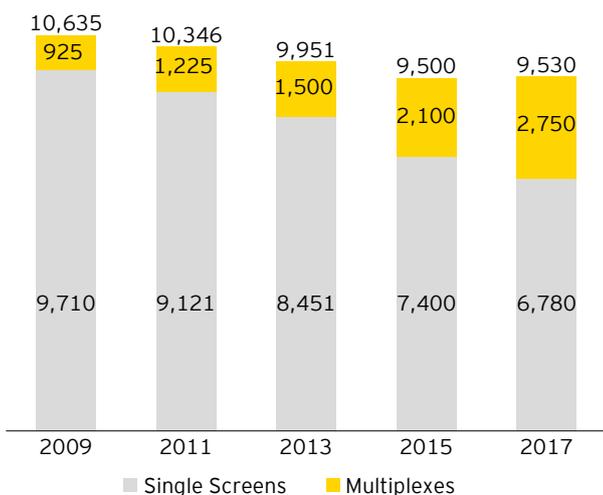
13. <http://www.thehindu.com/entertainment/movies/the-latest-bollywood-numbers-are-no-good/article22671383.ece>, accessed on 11 February 2018

2. Exhibition infrastructure

Indian cinema witnessed among the highest footfalls in the world¹⁴. Films are the largest source of entertainment in the country with over 2,000 film releases in 2017.

Screen density

Estimated count of cinema screens in India



Source: EY analysis based on industry discussions

Single-screen cinemas have reduced from 9,710 screens with 91% share of total screens in India in 2009 to less than 71% share in 2017 with 6,780 screens. At the same time, multiplexes have grown at a steady rate of over 10%¹⁵ over last 3 years due to rising urbanisation resulting in higher footfalls, higher propensity to consume films with rising per-ticket realisation, operational synergies and a shift to 'experiential-led' film-watching by the Indian audience.

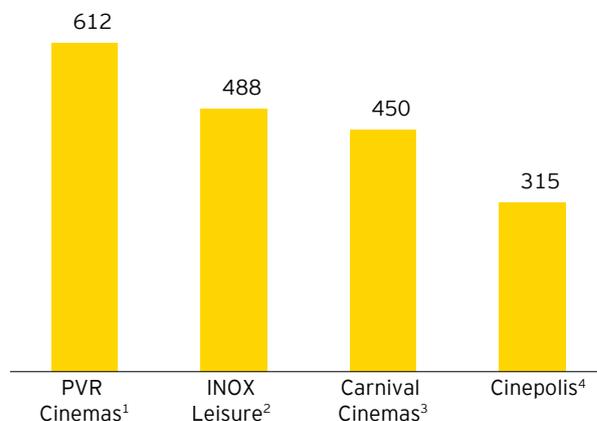
In terms of contribution to the domestic theatricals, multiplexes contributed around ~50% of overall sales in 2017, with the rest coming from single-screen cinemas¹⁶. The top 4 multiplex chains accounted for ~20% of screen count and ~40%¹⁷ of overall domestic theatrical revenues. Digital distribution was available on 9,530 screens out

of which UFO Moviez and Qube together accounted for 9,125 screens¹⁸.

Consolidation

From a highly fragmented multiplex market 5-6 years ago, large multiplex players have led a series of acquisitions to fulfil gaps in their regional portfolio and consolidate screen presence in high spending urban markets. The next wave of growth is expected to come by means of

Number of screens for top 4 multiplex chains in 2017



Sources:

1. Third quarter FY18 PVR Cinemas investors report
2. Third quarter FY18 INOX Leisure investors report
3. "Carnival Cinemas Eyes Over Rs 1,000 Crore Revenue This Fiscal", <http://www.republicworld.com/s/20765/carnival-cinemas-eyes-over-rs-1000-crore-revenue-this-fiscal>, 28th January 2018
4. "Cinépolis to take total screen count to 400 by end of 2018", <http://www.indiaretailing.com/2018/01/12/retail/cinepolis-take-total-screen-count-400-end-2018/>, 12th January 2018

14. INOX Leisure November 2017 investor presentation

15. EY analysis

16. Industry discussions conducted by EY

17. EY analysis

18. Industry discussions conducted by EY

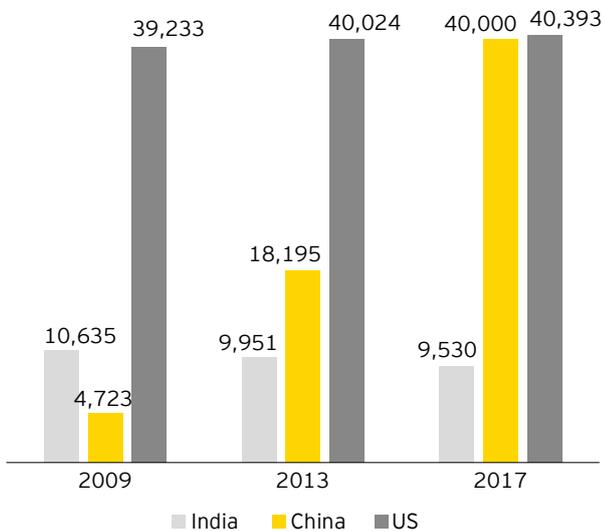
organic expansion in non-urban areas and widened service offering in the form of experiential film-watching.

Indian film exhibition presents a large opportunity

The Indian film exhibition segment in terms of number of screens is less than 1/5th in size as compared to developed markets like China and USA. The ratio is expected to further deteriorate with India facing a constant decline in its screen-count, largely due to the shut-down of single screens.

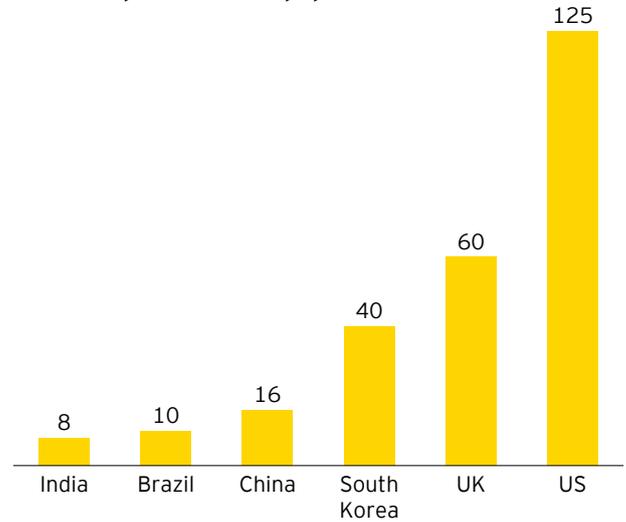
Despite producing the most number of films in a year, India stands as one of the most highly underpenetrated markets among major countries with 8 screens per million¹⁹. This is primarily due to lack of penetration of cinema exhibition players in Tier-II, Tier-III, Tier-IV market, and hence leaving a large market with limited screen presence. One interesting trend to note is the ~8x growth of screens in China over the last decade attributable to a combination of lower tax (currently at 5% rate), Government assistance, rapid pace of urbanisation and consumption growth.

Screen-count in China, USA & India



Source: INOX Leisure investor presentation, accessed on 6th February 2018; "National Association of Theater Owners," <http://www.natoonline.org/data/us-movie-screens/>, accessed on 6th February 2018; <https://www.statista.com/statistics/279111/number-of-cinema-screens-in-china/>, accessed on 6th February 2018

Screens per million of population



Source: INOX Leisure November 2017 investor presentation

This under-penetration of screens has resulted in untapped market potential for the Indian film segment. Increase in screen density and higher access to cinemas across the country could potentially enhance domestic box office collections, improve the return on investment in films and pave the way for greater investment in both film content and exhibition. The example of China, where screen count has grown by more than 8x in the last decade²⁰ could be a case study to demonstrate higher number of screens has resulted in increased access and significant growth even for Indian films.



Indian films have outperformed collections in China as compared to India

Film	China collection	India collections
Secret superstar ²¹	INR 7.5 billion	INR 0.6 billion
Dangal ²²	INR ~11 billion	INR 5.4 billion

19. INOX Leisure November 2017 investor presentation

20. <https://www.statista.com/statistics/279111/number-of-cinema-screens-in-china/>, accessed on 6th February 2018.

21. <http://indianexpress.com/article/entertainment/bollywood/box-office-collection/aamir-khan-film-secret-superstar-china-box-office-5066619/>, 17th February 2018

22. <http://www.koimoi.com/box-office/dangals-unstoppable-box-office-collection-takes-it-to-the-1900-crore-mark-worldwide/>, 8th June 2017.

Key impediments to growth of the cinema segment

Infrastructure support in Tier-II/ Tier-III markets

Indian cinema operators are among the highest payers of rental fees compared to other developed markets. For PVR Cinemas and INOX Leisure, the rental expense is around 30% of their Net Box Office collections respectively²³. The lease agreements are signed for a term of 10-15 years, with an escalation clause of 10%-15% after every 3 years²⁴. Compared to this, leading cinema chains in western markets are paying around 8-10% of the NBOC as rental expense²⁵. As a result, the cost structure is invariably distorted for Indian players, thereby impacting their return and hence their ability to invest. In order to make film exhibition segment viable in Tier-II and Tier-III markets, state

governments need to collaborate with the exhibitors to provide necessary infrastructure support. Certain state governments have announced schemes to offer free or low-cost lease land parcels for initial period to multiplex operators to set up cinemas. This is a welcome move for the segment, however in certain cases, the locations offered are off-city or non-prime areas with lower catchment resulting in lower success of such schemes. State government could potentially look at offering fiscal incentives for multiplexes to invest in media-dark areas. For e.g. Jharkhand and Orissa governments have tied up with multiplex operator Carnival Cinemas to grant 1-1.5 acres of land in each district to work with real-estate developers to develop entertainment zones with food courts, retail outlets and two to three screen multiplexes.



Unique expansion model into high-potential tier III/ IV markets with family entertainment centres

MoUs with state governments enable institutional programmes

Carnival Group has innovated a new strategy for its expansion by entering into Memorandum of Understandings (MoUs) with State Governments under "Carnival Institutional Programme". The strategy is aimed at providing a Family Entertainment Centre (FEC) in underpenetrated regions of the country.

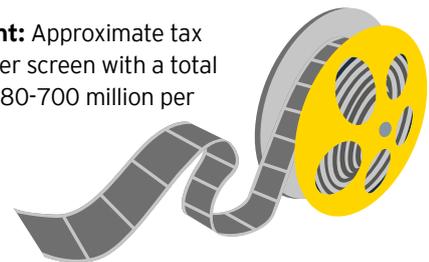
The State MoUs signed under various 'Make In India' and state programmes provide the Group with an access to quick cinema setup system with single window for clearances ultimately leading to ease of business. So far, the Group has signed MoUs with Governments of Jharkhand and Odisha in order to set up 75 cinema-cum-recreation zones and 150 screens in the respective states. This will enable the Group's vision of holding 1000 screens by 2018 in India, each one providing a state-of-the-art film, experience with the ambience and experience of an urban cinema in remote areas at an affordable price.

Key benefits of the program are:

Regional Films and Entertainment Industry: Boost to the regional film markets promoting development of regional film industries

- ▶ **Employment Generation:** Creation of direct and indirect employment opportunities
- ▶ **Skilling:** Vocational training to offer training to operate and manage film exhibition operations and equipment
- ▶ **Upgrade in Socio-Economic Factor:** Aim in co-developments of supplements in nearby areas to upgrade the socio-economic and safety factor of the region.
- ▶ **Tax Benefit to Government:** Approximate tax revenue of INR20 million per screen with a total estimated revenue of INR680-700 million per annum

PV Sunil
CEO, Carnival Cinemas



23. PVR Cinemas and INOX Leisure investor presentation, accessed on 8th February 2018

24. EY analysis

25. EY analysis

Need for a “single window clearance” for opening of multiplexes

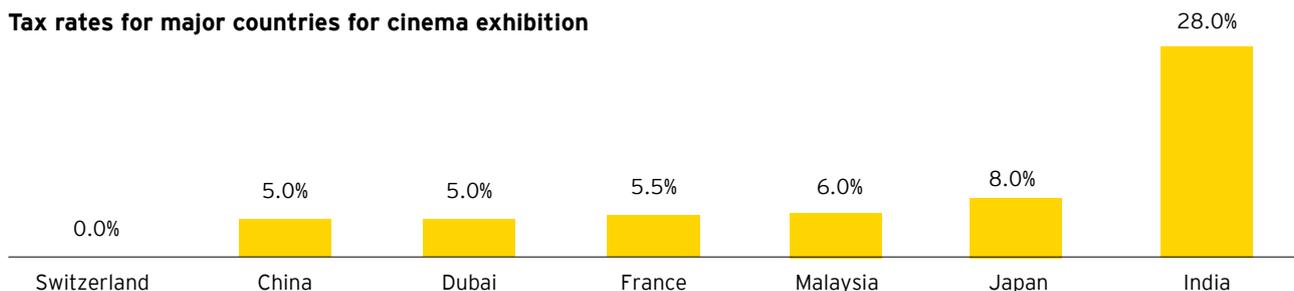
A highly critical operating challenge faced by the segment is obtaining business licenses in a timely and convenient manner. The challenges involved are multi-fold where each state has its own set of license requirements for the operation of cinemas along with the validity of the licenses for a short term period of only 1-2 years. The cinema owners are required to obtain multiple licenses from different state government departments impacting the opening of screens. The delay in getting license clearance has severely hampered the growth of screens in India over the years. There have been cases where exhibitors have completed cinema fit-outs and hired employees, but were awaiting licenses, resulting in significant time and cost overruns. The ease of doing business in the segment

can be significantly improved by having a single authority providing a single window clearance for licenses. Measures such as self-certification or deemed approval for grant/renewal of licenses will instil greater accountability leading to greater investment in the segment.

Tax rate rationalisation

Exhibition traditionally has had an average state Entertainment Tax rate of 22 -23%. This is significantly higher than taxes in developed markets.

Tax rates for major countries for cinema exhibition



With the implementation of GST, exhibition was initially classified under the highest tax bracket of 28%. This disadvantaged the cinema exhibition segment as compared to other forms of entertainment such as Cable TV, DTH, theatre (drama), circus and theme parks, which are subject to 18% GST.

Tax rates were revised in June 2017²⁶, with film tickets costing INR100 and below were under the 18%, while tickets priced over INR100 were to be taxed at a rate of 28%. The tax reduction largely benefited the single screen operators, however, given the demands of better experiences by consumer, it would be difficult to sustain prices below INR100 in the long run. Multiplexes are concentrated in the 28% tax bracket and have limited headroom for price increases and therefore this move would impact economic returns.

In addition to higher tax rates, there is a change in the Input Tax Credit (ITC) for food and beverage (F&B) service. Cinema operators are eligible for full input tax

credits (ITC)²⁷ of GST paid in respect of film exhibition. However, the GST rate has been fixed at 5% on F&B without any ITC, thereby limiting the ability of cinema operators to offset input and output tax credits which increases costs.

Addressing the above measures could lead to potential benefits, including:

- ▶ Higher Employment generation: As per estimates, a single cinema location (with multiple screens) has the potential to generate ~ 100 direct and indirect employment opportunities. An estimated growth of 4000-5000 locations can potentially add about 400,000 - 500,000 employees and may have a ripple effect on employment in the overall film segment.
- ▶ Incremental investment into film production and film exhibition infrastructure.
- ▶ Increased technical competence in the segment with higher investment in VFX, Animation and Post production in lines with global trends.

26. http://www.business-standard.com/article/economy-policy/single-gst-rate-on-cinema-exhibition-plead-multiplexes-117061201000_1.html

27. <http://pib.nic.in/newsite/mbErel.aspx?relid=162030>, accessed on 12th February 2018.

Film Exhibition emerging trends

Enhanced portfolio of offerings to the consumer to create a wow factor

Multiplex operators have been widening the bouquet of services provided by them to include experiential offerings, especially in metros and Tier-I cities. They are evolving from pure play content providers. These are aimed at offering an exclusive and premium entertainment experience to build loyal customer base. Overall, the segment is evolving towards becoming a hybrid of 'exhibition' and 'hospitality' experience. Some examples are:

- ▶ Significant expansion in the F&B offerings, including live kitchens and in-cinema service
- ▶ VR/AR lounges and experiences to provide the consumer with an immersive experience
- ▶ Gradual transition from 2K to 4K projection technology
- ▶ Game Zones and Child Care centers

Exhibitors are increasingly focusing on premium formats

PVR Cinemas operate a cinema format 'PVR Cinemas GOLD' which offers luxury experiences through premium lounges and leather recliners with on-seat service of gourmet food and beverages from live kitchens. The company has also launched a 3-screen premium cinema in Ghaziabad featuring Harkness screens, Dolby 7.1 surround sound, 4K digital projection system and Next Generation 3D enabled screens²⁸. The location also offers NextGen Quick Tix facility for instant ticketing along with the facility of redeeming gift cards.

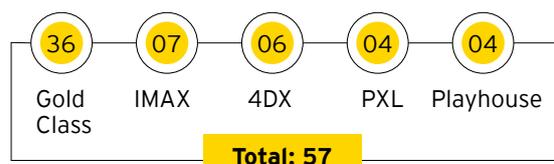


PVR Cinemas: Increase in premium screens

The Indian Film Industry has come a long way in enhancing the audience's experience over the last several years. Over the last few years, PVR has come up with several newer formats of screens to provide a greater bouquet of offerings to audiences. These include:

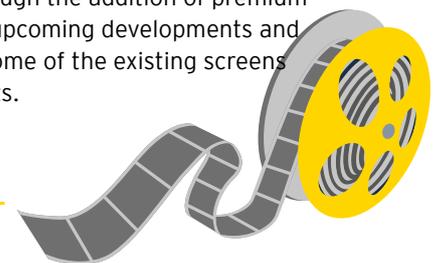
- ▶ screens offering enhanced projection technology to give a more immersive experience (IMAX, 4DX)
- ▶ large screen formats, with screens practically built wall-to-wall (PVR PXL, IMAX)
- ▶ screens to give ultra-luxury experience (PVR Gold Class)
- ▶ screens catering to specific audiences (PVR Playhouse - for Kids)

As on date, PVR Cinemas operates the following premium format screens across the country:



In addition to the above formats PVR Cinemas will continue to develop newer formats for premium screens. PVR is looking to increase the number of premium format screens from 9% of the portfolio to more than 20% in the next three years. This will be achieved through the addition of premium screens in new and upcoming developments and also conversion of some of the existing screens into premium formats.

Nitin Sood
CFO, PVR Cinemas



28. "PVR Cinemas launches a 3-screen premium theatre in Ghaziabad", <http://www.televisionpost.com/PVR-Cinemas-launches-a-3-screen-premium-theatre-in-ghaziabad/>, 3rd January 2018.

INOX Leisure launched Insignia, a signature experiential offering which features Laserplex with significantly enhanced picture quality, Volfoni 3D screens, leather recliner seats with micro adjustable neck rests, and gourmet food and a butler-on-call service.²⁹ INOX Leisure started a 9-screen multiplex, in R-city-Mumbai, with an IMAX screen, 4K resolution and Dolby sound systems. The location includes an interactive automated Box Office- to

browse, choose and pay for tickets on the interactive screen, touchscreens in the concession areas to order food and India's largest 550 square feet LED video wall with full colour, full motion dynamic real-life like content display³⁰.



INOX Leisure: Luxury meets Technology: Re-drawing the rules of experiential film-watching

INOX Leisure Ltd. has adopted a match of luxury and technology to deliver a film experience with convenience and deep audience engagement.

These include India's first Laserplexes and laser projection technology, Asia's first Augmented Reality experience in a multiplex, Interactive screens at box office and food counters, Fast tickets & Fast Bites kiosks, QBuster application for F&B ordering on the INOX app, paperless entry and contactless terminals among other facilities.

In addition, INOX has carefully integrated a luxury experience at key properties with Insignia, INOX's signature experience. It comprises a Gourmet Menu curated by master chef Vicky Ratnani, coupled with ergonomic Italian leather

recliners. It also features a Butler-on-call which is a unique Internet-of-things (IoT) powered service which allows guests to enjoy uninterrupted and convenient service for any needs.

Experiences like The Royal afternoon tea service at INOX Insignia cater to a discerning set of audiences. INOX aims at redefining the cinema experience by introducing world-class technology for sound and projection which have helped in elevating moviegoers' experience. From signing a landmark deal for IMAX screens, introducing crystal clear Volfoni 3D systems to using superior sound technology like Dolby Atmos, INOX's endeavor has been to enthrall audiences with every film outing.

Alok Tandon
CEO, INOX Leisure



29. "INOX Leisure unveils Insignia with 7-star movie viewing experience at INOX Leisure Laserplex - Nariman point", <https://tvnews4u.com/INOX-Leisure-unveils-insignia-7-star-movie-viewing-experience-INOX-Leisure-laserplex-nariman-point/>, 1st December 2016.

30. "INOX Leisure Launches New 7-Star Cinema at R City Mall: Where Technology Meets Opulence", <https://www.eventfaqs.com/news/ef-13882/INOX-Leisure-launches-new-7-star-cinema-at-r-city-mall-where-technology-meets-opulence>, 2nd June 2017.

Focus on Advertising Income to provide boost to profitability

The Indian multiplex segment has grown at approximately 14% CAGR over the last three years whereas the growth of the ancillary revenue segments such as F&B and advertisement have been higher at 21%³¹. With limited headroom for ATP growth in the metros and Tier-I cities, multiplex operators are increasingly focusing on ancillary revenue streams.

In-cinema advertising segment is currently pegged at INR 6,390 million³². Leading multiplex chains such as PVR Cinemas and INOX Leisure have a better grip over the advertising revenue owing to wide variety of audiences they target given their pan India presence. The contribution of advertisement as a percentage of total revenue to both PVR Cinemas and INOX Cinemas has increased by ~1.5 - 2% in the last 3 years. Single screen cinemas have relatively low revenue realisation from advertisements due to poor consumer targeting and limited catchment. Single screen cinemas generally collaborate with companies such as UFO Moviez and Qube Cinemas that have become nationwide aggregators for in-cinema advertising.

Multiplexes depend on Hollywood & Bollywood films, while single screens dominate the regional film market

The reason behind India's large film production market is due to its healthy regional film base with 29 full-fledged regional film industries. South-India is the single largest regional market with all four regional languages gaining a strong audience reception. However, Hindi films are the largest segment in terms of box office revenues. At the same time, India is witnessing a rising adoption of Hollywood films particularly in the regional markets where they find audience in both locally dubbed language and English.

For the top 4 multiplex chains 70% of box office collections³³ is from Hindi and English (international) content. These multiplex chains have traditionally built their business model focussing on metros and Tier-I cities, where the demand for Hindi and English content is high. On the other hand, regional films are more mass-centric and find an easy and cheaper distribution medium via single screens. Overall, the multiplex segment has

adopted a de-risked operating model with increased adoption of Hollywood content and lesser dependence on Indian content.

Online booking emerged as the dominant method for ticket booking

With increased internet penetration and rising income levels consumers are increasingly preferring the convenience of online ticketing as opposed to buying tickets at the box office. The advent of numerous e-ticketing platforms such as BookMyShow, PayTM, Justdial and major multiplexes operating their own online ticketing platforms has provided major tailwind to the proportion of tickets booked online. In 2017, the 4 large multiplexes witnessed 45-50% of their total bookings online, a significant growth in the recent years. With the Government initiatives promoting digital payments and emergence of digital wallets, e-ticketing is expected to receive an impetus going ahead as well.

Single Screen – Emergence of aggregation model

Single screens with higher capacity have not managed to capitalise on the volume of films being released in India. In addition, fragmented nature and profitability challenges of the single screen have resulted in its inability to invest in newer technology, improved F&B offerings and in-cinema advertising which can help improve returns. Single screens have significant potential for expansion if there are models to address the F&B, in-cinema advertising and distributor share challenges faced by them.

An interesting model for sustenance of the single screen segment has been evolving. UFO Moviez and Qube cinemas (pioneers in digitising the Indian multiplex screens) have started working with single screen operators to take the advertisement inventory to both local and national advertisers. The access of ~ 5,100 single screens³⁴ across UFO + Qube network provide both national and regional advertisers a medium to reach the masses. This has led to some improvement in ad revenues for single screen operators and is expected to further improve. This service provider model to provide higher inventory monetisation for single screens may be expected to improve F&B offerings at single screen cinemas in the future. These trends can potentially help the revival of the single screen segment in the country.

31. "F&B, ad segments push overall revenues of multiplexes: Icra", http://www.business-standard.com/article/news-ani/increasing-revenues-a-silver-lining-for-multiplexes-icra-117100600742_1.html, 6th October 2017.

32. EY Analysis.

33. Industry Discussions, EY Analysis

34. "UFO -Qube Composite Scheme of Arrangement and Amalgamation Investor Presentation', November 2017.

Evolution of other innovative business models for expansion and stronger business fundamental

With the top metro markets providing limited growth opportunities, the cinema exhibition segment players are looking at expanding into other under-served parts of India, through various business models:

- ▶ **Conversion/ re-branding of single screen:** Multiplexes are increasingly looking at acquiring large and unique single screen cinemas with long-standing brand heritage and re-furbishing it to the “multiplex” standards. For example- INOX Leisure acquired almost eight decade old single screen theatre Metro while Mukta Arts brought the popular ‘New Excelsior’ in South Mumbai under its brand Mukta A2 Cinemas.
- ▶ **On-demand services with diverse content choices:** PVR Cinemas launched its own version of cinema-on-demand service, Vkaao, which enable consumers to choose which film they want to watch. With more than 500 films in its content library, it is expected to enable PVR Cinemas to ensure better occupancy during the dry periods³⁵.
- ▶ **Low cost model with government tie-ups:** Carnival Cinemas is uniquely adopting its low-capex ‘Carnival Institutional Programme’ where it has tied-up with Jharkhand and Orrisa governments, to get 1-1.5 acres of lands in each district and work with real-estate developers to develop entertainment zones with food courts, retail outlets and two-three screen multiplexes³⁶.
- ▶ **Franchise-based expansion either through Greenfield or Brownfield model:** Nova cinemas, the cinema exhibition arm of UFO Moviez, is planning to open over 3,000 screens across India in the next four years through the franchise model. Working on a JV basis, the cinema has tied-up with an exhibitor in Kerala to develop three cinemas and expanding it to 75 thereafter³⁷. It has tied-up with Y Screens to establish 200 screens in Andhra Pradesh and Telangana region. Under the Greenfield model, the company will bear the cost of building and providing technology services to the cinemas while, the franchisees will provide the land. On the other hand, in the brownfield model- company will only pay for the innovations and refurbishing of the old cinema halls.

Emergence of film-subscription/ loyalty-based consumer programs to create sticky consumer base and repeat visits

As multiplexes graduate from being infrastructure providers to consumer services companies, their focus on customer retention has started increasing. In October 2017, PVR Cinemas launched its online loyalty programme, PVR Cinemas Privilege, which gives its members reward points on purchase of tickets or F&B which can be later redeemed on online and offline channels. The programme is expected to increase customer stickiness resulting in higher weekday occupancy rates, and increased spending on F&B³⁸.

Carnival Cinemas launched India's first film subscription service ‘MovieCard’ in May 2017. It allows subscribers to purchase a single film ticket per day for a flat subscription fee of INR 149 per month and a nominal offline redemption fee of INR 30. The programme was launched with an intent to shift the audience from TV screens to cinemas thereby increasing weekday occupancy for all films³⁹.

Non-cinema exhibition players have also forayed into subscription services to get viewers to consume more at the cinemas. Subscription-based film ticketing service was started in the US in 2011 under the name ‘MoviePass’. The service allows subscribers to purchase a single film ticket per day for a flat subscription fee per month. On similar lines, PayTM has launched ‘Movie Pass’ which enables subscribers to book tickets for up to four films in a month across a host of cinemas throughout the country.

35. “PVR Cinemas launches its ‘theatre on demand’ service VKA AO”, <http://indianexpress.com/article/technology/tech-news-technology/pvr-cinemas-cinemas-launches-its-theatre-on-demand-service-vkaao-483689/>, 20th January 2017.

36. “After Jharkhand, Carnival Cinemas joins hands with Odisha government for expansion”, <https://economictimes.indiatimes.com/industry/media/entertainment/after-jharkhand-carnival-cinemas-joins-hands-with-odisha-govt-for-expansion/articleshow/56209701.cms>, 28th December 2016.

37. “Nova Cinemas eyes big projection in the South”, <http://www.thehindubusinessline.com/news/nova-cinemas-eyes-big-projection-in-the-south/article9811458.ece>, 9th January 2018.

38. “PVR Cinemas launches ‘PVR Cinemas Privilege’ program to benefit its customers”, <https://www.deccanchronicle.com/business/companies/121017/PVR-Cinemas-cinemas-launches-PVR-Cinemas-privilege-program-to-benefit-its-customers.html>, 12th October 2017.

39. “Carnival Cinemas launches MovieCard; unlimited films for 30 days at Rs 149”, <http://www.indiantelevision.com/mam/marketing/mam/carnival-cinemas-launches-moviecard-unlimited-films-for-30-days-at-rs-149-170523>, 23rd May 2017.

Addressing key threats

The rise of “new-age” digital media consumption

In the age of digital disruption the means of access to films for consumers have increased abundantly through multiple OTT platforms. OTT Video on Demand (VoD) platforms like Amazon Prime Video, Netflix and local players like Hotstar, Voot, SonyLiv, ALT Balaji have become very active – looking for exclusive deals with production houses and producing own content. There are over 40 OTT platforms in India offering services at very competitive rates. Netflix offers basic subscription plan for INR 500 per month which is equivalent to watching 2-3 films in a multiplex cinema⁴⁰. Some domestic players offer services for as low as INR 100 per month whereas some operate on a freemium model²⁵. This has increased the risk of lower footfalls in the cinema exhibition halls.

The film exhibition segment has seen several decades of disruption through various electronic mediums including VCRs, CDs, DVDs, MP3 and online streaming services. Cinemas have not only survived these technologies, but prospered in all of these eras. Approximately 57% of the frequent moviegoer population (individuals who hit the cinema once a month or more) in US fell between the age group of 12-39⁴¹. This can be compared with the fact that more than 70% of the millennials and Gen X adults in the US have an active OTT subscription⁴². Therefore, it is more likely that most of the OTT subscribers are actually frequent cinema-goers.

Emergence of online platforms has resulted in an enhanced dialogue between exhibitors and distributors around an exclusive theatrical release window. In the developed countries the window is ~ 90 days⁴³ for exclusive theatrical release whereas in India the consensus is moving towards an exclusive theatrical release for 6 weeks followed by pay per view for 2 week and then opening up rights to OTT platforms subscribers and satellite rights. The exclusive theatrical release window is important to producers as they earn maximum revenue from domestic box office collection. Another noteworthy trend is the attempt by distributors to debundle the satellite TV and Internet rights as they view greater monetization potential in dealing with OTT platforms and broadcasters separately.

Online piracy: Working together to solve the problem

Despite being fully digitised, the Indian film segment is grappled with the menace of piracy which has been rampant in the market. The entire value-chain is affected under such dynamics where the films are made available within hours of its theatrical release. High content prices, low income level and cheaper internet infrastructure are the major factors leading to content piracy. In some of the cases, the films have leaked before their release dates as well. “Camcording” in the cinemas is one of the major sources of the leakage as over 90% of new release titles originate from cinemas⁴⁴. The other reason for the leakage of content online is the official release of the films in another geographies prior to their Friday release in Indian market, for example in UAE films are released a day prior to their Friday release in India. Piracy has caused severe revenue leakage to the tune of 10-30% of the overall revenue for the segment⁴⁵. Nation's fast paced adoption of internet and affordable data plans have further enabled the viewers to wait for the film and watch it on their mobile screens.

There have been several steps taken by the Government and different industry association have come together to work on the piracy menace. The Indian copyright law has provisions for digital right management for protection of the content on digital media environment. There have been multiple cases of getting John Doe orders from the High Court to prevent access of content to websites suspected of hosting pirated content. The government has banned various websites that provides online streaming or torrent links to download the pirated content. The warning on such websites has been updated to include viewing, downloading, exhibition and duplication of the contents as being offences which are punishable under Sections 63, 63-A, 65 and 65-A of the Copyright Act. The law further states that these provisions prescribe a punishment of up to three years in jail and a fine of up to INR 3 lakh⁴⁶. Further the onus of committing the crime will be on the viewers if it can be proved that the infringement was done knowingly on such online websites. However, further tightening of the law, stricter copyright infringement provisions and awareness among consumers regarding the ill-effects of piracy can significantly boost the segment potential.

40. EY analysis

41. MPAA Theatrical Market Statistics 2016 Report

42. <https://www.statista.com/statistics/698020/netflix-subscription-by-age/>, accessed on 12th February 2018.

43. Industry discussions conducted by EY

44. “Indian films gross \$2 billion, but piracy makes 35% more”, <https://www.thenewsminute.com/article/indian-films-gross-2-billion-piracy-makes-35-more-48603>, 21st August 2016.

45. “Indian Film Exhibition Sector”, Nirmal Bang Institutional Equities

46. “The new war on piracy”, <http://www.thehindu.com/opinion/lead/The-new-war-on-piracy/article14587200.ece>, 25th August 2015.

Overseas theatricals

Overseas theatricals have emerged as an important avenue for producers, giving them an additional safety net. More focus is placed on the Chinese market, as well as North American market. Overseas theatricals contributed approximately 16% to the overall segment's revenue in 2017, an increase of approximately 3x from 2016.

The Aamir Khan-starring film *Dangal* became the highest-grossing non-Hollywood film in China ever with earnings amounting to \$169 million⁴⁷ despite being a Hindi language film set largely in rural India with an all-Indian cast, simply dubbed or subtitled in Mandarin. Similarly, *Baahubali 2: The Conclusion* raked in \$14 million and *Tiger Zinda Hai* raked in \$20 million in overseas collection. What makes this an even more intriguing feat is that until recently, China wasn't considered part of the "traditional" foreign market for Indian films--which includes regions such as the United States, United Kingdom and United Arab Emirates, all of which are home to a significant Indian diaspora.

The trend continued in 2018 with Aamir Khan's international hit, musical drama *Secret Superstar*, opened in first place in China with \$27 million, outshining 20th Century Fox's *Ferdinand* and Sony's *Jumanji* in its second weekend. *Secret Superstar* is the first Indian film to score a revenue-sharing release under China's quota system, granting the producers a 25% slice of all ticket sales, which is usually reserved for Hollywood imports.

Indo-Americans represent one of the fastest growing ethnic groups in North America, with the latest census data showing a 69.4% increase in their numbers in the United States between 2000 and 2010, and similar growth in Canada. And as a whole, they tend to be extraordinarily avid consumers of films compared to the general population, with per capita film ticket purchases better than 50% higher than average. Indian filmmakers and North American distributors and exhibitors alike cater well to this audience. At any given time over 1,000 film screens in the territory may be dedicated to showing Indian films⁴⁸.

In 2017, the Tamil action thriller *Mersal* crossed the \$10 million mark at the overseas box office, with the overall foreign earning at \$11.1 million in 12 days. The Vijay-starrer, which has already joined the list of all-time highest south Indian grossers worldwide, had, at last count, made \$372,000 in Australia, \$694,000 in the UK, \$655,000 in Malaysia and \$26,000 in New Zealand⁴⁹.

Mersal isn't the only regional film to outdo its Bollywood counterpart overseas. Even, Telugu action drama *Jai Lava Kusa* had collected close to \$1.39 million over a five-day opening weekend in the US, compared to Sanjay Dutt-starrer *Bhoomi*, which managed \$200,000. Over the same period, Punjabi film *Nikka Zaildar 2* topped the box office charts in Canada, the UK and Ireland with weekend earnings of \$250,447 and \$88,400, ahead of all Hindi releases.

Tamil cinema has achieved about 50% of the kind of market Bollywood can currently boast of in the United Arab Emirates, while in Malaysia, it is ahead of Hindi cinema. Regional language films are also very popular in countries like Australia, Netherlands, Singapore and increasingly, South America.

Broadcast rights⁵⁰

More than a third of the total television viewership is generated by films. Film channels and GEC's are the main buyers for Broadcast rights. Broadcast rights grew to INR 19billion in 2017.

The two biggest blockbusters on television this year have proved to be two dubbed Telugu films. *Baahubali 2: The Conclusion* set an all-time record for TV viewership and even its repeat airing generated higher viewership than the second best film *Dangal*'s TV premiere. The big surprise was *Duvvada Jagannadham* which also managed to get over 10 million impressions and beat many big Hindi films like *Tubelight*, *Kaabil* and *Raees*.

Fragmentation of viewership has resulted in growth of satellite right valuations, after a hiatus of a few years where they stagnated and even fell. Zee Network acquired the satellite television rights of Rajnikanth's upcoming science fiction film *Robot 2.0* for an estimated INR1.1 billion, becoming the single-biggest film acquisition deal by a network. With the battle for film rights heating up between networks, *Dangal* earned INR750 million.

47. <http://www.koimoi.com/box-office/dangals-unstoppable-box-office-collection-takes-it-to-the-1900-crore-mark-worldwide/>, 8th June 2017.

48. "Indian Movies Are Booming In America," Forbes, <https://www.forbes.com/sites/robcairn/2017/05/05/these-are-the-best-of-times-for-indian-movies-in-america/#72906c22b97e>, accessed on 8 February 2018

49. http://www.livemint.com/Consumer/QtZm9va3jOCWpXcmOEIPYO/Regional-cinema-threatens-Bollywoods-reign-overseas.html?utm_source=scroll&utm_medium=referral&utm_campaign=scroll

50. <https://boxofficeindia.com/report-details.php?articleid=3488>

Digital revenues

The advent of large OTT platforms in India such as Google, Netflix, Amazon, Eros Now, Jio Cinema, etc, apart from OTT offerings of various telecom companies, has significantly increased the demand for films' digital rights. The sudden surge in demand, especially the demand for exclusive rights, has resulted in a significant increase in the value of digital rights, which as per industry estimates have increased multi-fold (depending on the length of the deal and type of rights acquired) over the last two to three years. Digital revenue generated INR 8.5 billion for the film segment in 2017 an increase of 40% over 2016.

Digital rights for a few popular films provide between 10% and 30% of a film's total revenues. We expect this value to continue to be high in the near future, as demand for content continues to rise on the back of growing smart phone and broadband user base.

Digital platforms are now competing with TV platforms to showcase content. In many cases, the OTT bid price (for a film) is close to the satellite price, if not more. OTT players have in some cases bought digital and satellite rights on a bundled basis and disposed off satellite rights. For instance, Amazon Prime Video, which has picked up the streaming rights of Sanjay Leela Bhansali's *Padmavati* for an estimated INR 200-250 million, will get to release the film before satellite TV partner Colors. The US-based streaming service has also signed a five-year deal with actor Salman Khan to premiere all his upcoming films before they are showcased on television⁵¹. While short windows help in curbing piracy, the greatest impact could be on cinema-going culture, with premium audiences knowing that the film will be released on SVoD or TV in the next 30 to 60 days⁵².

YuppTV has added a new platform called Mini Theatre to its South Asian video streaming service, featuring a few films currently on theatrical release. The Mini Theatre platform will offer subscribers films that have just been released in India, either on the day of release or the week following their arrival in cinemas. The platform is compatible with users of Samsung and Apple devices, as well as Roku, LG, and Sony TV interfaces⁵³. This is likely to be the future for those feature films which may not require a large screen experience.

51. "Is TV premiere window for Bollywood films shrinking?," Live Mint, http://www.livemint.com/Consumer/CYj82JKDKdMvicufW2Fv11/Is-TV-premiere-window-for-Bollywood-films-shrinking.html?utm_source=scroll&utm_medium=referral&utm_campaign=scroll, accessed 30 January 2018

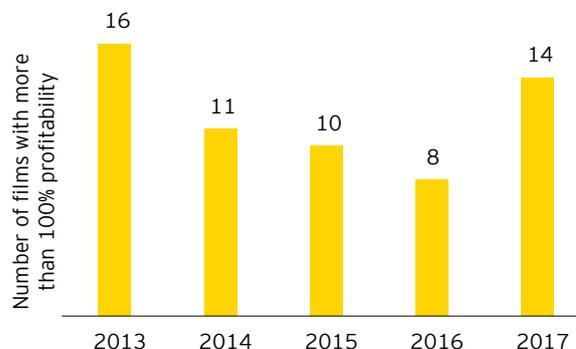
52. "Is TV premiere window for Bollywood films shrinking?," Live Mint, http://www.livemint.com/Consumer/CYj82JKDKdMvicufW2Fv11/Is-TV-premiere-window-for-Bollywood-films-shrinking.html?utm_source=scroll&utm_medium=referral&utm_campaign=scroll, accessed 30 January 2018

Other Film segment trends

1. More films turned profitable

Of the leading 50 Hindi films, the number of films which were able to record a positive return of more than 100% over their investment increased from 8 in 2016 to 14 in 2017⁵⁴. However, a few films with big stars and big budgets failed to generate the profits despite being among the top grossers for the year, suggesting good box office performance is not a guarantee for returns. On the other hand, smaller budget films with profitability were not part of the top grossers of the year.

Number of Bollywood films with more than 100% profitability



Source: <http://www.koimoi.com/category/box-office/profitable-films/>, accessed on 11 February 2018

2. Digital and events increased their importance in the marketing mix

Co-marketing media spends for Indian films have reached approximately INR 3 billion in 2017. A film's promotion budget is highest on television (45-50 per cent) and lower on print and radio (10-15 percent). Digital is growing significantly (can be upto 20 to 30 per cent) and activation and outdoor comprise the balance. Digital media played a role in the segment making a departure from a 'single-event' launch or press interaction to an entire campaign spanning weeks or months.

25% of Hollywood films, 15% of south India films, 16% of Marathi films have brand associations. FMCG, auto, apparel and e-commerce for instance, are categories that are most active in in-film integrations and co-branded associations.

Core innovations in film marketing today include word of mouth screenings, passion groups, leveraging on awards and recognitions, digital alliances, media net, cast and

53. <https://www.rapidtvnews.com/2017051547209/yupptv-offers-global-subscribers-new-release-movies-on-demand.html#axzz56ofGnml6>

54. <http://www.koimoi.com/category/box-office/profitable-films/>, accessed on 11 February 2018

crew involvement, social media and trailering in cinemas, apart from the mass media typically used.

3. Collaborations with foreign studios are increasing

India is witnessing a rise in collaborations between Indian production houses and foreign studios. Fox, Disney, and Viacom have been spending heavily in their effort to gain a foothold in Bollywood and have established their domestic divisions in India.

Anil Ambani's Reliance Big Pictures invested \$325 million for a 50% stake in Steven Spielberg's Dreamworks, besides other tie-ups with US production houses owned by Nicholas Cage, Jim Carrey, Tom Hanks, Brad Pitt, Julia Roberts and George Clooney.

Lionsgate collaborated with Anil Kapoor's production house AKFC for the Indian adaptation of Red.

Eros International-owned Trinity Productions has entered into an agreement with Chinese companies Huaxia Film Distribution Co Ltd and Peacock Mountain Culture & Media to co-produce three bilingual films. These include The Zoo Keeper by Kabir Khan and Love in Beijing⁵⁵. Tubelight was the first fruit of this strategic Indo-China collaboration, with the leading lady being the Chinese actress Zhu Zhu. There is also a second Chinese backed film in the pipeline for Salman Khan and Kabir Khan, tentatively titled The Zookeeper. This film is about an Indian zookeeper's journey to China to find a panda to bring back, hoping to save his zoo.⁵⁶

4. Small-budget different themed films are going mainstream

The past few years witnessed over a dozen female-oriented film releases, making it a very encouraging period for women in Bollywood. Small budget, niche films with high-quality scripts have made a mark in 2016-17 with hits such as Neerja, Pink, Jolly LLB 2, and Hindi Medium raking in huge profits due to customer influx by word of mouth promotions.⁵⁷ In 2016 and 2017, unconventional films such as Pink, Neerja, Hindi Medium, Mom and Lipstick Under my Burkha posted significant revenue figures despite low star appeal.

55. "Bollywood producers, distributors angle for Chinese audience," Hindu Business Line, <http://www.thehindubusinessline.com/news/variety/bollywood-producers-distributors-angle-for-chinese-audience/article9857833.ece>, accessed on 8 February 2018

56. "Why Salman Khan's Next Big Bollywood Film Stars A Chinese Leading Lady," Forbes, <https://www.forbes.com/sites/leezamangaldas/2017/04/20/why-salman-khans-next-big-film-stars-a-chinese-leading-lady/#c7988cd3267e>, accessed on 8 February 2018

57. "Profitable Films Of 2017," Koimoi, <http://www.koimoi.com/box-office/profitable-films/best-of-2017/> accessed 14 August 2017.

Going forward

Need for re-invention: Themes that resonate across India and across borders

The success of Baahubali series at the box office spins out valuable lessons: It's a wake-up call for the segment: The need is for a spectacle which can open in as many screens as possible across languages and borders. Baahubali confirmed the Hollywood strategy of big budget franchises where the story, character and/ or viewing experience is of paramount importance to drive audiences, and the success will, in turn, create stars out of good actors, and one does not require major actors for these concept films. The success of the series has certainly jolted the thinking of film makers across India and large projects have been announced.

The hope is that this event leads to creation of mass appealing stories/ themes that traverse across language and regional barriers and drag the audiences from their comfy couches into cinemas. And the hope also is that copycat ventures don't mushroom which may wear down the willing audience with their lack of differentiated offering.

Digital knows no boundaries: serve at the customers table

With the broadband becoming both accessible and affordable, the video consumption pattern in India has undergone a sea change. Good content traverses cross geographical and language barriers and global OTTs have successfully demonstrated the model of producing content for global audience.

The opportunity is to create and serve content for consumers at their table: This could be short form content for mobile/ tablet audiences, in form or original content or repackaging of library content. Equally, films which may not have theatrical release potential may very resonate well for a home viewing experience. There are several instances where a box office debacle or an average performer at box office has garnered a regular repeat audience on satellite.

It is possible that all films may not be able to get the right theatrical window. Or good content cannot afford the marketing cost to make it visible.

Film segment will witness a conscious move towards segregating content based on suitability for theatrical release versus other release windows based on multitude of factors. Similarly, opportunity to showcase content on digital window will resurrect projects which were considered unsuitable or unviable for theatrical release, or those which can resonate with global audiences.



Eros - Evolution of Indian film studio in digital era

Eros Group, with listings in Mumbai and New York, has been in existence over last 40 years and is a one of the prominent players in the Indian film industry.

Eros began its journey of transitioning from a film studio to a digital content platform several years back with the launch of Eros Now. Over the last two and a half years, Eros Now has tripled in growth. About 25% of Eros' overall revenue comes from digital platform and in three years, digital is expected to account for three quarters of the revenue.

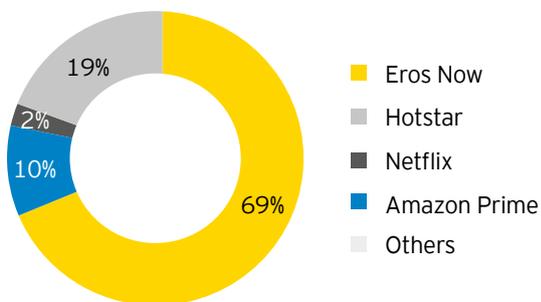
Eros is consciously reducing its dependence on box office and focusing on its online video streaming platform Eros Now. Eros envisions content more as a means to developing a personal relationship with each paying subscriber and surface unique and interesting programming

that is relevant to that individual. This creates value for the eco-system wherein theatrically unreleased films, made for digital content has true potential for real consumption. The consumer growth strategy going forward will also see the launch of 'Eros Now Originals' that will kick off in H2 of 2018 in addition to the strong to-be released films slate.

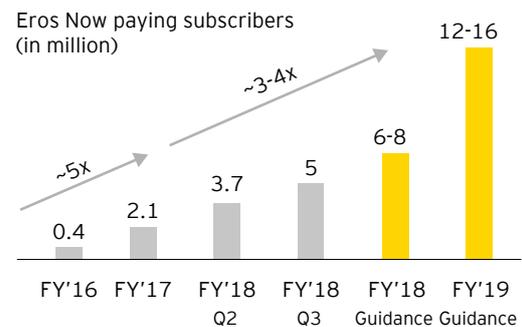
With digital revolution in India, fuelled by Government initiatives and private enterprise initiatives, India has emerged as one of the most attractive destinations for digital economy companies. Films and cricket are the key drivers for reaching the Indian masses and Eros, with its vast film library, new initiatives and deep knowledge and relationships in the film segment, is very well positioned to thrive in this environment

India OTT platform – share of films

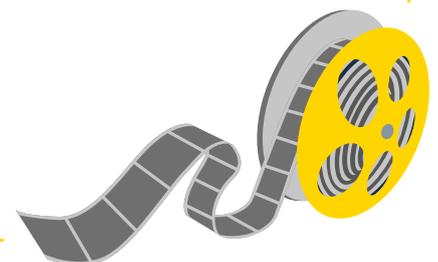
- ▶ 5 million paying subscribers
- ▶ 80 million registered users
- ▶ 135 countries
- ▶ 10,000+ digital film rights
- ▶ 10 original shows under production



Rapidly Growing Paid Subscriber Base



Rishika Lulla
CEO, Eros Digital



Crowd funding for content

Regulatory reforms on crowd funding are expected to be finalised soon post the consultation process. This could open up a new window for film financing backed by evidenced interest, and especially aid independent cinema/ content creation.

Transparency

One of the biggest challenges for the film segment is transparency and difficulty in evidencing its revenues. With multiplexes, while significant cinema exhibition revenues are accurately measurable, there are still gaps. Satellite, digital, music and other revenues are private transactions and hence, always based on 'word of mouth' tales. This poses significant difficulty at various levels: demonstrating profitability of a film and growth of the segment, convincing an investor on investment potential, securing lending from banks, seeking Government assistance on taxes, aids or subsidies.

Today with technology as enabler, it is not very difficult to create a secure segment repository where information is contributed by segment on various data points to overcome some of the hurdles outlined above. With the advent of block chain technologies, the transactions can be validated in a secure environment mindful of privacy of data considerations.

Bringing such transparency into data points would go a long way in furthering interests of the segment.

Being relevant

Indian film segment is unique in the world the way we make our films - our creative cultural heritage. It is one of the largest intangible export India makes. Often it teaches valuable life lessons, besides entertaining, or gives voice to social issues on a national platform, which otherwise would have gone unheard. It somewhere defines and influences us in form of our fashion trends, social conversations, our affiliations, our holiday destinations - this list could go on.

Millennials and younger population of India have grown up in the midst of a technology boom: mobile and console gaming, European soccer, esports, Marvel and DC Universe, social media, EDM. Bollywood does not come naturally to them: they perhaps need an initiation into Bollywood.

Disney recreates its classics over the years to refresh it for the new generation for classics to stay relevant.

Cricket reinvented through T20 to ensure women and younger generation are attracted to the game of cricket

Bollywood has to take steps to refresh and stay relevant to this new generation.

Data backed decisions to cater to audience preferences⁵⁸

Data is being used as a powerful tool for marketing to audiences. Sentiment analysis is being used to target territories with high preferences, and screen count across territories is being determined based on social media analysis. Film scheduling on TV is also being done based on viewership data and digital uptake is determining which films to invest in for OTT platforms.

Producers of Shaadi Mai Zaroor Aana collaborated with Infinite Analytics Nucleus to apply data analytics to pull audiences for the film. Infinite Analytics used its artificial intelligence (AI) platform called 'ian' (Infinite Analytics Nucleus) which offers product recommendation system and represents it across all channels targeting specific users to maximise reach of films. This was the first-time analytics was being used to pull audiences for a Bollywood film. Infinite Analytics identified the lead actor Rajkumar Rao's previous preferences in terms of films, music, food, books and recommended the same for this film. As a result of successful implementation of data analytics, the trailer of the film reached a million hits within five days of its release. It is likely that this trend shall only grow in the years to come.

58. "INDIA GETS ITS FIRST STARTUP TO USE DATA ANALYTICS IN BOLLYWOOD," Analytics Insight, <https://www.analyticsinsight.net/india-gets-its-first-startup-to-use-data-analytics-in-bollywood/>, accessed on 30 January 2018

Virtual Reality - building capabilities

There is increasing focus on Virtual Reality (VR), Augmented Reality (AR) & Mixed Reality (MR) as technologies being increasingly used in everyday content and communication. Of these, VR is looked upon as the next platform for film viewing globally (the word Film being used here to mean narrative audio-visual storytelling).

We currently consume content on three viewing platforms - Cinema (Big screen), TV (Small screen), Web and Mobile (Mini screen). VR is going to be the 4th and the most immersive platform. Each platform comes with its own unique content characteristics and hence content made for each on a differential basis. While the lines between the platforms are blurred and there is a lot of content created for one platform that is widely consumed on other platforms, there is still an origination / source platform for each and every piece of content. The unique content characteristics for VR are yet to be defined.

Whistling Woods International Institute of Film Communication & Media Arts has created the first Virtual Reality Lab in India and has tied up with Reliance Jio for this purpose. It aims to graduate the first generation of VR content creators for the Indian Media & Entertainment sector.

Education for global reach

From a longer term perspective, India would need to follow the US model, and create content for international exploitation to grow and protect against domestic uncertainties. The first few moves in this direction have been initiated with Baahubali and Dangal, and soon to release content created for global OTT platforms. Specialised education can play an important role.

The percentage of formally trained people in the Indian film segment is less than 15%. This is reflected in the fact that despite having ~17% of the total world's population and ~9% of the world's economy, the Indian Media & Entertainment sector has less than 1% of the global Media & Entertainment sector market share.

In India, Films / TV / web shows are not made that appeal to the rest of the world en-masse and hence end up leaving out a huge market from our viewing audience. Over 60% of Hollywood's revenue comes from outside the US. Only 10% of Indian film revenues come from outside India. And 95% of that 10% comes from Indian diaspora viewers.

We are unable to reach out across cultures and tell our stories to the world in a universally acceptable entertaining and engaging manner. There are, of-course, outliers to this norm like Lunchbox, 3 Idiots or Dangal, which travel well; but the number of films / TV shows that have travelled globally over the past 7 decades, and appealed to non-diaspora viewers, can be counted on 2 hands.

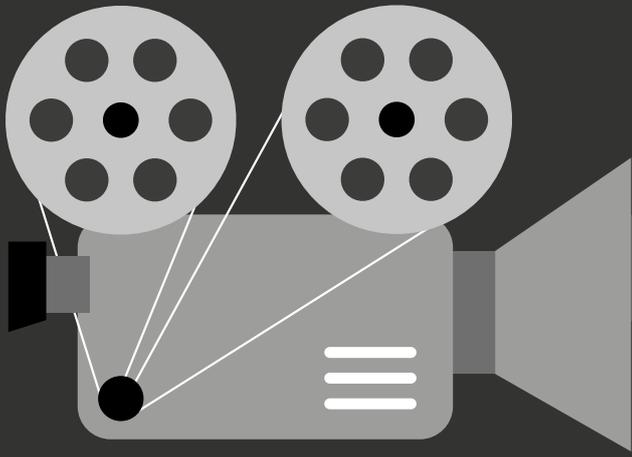
Despite being one of the oldest education cultures, we do not have claim to any global leadership in films today.

India needs at least 5-10 times as many Film & Media graduates each year as we have now. The Indian Film, TV & Media Arts segment is India's biggest cultural ambassador entrusted with the task of spreading Indian culture & values globally and despite that, it does not have an official educational framework to operate in. This gap in India's academic structure needs immediate corrective action, so that mainstreaming of Film & Media education can commence.

India's Film Education scenario in comparison to the US

Particulars	India	US
Population	1.25 billion	300 million
No of Films being made	~1,800	400+
No of world-class film schools	4-5	150-160
No of graduates from these schools each year (before 2006)	300-500	15,000+

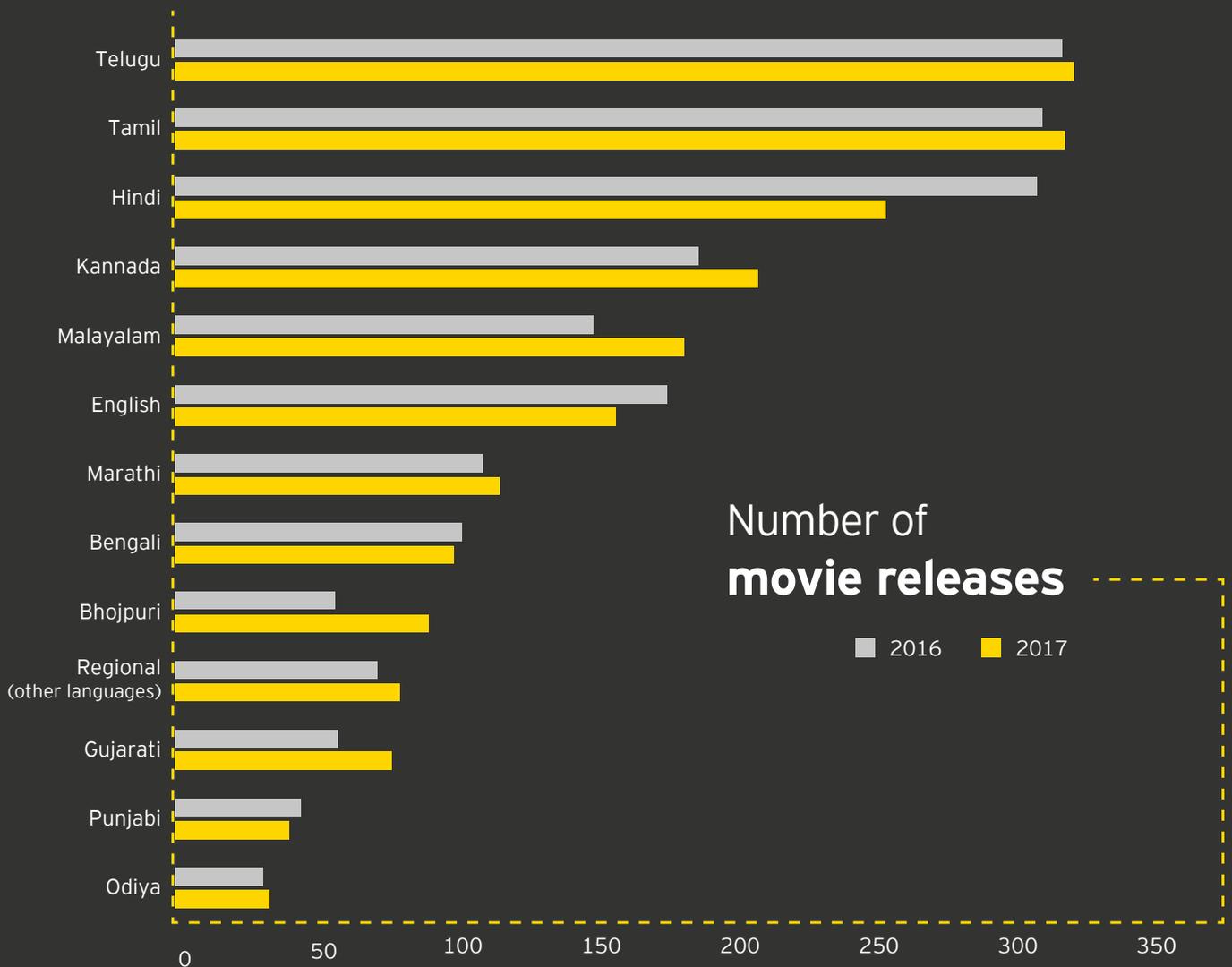




India Film trendbook

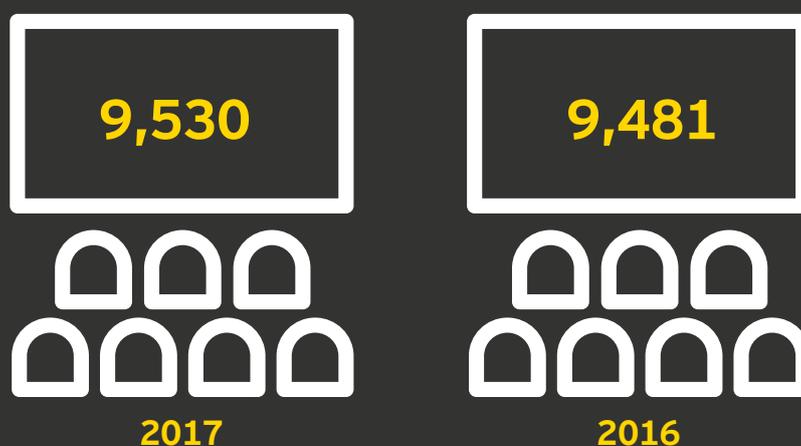
Powered by **UFO Moviez**

Regional movies drove the growth in number of releases in 2017

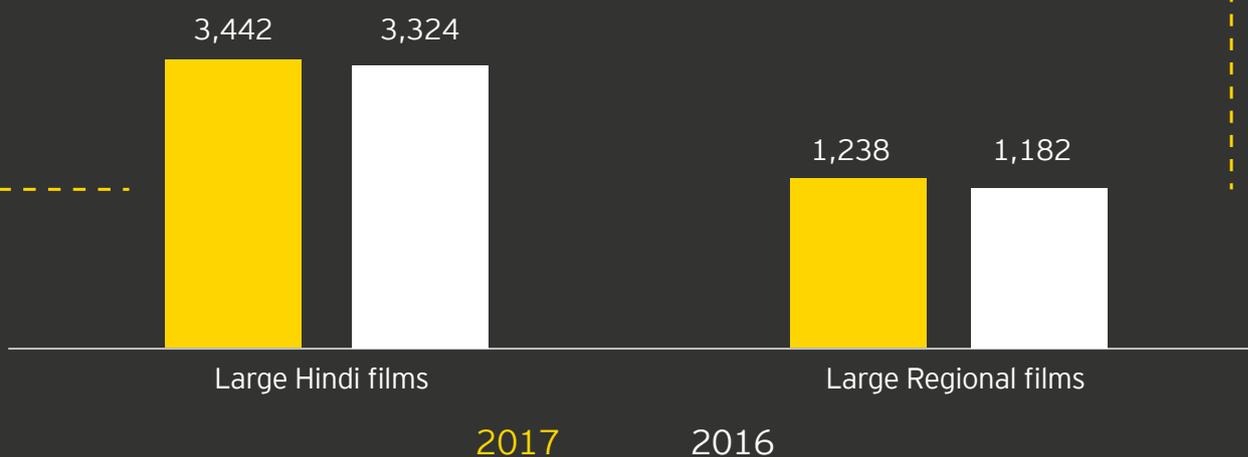


Screen count increased in **2017**

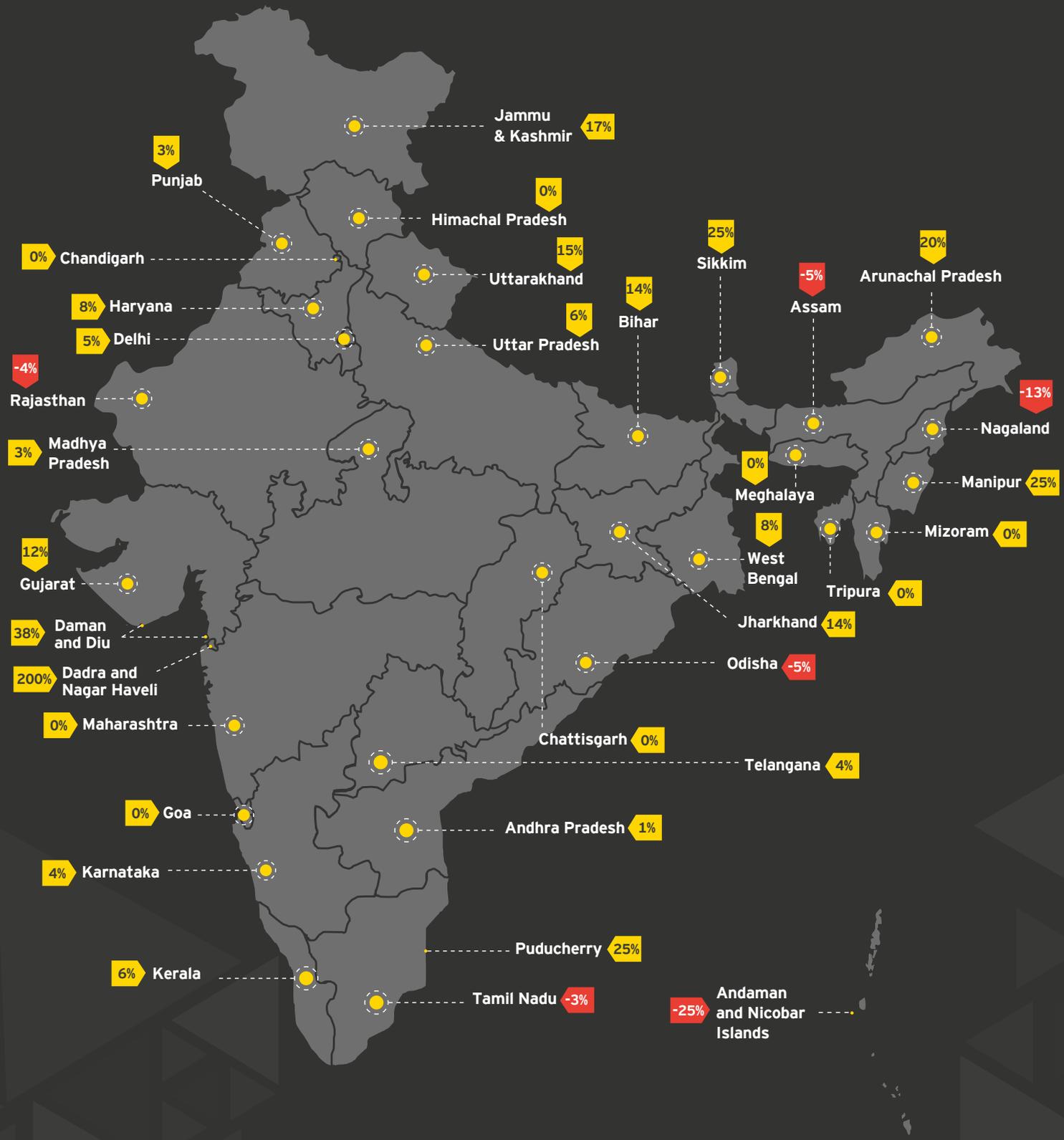
Number of **screens**



Average **screens per release** grew in **2017**

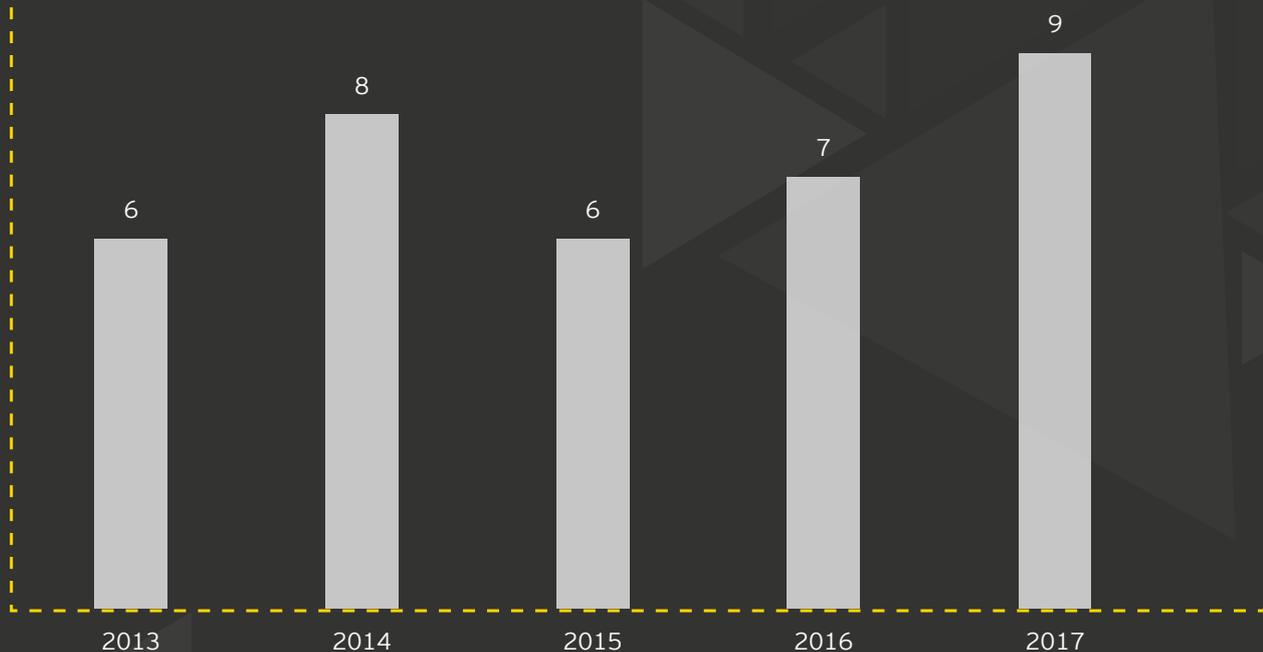


Growth in total screens by state



Number of **Hindi movies** crossing the INR1 billion mark was highest in 2017.

Number of movies



www.BoxOfficeIndia.com

From **31 movies** in 2016, **Hindi dubbed movies** increased more than **3 times** to **96** in 2017.

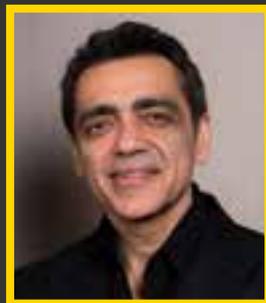
Expert speak



Kishore Lulla

Chairman, Eros International Plc.

OTT is changing the landscape of the industry, from being a star-driven to a content-driven industry. Additionally, along with the influence of social media on the youth, the industry is shifting focus on the way content is being consumed. With the ever-changing preferences of viewers, the traditional studio models need to transition to cater to audiences and with Eros Now we are geared to serve audiences globally.



Ajay Bijli

Chairman & MD, PVR Ltd.

Amidst the on-going digital disruption enabling increased content access to the customer on mobile devices, premium offerings with holistic experiences will differentiate the multiplex industry.



Abhishek Maheshwari

Country Head, The Walt Disney Company India

Indian audiences are becoming increasingly discerning when it comes to content choices. While technology will play a big role in how content is created and consumed, the audiences' desire for great storytelling will only grow stronger. High quality content, local or international, will work across languages and platforms. The combination of our strong brands and great content is what keeps us relevant in the constantly evolving M&E landscape.



Kapil Agarwal

Joint MD, UFO Moviez India Ltd.

There is tremendous scope for growth of films in India. India can easily accommodate another 15000-20000 screens, largely in Tier 2 and 3 cities, but their business model would be different from screens in larger cities.



Dr Shrikant Bhasi

Founder and Chairman, Carnival Group

We believe the cinema exhibition industry growth is going to come from Tier 2, Tier 3 and Tier 4 cities. There is a need to provide value-for-money experiential offerings to increase demand in these regions.



Vijay Singh

CEO, Fox Star Studios

The film industry is in a very interesting betwixt position - on one hand audiences are getting more selective and seeking either big screen spectacles or high concept films that capture their imagination. On the other hand, stars are only able to ensure a Day 1 opening - after which the film's word of mouth takes over! However, what is unquestionable is that it is an exciting time for content creators - a fantastic opportunity to push the boundaries on content creation!

Ajit Andhare

COO, Viacom18 Motion Pictures

The film industry needs to focus on stories that can travel across movie goer bases in Hindi, South & Overseas to improve the cost to return equation. Offering a cinematic experience to consumers and greater content risks are the two fundamentals that will drive film consumption on traditional (Box Office & TV) as well as new channels(Digital) . We need to move the conversation from price driven growth to growing underlying admissions. This was done by the market leader from South that drove admission across all movie goer bases in Hindi, Tamil and Telugu.



Hiren Gada

Director, Shemaroo

With almost half a billion internet users already, the internet video consumption revolution in India is only getting started. It will not be long before we start seeing the digital video consumption habits mirroring that of television and becoming more 'massy' thereby opening up a plethora of monetization opportunities for the entire industry.

Expert speak



Siddharth Jain

Non-executive Director, Inox Leisure Ltd.

Our endeavour is to elevate the cinema experience for Indian citizens as our expansion continues. Our expertise in deploying leading technology and luxury features across our properties is helping us achieve this. We need the right support from the government & authorities in facilitating an environment to increase screen density, providing a level playing field for all platforms of entertainment which would enable us to reduce costs and aid infrastructural progress to help us take this experience to audiences across the country.



Rohit Jain

Managing Director, Lionsgate India

The fundamental issue impacting the footfalls at theatres is that India is a highly under-penetrated market in terms of number of screens coupled with high ticket prices. Also, unlike Hollywood, to reach the masses and influence the box office, the core of the content is required to be more Indian and star studded. This occasionally impacts the ultimate vision for Indian cinema of taking the content at a global level.



Apoorva Mehta

CEO, Dharma Productions

The biggest learning from last year is that the Hindi film industry is combating competition from various sports leagues taking place round the year, growing popularity of regional cinema and niche content regularly available on OTT. The real need of the hour for the industry is to up the scale by creating compelling, majestic and exceptional content that can resonate across the globe. One way of achieving this is through collaborations; by bringing exceptional talent & technician from different regions across the globe to give more operatic experiences to today's young contemporary audiences.

Sneha Rajani

Dy. President & Head - Motion Pictures, Sony Pictures Network

The ongoing debate of creating visual spectacles to pull the audiences to theatres is only partially true. To say that no other type of films will be consumed by the audience is incorrect. But for that to be a reality, there has to be a robust vision to create really good film and not on 'creating' profits. We need to be braver and bolder in terms of producing high concept movies (be it a spectacle or otherwise) within disciplined budgets.



Javier Sotomayor

Managing Director - Cinepolis, Asia

Watching the movie everyone is talking about on the big screen, at a dark room full with people is a social entertainment experience impossible to replicate by home entertainment. Given the improvement in cinematic experience in multiplexes, we expect audiences to continue to flock to cinemas for that unique experience. Exclusivity windows for theatrical exhibition should be firmed up, as they are globally.

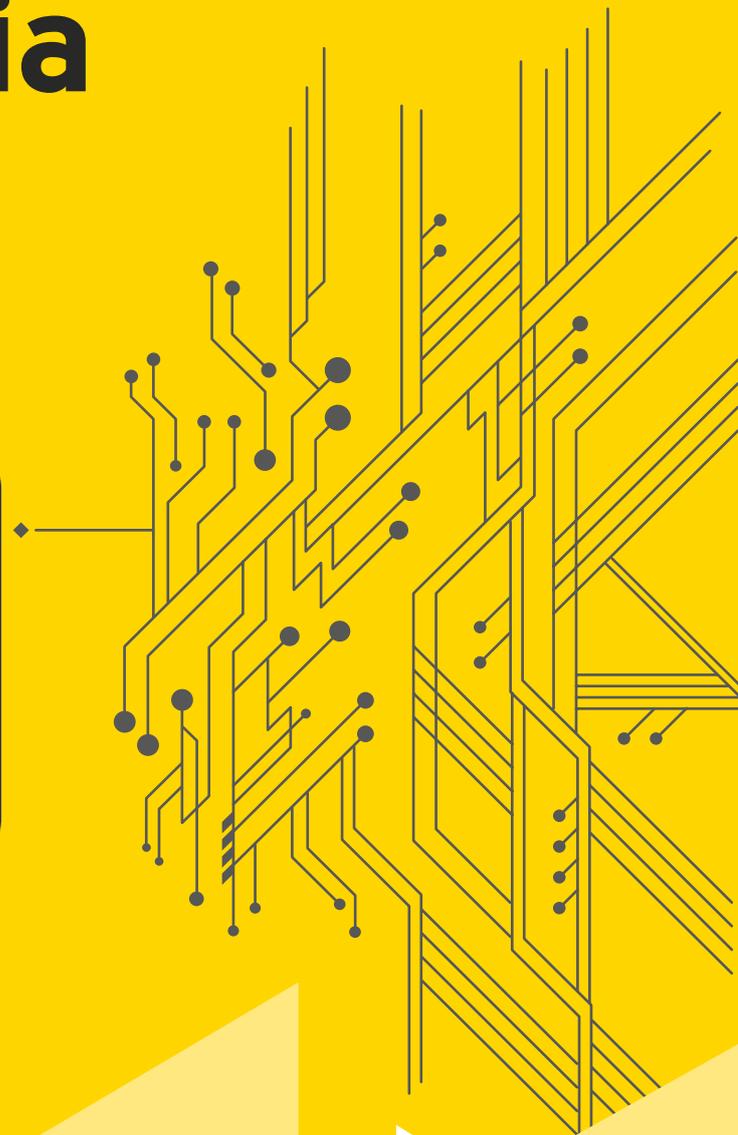


Kitty Koo

Director, New York Film Academy, India

The Indian cinema is undergoing a shift in terms of demand for a matured content, which is not only entertaining but leaves the audience with an authentic experience. Therefore, in the recent past the low budget films with resilient story line, are making their way to the audiences and finding success, which also speaks volumes for the huge potential in the market for such content. To this end, we are observing that the aspiring talent in India is also realising the need to be disciplined in all spheres of film-making through formal education, to deliver beyond expectations.

Digital media



Digital media has grown significantly over the past few years, and continues to lead the growth charts on advertising. Subscription revenues are emerging and are expected to make their presence felt by 2020.

	2016	2017	2018E	2020E
Advertising	89.2	114.9	145.5	203.6
Subscription	2.6	3.9	5.7	20.1
Total	91.8	118.9	151.2	223.7

INR billion (gross of taxes)

In 2017, digital media grew 29.4% (27.8% net of the impact of GST) on the back of a 28.8% growth in advertising and a 50% growth in subscription. Subscription, which was just 3.3% of total digital revenues in 2016, is expected to grow to 9% by 2020.

Digital infrastructure

The rapid up-take of connected devices, especially smartphones and tablets, is instrumental in media consumption shifting beyond traditional media formats such as broadcast and cable TV toward digital mediums. Increased digital consumption in India is expected to help media conglomerates drive consumer aggregation.

Smartphone uptake was significant

Smartphone penetration reached around 33% in 2017¹

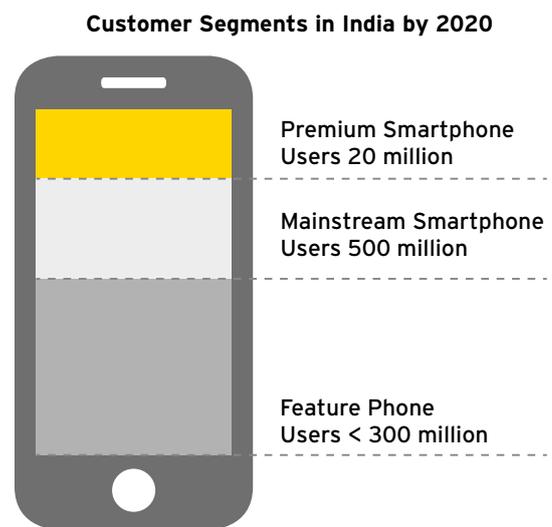
The number of smartphones sold in India by Q4 2017 amounted to 124 million². India is now the second largest smartphone market in the world, overtaking the US and trailing China, based on the number of shipments³. Over 83%⁴ of smartphones in the country operate on Android operating system.

1. Statista 2018

2. IDC 2017 first 3Q shipments: <https://www.statista.com/statistics/298097/smartphone-shipments-india/>

Low-cost smartphone options increased

One of the key events of 2017 was the launch of low-cost smartphones. Jio launched its INR1,500 smartphone, and Airtel announced a smartphone priced around INR2,000-2,500. These devices come with bundled data plans, as well as Wi-Fi connectivity, and will enable deeper penetration of internet services and digital media.



Connectivity improved

Subscriber base of mobile users increased

India reached a telecom subscriber base of 1.19 billion in 2017⁵. The mobile phone is now clearly the primary mode of communication, news and entertainment for a large number of Indians. While dual-SIM phones exist, and many SIMs remain inactive, the actual number of cell phone users is estimated to be 650 million in 2017⁶. This is expected to reach 1 billion unique mobile subscribers in India by 2020⁷.

The emphasis by the government on its flagship 'Digital India' program coupled with the upcoming NTP - 2018 which is expected to include cable TV networks and satellite communications including DTH for broadband penetration is expected to take broadband to the last mile. However, if issues such as last mile opening of digitalized cable

3. <http://www.livemint.com/Technology/Dml7WqfGXljhpQobNjBtrN/India-overtakes-US-to-become-second-largest-smartphone-market.html>

4. <http://gs.statcounter.com/os-market-share/mobile/india>

5. TRAI Press Release Jan 2018

TV infrastructure were to be addressed then broadband penetration across rural and urban India could peak.

4G networks grew

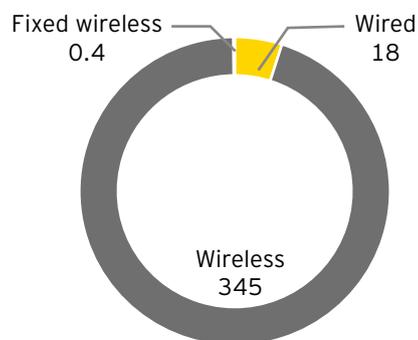
The adoption of 4G is gradually increasing and now 3G and 4G constitute over 75%⁸ of the overall wireless internet user base. The average monthly mobile data traffic usage in India is estimated to have reached 3.9 GB per month per smartphone in 2017⁹.

Broadband subscriber base was over 90% mobile

The broadband subscriber base grew significantly in 2017 to reach 363 million¹⁰. The growth was led by Jio's rollout and a corresponding fall in data charges it triggered.

Despite the infrastructure upgrades and adoption of mobile and internet, ~25% of mobile internet users in India are still hooked to narrowband services, as per TRAI estimates for September 2017. The narrowband base is declining very quickly, and reduced by 20% between June and September 2017.

Broadband subscriber base (in million) on Dec 31, 2017



Source: TRAI

Data charges fell significantly

Triggered by Jio, the price of a GB of data has fallen significantly. In addition, telecom players have always won market share by enabling sachet pricing. Some of the sample data plans in the market that reflect this trend are captured in the table below.

Operator	Broadband market share ¹¹	Low value plan		Other plan		High value plan	
		Value INR	INR/GB	Value INR	INR/GB	Value INR	INR/GB
Jio	44%	149	3.55	299	3.56	799	5.71
Airtel	20%	199	5.08	399	5.70	509	4.04
Vodafone	14%	158	5.64	399	5.70	509	4.04
Idea	10%	198	39.6	309	10.66	509	5.99
BSNL	6%	291	7.76	549	4.58	821	6.84

Source: Telco web sites accessed in Feb 2018 (includes only plans with minimum 25 days validity). Higher value plans offer additional features.

6. Counter Point research as quoted in Indian Express

7. GSMA The Mobile Economy: India 2016

8. TRAI Sep'17 Performance Indicators Report: http://www.trai.gov.in/sites/default/files/PIR_July_Sept_28122017.pdf

9. ERICSSON MOBILITY REPORT NOVEMBER 2017

10. TRAI website, Dec 31, 2017

11. TRAI website, Dec 31, 2017

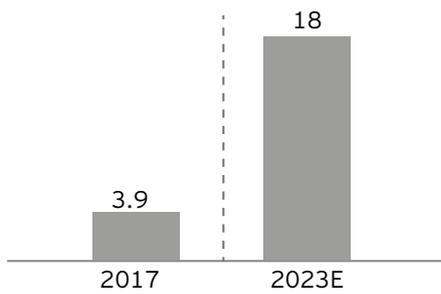
Internet users grew

The growth of connectivity resulted in the proportionate growth of internet users to 481 million in 2017, of which 295 million were in urban areas and 186 million in rural areas. Approximately 30% were female users¹². Internet users are expected to cross 500 million in 2018 and reach 829 million by 2021¹³.

Massive increase in data consumption was witnessed

The launch of Jio in 2016 and subsequent reduction of data rates across operators has had a significant impact on data consumption. As per Ericsson, the average monthly data consumption in India per smartphone hit 3.9 GB in September 2017, and is expected to increase to 18 GB by 2023¹⁴.

GB of data consumed per smartphone

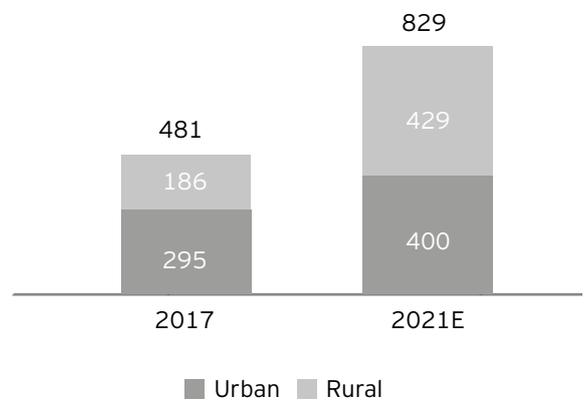


Source : Economic Times dated November 28 2017

Demographic shift in user base was observed

The key changes in the Internet user base is that growth till 2021 will be driven by rural consumers, who are expected to grow from 38% to 52%. Eventually, of 829 million internet users, just 129 million are expected to be from metros. This will have a significant impact on the type and language of content that will need to be developed, as well as changes to marketing, distribution and pricing strategies.

Internet users: rural : urban split (million)



Source : Cisco VNI forecast

12. Based on CAGR of CISCO Data calculated for end of 2017: <http://indianexpress.com/article/technology/tech-news-technology/internet-users-in-india-to-double-by-2021-says-cisco-4696154/>; IMAI reports; Economic Times Feb 21, 2018

13. Based on CAGR of CISCO Data: <http://indianexpress.com/article/technology/tech-news-technology/internet-users-in-india-to-double-by-2021-says-cisco-4696154/>

14. Economic Times dated November 28 2017

Payments have gone digital

India is on the verge of transitioning into a digital economy with a huge push from the Government and the public private partnership model. The Indian Government's concerted endeavors to boost digitization, coupled with an array of economic reforms and policies, have infused higher momentum into India's participation as a digital economy. Digital payment volumes have increased from 957.5 million transactions in December 2016 to 1,057.4 million transactions in December 2017¹⁵. While still small, the growth has been significant. Government initiatives such as doing away with merchant charges for smaller transactions will enable increased growth in volumes going forward, and this will facilitate subscription models for the M&E sector. It is expected that 50% of all internet users will transact digital payments by 2020, and almost 60% of all customer payments in India will be digital by 2025¹⁶.

Key players and stakeholders would include all major banks; popular pre-paid instrument (wallets) providers such as Paytm, Mobikwik and BHIM; new UPI entrants such as Google Tez; payment gateways such as CCAvenue and Citrus Pay; and scores of online and offline merchants.

Consumption growth

Video consumption

Online video viewing audience grew

250 million¹⁷ people viewed videos online in 2017, a growth of 64% over 2016.

Consumers have shown increased preference toward short-form content, with the average length of video viewed in India being around 20 minutes¹⁸. In addition, 62% of the content consumed on YouTube is short-form content. This trend has led content producers such as Eros International Viacom 18 and Star India to focus on exclusive and snackable content.

Mobile is paving the way to success for VOD services in India. Around 40% of total mobile traffic came from the consumption of video services in 2015. This figure is expected to touch 72% by 2020¹⁹.

Trends in online searches in India suggest that entertainment is becoming the largest sought after category, contributing to 31% of all searches²⁰. Videos and music currently represent the highest proportion of the consumer preferences within the entertainment category, collectively aggregating over 90%²¹. However, searches for non-entertainment content are also increasing. Areas such as lifestyle, education and business have shown a 1.5x to 3x growth over the last two years²².

15. RBI data quoted in <http://www.livemint.com/Industry/faVYL8TDKPyh1iO5HoAYFM/Digital-transactions-cross-1-billion-mark-in-December.html>

16. Google- BCG report 'Digital Payments 2020'

17. EY Future of TV

18. EY analysis

19. KPCB Internet Trends Report & The Indus Entrepreneurs

20. EY's Digital Opportunity Vdonxt report

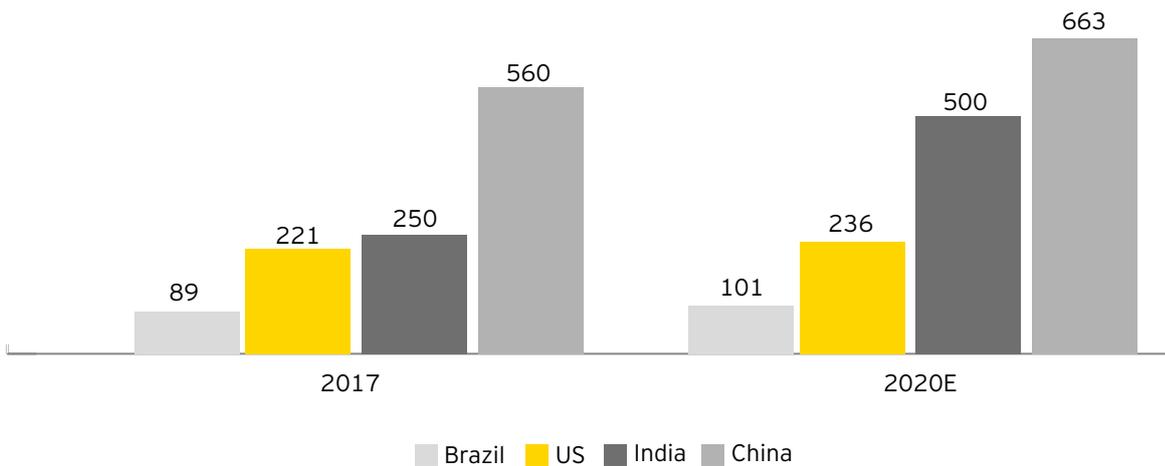
21. EY's Digital Opportunity Vdonxt report

22. Google Analytics

India has the second largest online video audience

The video viewing audience in India is expected to grow significantly in the near future at a CAGR of over 13%. By 2020, India is expected to become the second largest video-viewing audience globally. Online video audience in the country is expected to reach ~500 million by 2020 from 250 million in 2017, a 2x growth driven by rapidly increasing mobile penetration, increasing Internet speeds, advent of 4G and falling data charges.

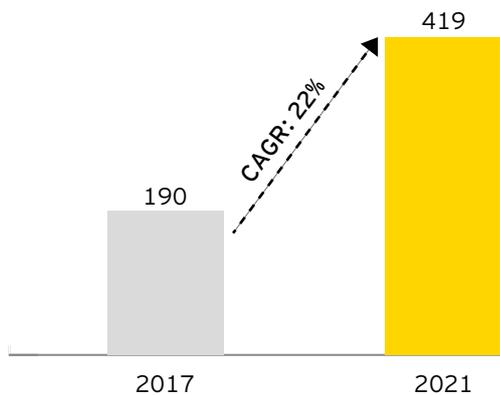
Comparison of online video audience (in mn)²³



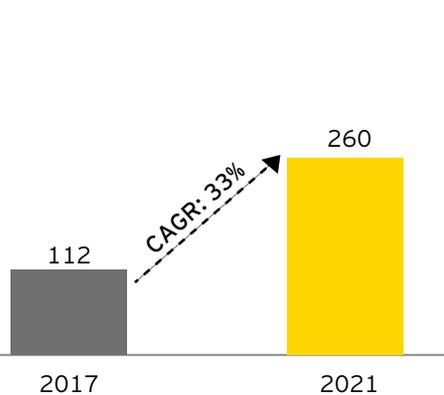
Consumer mix is changing²⁴

Consumption by younger audiences and women is expected to grow at a CAGR of 22% and 33% respectively between 2016 and 2021. Once women exceed a third of all users, more customized content will be made available for women audiences, and that in turn will grow the audience. This growth will enable several opportunities around sports, women-centric content, short video, edgy content, interactivity and social media integration.

Youth Video Viewers (15-34 Yr.) (Mn.)



Women Video Viewers (15-34 Yr.) (Mn.)



Source : EY Analysis

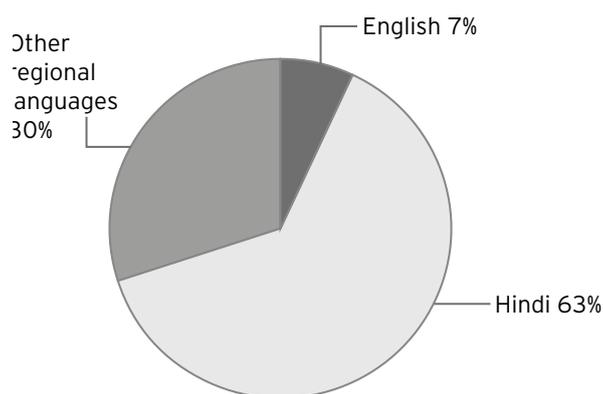
23. ITU, Statista, Internet World Stats, Economic Times Feb 22 2018 and EY Analysis

24. EY Analysis, IMAI, Statista, KPEY analysis

Most content was consumed in Indian languages

The preference of the Indian consumers for vernacular and regional language content is constantly on the upswing, with 93% of the time spent on videos in Hindi and other regional languages.

Time spent by languages²⁵



Mobile devices led digital media consumption

77%²⁶ of consumption was on mobile devices, clearly showing the linkage between mobile broadband and mobile usage. Indians are spending more time on their mobile devices.

Indians use their mobile phones most for social communication and entertainment. The average mobile internet user in India spends almost 70% of the time on apps such as Facebook and WhatsApp, and music and entertainment apps. Of the total time spent by a mobile internet user, on average 40% is spent on social media and communication, 30% on entertainment and 30% on other categories such as gaming, news and ecommerce.²⁷

Recency played a critical role in driving consumption

Approximately 70% of content consumed was less than a year old, while long tail (over two years) generated 15% of content consumption²⁸. This shows the importance of new content for particularly film and music OTT platforms, and is one reason why digital content cost values have increased significantly.

Audio consumption

A robust music streaming ecosystem has developed

The number of music streaming users in 2017 was 87.6 million²⁹. Key players include Google, Apple, Gaana, Saavn, SaReGaMa, Wynk, Hungama and Jio Music. The pricing plans range from INR29 to INR250 per month³⁰. The number of subscribers on music streaming platforms is estimated to have grown to 31 million³¹ in 2017. The average ARPU on streaming is approximately INR70 and download is around INR22³².

News consumption

News brands grew their digital presence this year

Most large Indian dailies and magazines have a digital presence and many of them have launched their own apps. TV news companies have – or are planning to – launch a slew of apps and news products, across up to 12 regional languages, which showcase both text and video-based news. Regional news consumption is on the rise, with significant traffic coming from rural and semi-urban regions. This has given rise to several digital media companies focused on key regional and vernacular markets. 84% of India's total digital population consumed news digitally in April 2017.³³

25. Google report ; online opportunities in telecom

26. EY's Digital Opportunity Vdonxt report

27. <https://timesofindia.indiatimes.com/business/india-business/indians-spend-70-of-mobile-internet-time-on-social-entertainment/articleshow/62125840.cms>EY analysis

28. EY analysis

29. Statista September 2017

30. EY analysis

31. Statista

32. Statista <https://www.statista.com/outlook/202/119/digital-music/india#market-users>

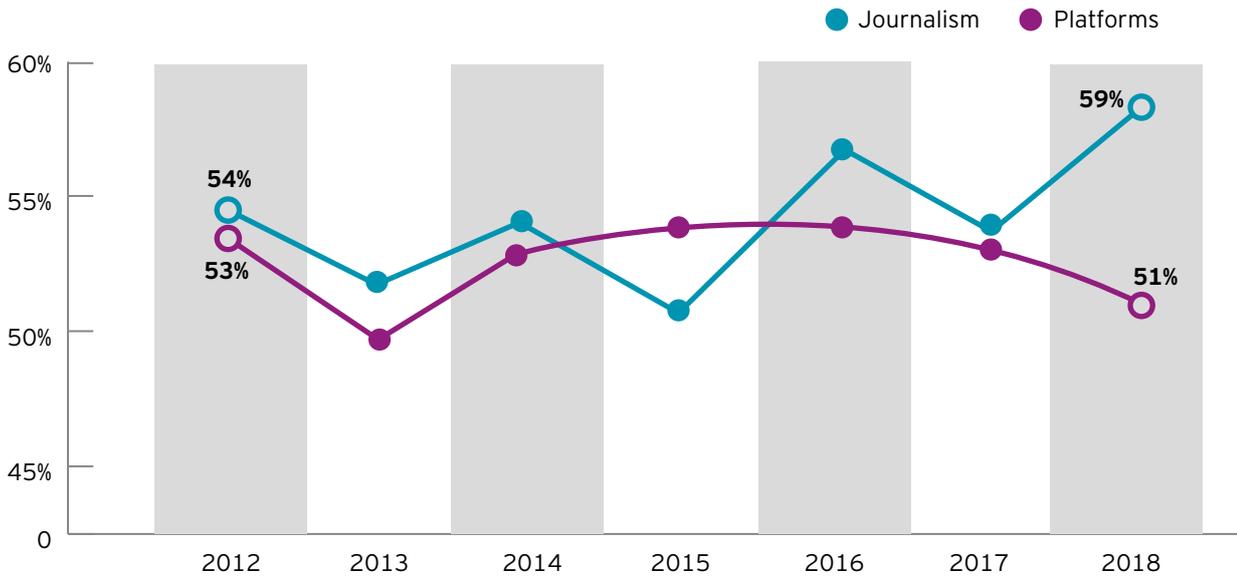
33. <https://timesofindia.indiatimes.com/business/india-business/times-internet-leads-digital-news-usage-with-51-share/articleshow/59447978.cms>, accessed on Feb 18, 2018

Credibility of news brands is beginning to play an important role

As more and more outlets emerge for dissemination of news, the issue of credibility gains importance. 2017 saw a clear shift toward credible news brands.

Trust in Platforms vs Journalism

Extent to which users trust journalism or platforms for general news and information



Journalism is an average of traditional media and online-only media. Platforms is an average of search engines and social media.

Q: "When looking for general news and information, how much would you trust each type of source for general news and information?" (Average of respondents who ticked 6,7,8,9 on a 9-point scale where 1 was 'no-trust' and 9 'trust great deal')

Source: Edelman

Digital news consumption moved increasingly into other categories

Along with consumption of news, Indian digital consumers are moving beyond and into other interest communities such as sports, gadgets and lifestyle. To cater to this demand, all major news/print players have developed a portfolio play - diversifying into sports, lifestyle, tech and auto among others.

Some examples of this portfolio approach are provided in the table.

	Times Internet	NDTV	Network18	DB Corp	Jagran Prakashan	HT Media	Zee Group	India Today
News (English + vernacular)	X	X	X	X	X	X	X	X
Business	X	X	X	X		X	X	X
Lifestyle	X	X		X	X		X	X
Sports	X	X		X			X	
Tech	X	X	X					
Auto	X	X	X				X	
Commerce	X	X	X		X			X
Entertainment	X			X	X	X	X	
Food/Travel	X	X					X	
Education	X				X	X	X	
Jobs/Careers	X					X		
Real Estate	X						X	
Women	X						X	X

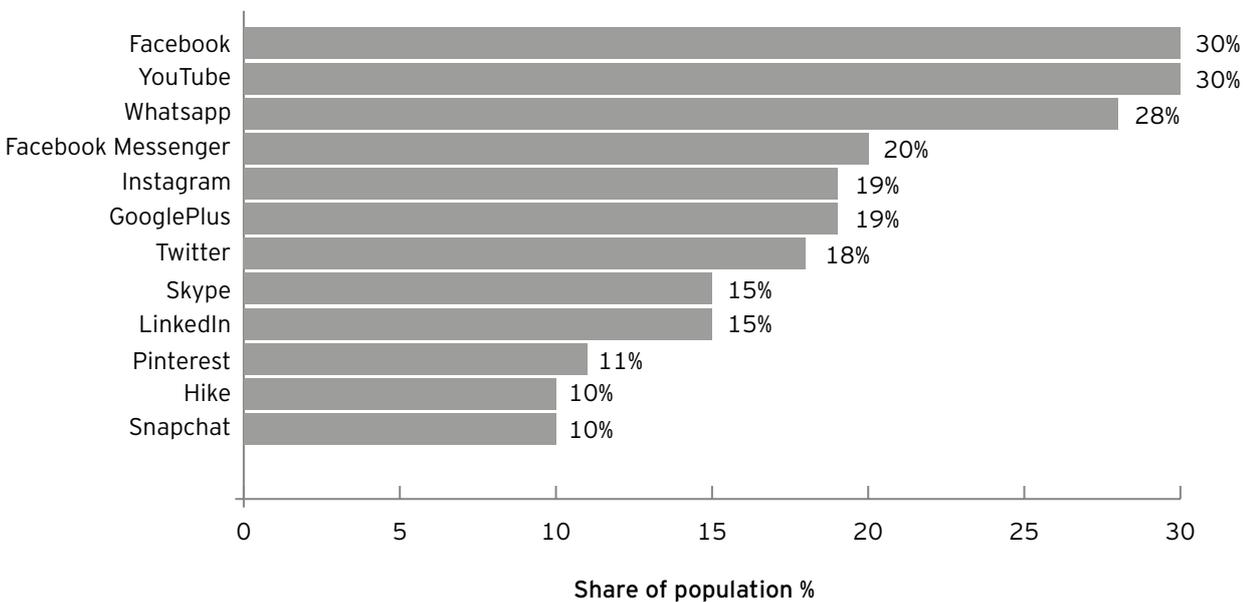
Source: Websites and apps of the above news entities

Social media consumption

India provides a large user base to social media platforms

India has already become the second largest market for social networking giants such as Facebook (with over 200 million users³⁴) and LinkedIn (with over 42 million users³⁵) and is expected to surpass the US to lead the global tally of the largest Facebook user base on mobile devices in the next couple of years. In addition, Instagram has 30 million users³⁶ and Snapchat has reached 10% penetration³⁷. Many social media platforms have begun to stream short videos, and we expect the trend to increase in the near future. Research by Omidyar Network suggests that Indians spend 200 minutes a day on mobile apps, 40% of which is spent on social media apps³⁸.

Penetration of leading social networks in India as of Q3 2017³⁹



34. <http://indianexpress.com/article/technology/social/no-facebook-user-base-in-india-does-not-beat-the-us-still-at-number-two-4750467/>

35. <http://www.livemint.com/Companies/zAavopmveqtXSXMBAmEG6H/LinkedIns-India-user-base-expands-to-42-million.html>, EY analysis

36. <http://www.livemint.com/Companies/bICvCDGIgpxzYxpkewGhO/India-is-one-of-Instagrams-high-growth-markets-cofounder.html>

37. Statista, 3Q17

38. <https://timesofindia.indiatimes.com/business/india-business/indians-spend-70-of-mobile-internet-time-on-social-entertainment/articleshow/62125840.cms> accessed on Feb 18, 2018

39. Statista 2018

40. Dentsu-Aegis, Zenith, GroupM, industry discussions and EY analysis

Digital advertising

Digital ad spend contributed 17% of total ad spend in India

Currently, digital media contributes to approximately 17% of the total ad spend in India, and this percentage has grown from 15% in 2016. However, by 2020, it is expected that approximately 22% of total ad spending will be on digital. According to Zenith, India is placed at number 4 in the top 10 contributors to global ad spend growth 2017-20, where it follows the US, China and Indonesia in that order.

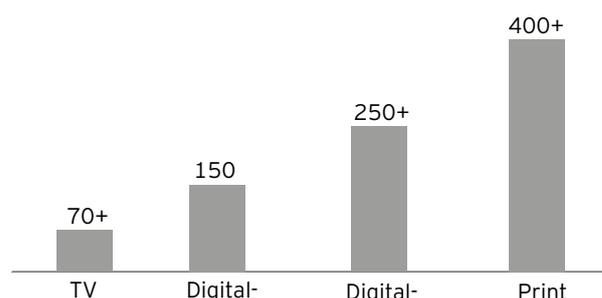
Digital advertising primarily comprises search, social, display, video advertising and classifieds.

Segment	INR billion ⁴⁰	Share
Video	38	19%
Search	36	26%
Display	34	21%
Classifieds	7	6%
Total advertising	115	100%

Gross of tax
Source: EY analysis

2017 saw a significant growth in ad volumes of approximately 30%. Premium properties maintained a high CPM of US\$8, while others were as low as US\$2⁴¹. Digital CPMs are still much higher than television and print CPMs, but as programmatic advertising grows, it will quicken the fall in digital CPMs, and this could result in the inability to lift television ad rates as much as expected.

Indicative CPT across different media (INR)



Note: The above is based on an analysis of sample ad deals and mentions the lower ranges observed for a male 15+ NCCS AB audience only. Premium English and niche print and TV products garner significantly higher CPT.

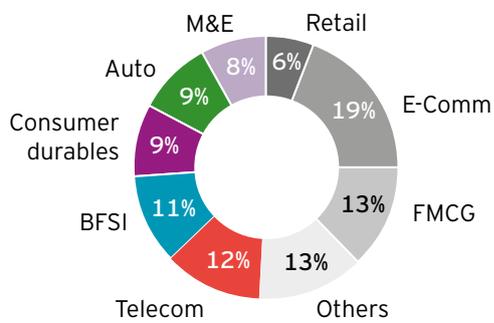
The rise of programmatic advertising

Industry discussions suggest that in 2017, around 10%-15% of advertising was programmatic in nature. This is expected to grow to 50% by 2020. Programmatic advertising, once it crosses 25%, would put pressure on ad rates, which, in turn, could put pressure on advertising-led models.

Key advertiser categories on digital

The key advertiser categories on digital in 2017 were e-commerce (at 19%) followed by FMCG (at 13%) .

Categories advertising on digital



Source: Dentsu digital report 2017

Combined TV + digital measurement is proposed

BARC is expecting to launch its combined TV plus digital measurement system in 2018, and that will create a uniform currency to measure performance across both mediums. This should benefit TV and digital companies, by enabling them to offer customers across both media to advertisers.

Digital subscription

Digital subscription grew 50% in 2017

Digital subscription comprises video and audio streaming subscription income. It grew 50% in 2017 to INR3.9 billion, and we believe that this growth will continue unabated till 2020. Key drivers for this growth will be low data costs and sachet pricing for content, facilitated by micro-payment mechanisms.

	2016	2017	2018E	2020E
Subscription	2.6	3.9	5.7-7.0	20.1

INR billion, gross of tax

Video subscription

The video subscription ecosystem has matured, and there are over 30 video OTT platforms in India.

Targeted OTT offerings across languages and target audiences

OTT platforms in India have reached scale and now provide something for a vast array of audiences. Be it Eros Now with its huge library of Indian films, Zee5 with its wide regional offerings, Sony LiV and Hotstar with their TV content and premium sports and English entertainment content, Sun NXT with its South Indian offering, TV18 with its multi-lingual news platform, VooT with its kids focus or many more such as Spuul and YuppTV, there is a clear case of a lot of content being made available to Indian consumers.

With data charges at their lowest ever rates, consumers are beginning to consume subscription content, particularly when OTT services are bundled with data packages.

Exclusive content

Unlike in the era of television, where "must provide" regulations force a broadcaster to share content across all platforms who demanded it, no such laws exist in India for digital media. This has enabled OTT platforms to bid for and acquire content which is exclusive and not available on other platforms, or even television. Such content covers originals from Netflix and Amazon Prime, as well as a new trend of direct to digital movies such as Love per Square Foot⁴².

Telcos could turn competitors to broadcasters and DPOs in the long run

Currently, Jio acts as an aggregator of content of all major broadcasters. Now, these services are offered free but Jio could start charging from 2018 / 2019 or bundle with data packages. Over time, other telcos may follow suit to increase the yield on their network. This would enable them to sell both bandwidth and content, including their own channels or other OTT channels.

Global opportunity

Global consumer spending on SVOD services is expected to total US\$18.7 billion in 2017. It is an increase of 28% from 2016, according to Gartner Inc⁴³. Indian OTT players plan to enter the international market with a subscription-based model to capitalize on the Indian diaspora moving to digital consumption.

Players such as Zee, Spuul and Saavn have been able to monetize their content targeting the right set of consumers across the globe. Zee, apart from launching Zee5 worldwide, has launched Weyyak, its Arabic language OTT platform. Hotstar has launched its SVOD service in the US and Canada. The monthly charge for Hotstar is US\$9.99 for the US and C\$12.99 in Canada. Viacom18's OTT platform VooT is all set to make its international debut. B4U is also expected to launch an OTT platform catering only to international audiences. Eros Now has entered the South African market through a strategic partnership with telecommunications provider Telecel Global, allowing the latter's customers to access Eros Now's content library. It has also collaborated with Amazon Prime, Roku and webOS-enabled LG Smart TVs to make its OTT content from Eros Now available globally. Alt Digital entered into a partnership with Lemon Advisors to assist in strengthening its international distribution system through alliances with telecom operators, internet service providers and OEMs.

Audio subscription

New players entered the Indian market

Apple Music, Google Play Music and Amazon Prime Music entered the music-streaming segment in 2017. Amazon will soon launch its streaming service called "Prime Music" in India. It has entered into content-sharing deal with Saregama, T-Series and Zee Music to gain access to their music albums and soundtracks. BookMyShow, which sells movie, concert and event tickets online, launched a free music streaming service in September 2017. Through its Jukebox app users can stream free music and talk shows. BookMyShow is planning to differentiate itself with its talk shows – sort of podcasts ranging from news packages and sports shows to horror and comedy.

43. "Pay TV 'to account for 90% of global video market';" TBI vision, <http://tbivision.com/2017/05/05/pay-tv-account-90-global-video-market/>, accessed 19 February 2018.

Approximately 2% of subscribers paid

While the free product remains compelling for most people, audio streaming majors enabled a host of price points for their subscribers. We estimate through industry discussions and secondary research that paid streaming consumers were approximately 2% of total streaming consumers.

	Free service?	Minimum monthly/Yearly pack	Special deals
Apple Music	No	INR1,200 per year	INR60 per month for students
Gaana	Yes	INR99 for Android and INR120 for IOS user per month	NA
Saavn	Yes	INR99 per month for non-Airtel users	INR29 for Airtel users
Google Play Music	Yes	INR99 per month	NA
Amazon Prime Music	No	INR999 per year	Free for Amazon Prime subscribers

Source: website/apps of the above music OTT companies

Key trends and strategies that defined 2017

Partnerships became pivotal⁴⁴

With the growing importance of the Indian OTT space, both global and local players are leveraging content and distribution partnerships to increase their subscriber base by offering differentiated content across multiple platforms, thereby increasing their foothold. They are also focusing on setting up their own production studios. For instance, Netflix is considering setting up studio facilities in India, to be used for production and development of shows.

Content partnerships:

▶ BIGFlix (Reliance Entertainment):

- ▶ Partnering with Atrium TV to exclusively stream the latter's drama series on its video-on-demand platform, including Atrium's upcoming projects, such as Quasimodo from Frank Doelger, the producer of Game of Thrones

▶ Amazon Prime Video India:

- ▶ Won the streaming rights for Sanjay Leela Bhansali's film Padmaavat for INR200 million-INR250 million
- ▶ Signed a content deal with actor Salman Khan's home production Salman Khan Ventures for his upcoming films even before their television premiere
- ▶ Partnered with Turner India to play Cartoon Network's kids shows on its platform

▶ Netflix:

- ▶ Partnered with Green Gold Animation to launch its first kids' original animated series in India called Mighty Little Bheem, debuting in 2018
- ▶ Partnered with Ronnie Screwvala's production company RSVP for its first original movie from India Love per Square Foot
- ▶ Partnered with Shah Rukh Khan's Red Chillies Entertainment for a new multilingual Netflix original series, based on the book Bard of Blood
- ▶ Acquired the rights to stream S.S. Rajamouli's war epic Baahubali: The Beginning and Baahubali 2: The Conclusion for INR255 million

44. "Netflix plans more local original content for India; five new shows in the pipeline," ET website, <https://economictimes.indiatimes.com/magazines/panache/netflix-plans-five-more-original-shows/articleshow/61075060.cms>, accessed 14 December 2017.

- ▶ Announced two new Netflix original series from India – Selection Day, a story of cricket and corruption by author Aravind Adiga, and Again, a supernatural, female-led detective series written by Marisha Mukerjee. This would be Netflix's third India original after the announcement of Sacred Games in June 2017.
- ▶ **Yupp TV:**
 - ▶ Partnered with Fox Star Studios to offer popular movies
- ▶ **Veqta:**
 - ▶ Veqta, India's only OTT platform dedicated to sports is partnering with Manchester City Football Club. The alliance will enable the Club to engage with Manchester City and sports fans, while Veqta will be able to offer a global content experience.
- ▶ **Spuul:**
 - ▶ Spuul entered into a content sharing agreement with Dharma Productions

Distribution partnerships:

- ▶ **HOOQ:**
 - ▶ Has been strengthening its B2B operations through tie-ups with telecom operators and recently started its B2C operations as well
 - ▶ Has partnered with Vodafone Play to offer unlimited streaming of entertainment content from Hollywood, Bollywood and local movies on the Vodafone platform
 - ▶ Also collaborated with Google to launch content for the new Chromecast. It will enable viewers to connect to the Hooq app and its programming to a TV through various devices such as an Android phone, iPhone, tablet, laptop or Chromebook.
- ▶ **Balaji:**
 - ▶ Partnering with Boku to allow international carrier billing as a payment option to its international users
- ▶ **SonyLIV:**
 - ▶ Partnered with Evergent Technologies for provisioning content access, tracking global payments by product and region, and personalizing products, bundles and promotions across a range of devices
- ▶ **Yupp TV:**
 - ▶ Formed a strategic partnership with smart TV solutions provider Foxxum to extend its global reach
- ▶ **VooT:**
 - ▶ Partnered with Google to make its mobile website into a progressive web app
- ▶ **Vuclip:**
 - ▶ Plans to stream its content to customers in India on the newly launched Amazon Fire TV Stick with a voice remote on their television sets
- ▶ **Eros Now:**
 - ▶ Partnered with T-Mobile's video streaming program Binge On
- ▶ **United Mediaworks:**
 - ▶ Partnered with Jaaz Eskay MultiMedia to provide digital cinema services and technical support in Bangladesh

Focus on developing original content

OTT players are extremely bullish on developing original content for consumers, which will act as a differentiator in the already crowded space. Netflix will be launching four to five new original shows in the next few months and is further planning to add more than 100 hours of content catering to the local market in India⁴⁵. Big Synergy, operating under Reliance, is all set to launch around six to seven web shows for digital platforms such as ALT Balaji, Netflix, Amazon, Vuclip, Applause Entertainment and VooT in 2018. ALT Balaji also entered the kids' entertainment segment with original shows.

Content name	OTT player	Producer	About the show
Inside Edge	Amazon Video Prime	Excel Entertainment	Indian-American web television series based on a fictional T20 cricket team, Mumbai Mavericks, which plays in the Powerplay League
Sacred Games ⁴⁶	Netflix	Phantom Films	Starring Saif Ali Khan, the show explores the web of organized crime in Mumbai lying beneath the Indian economy.
Salute Siachen ⁴⁷	Eros Now	Eros Entertainment	Covers India's first ever celebrity expedition to Siachen.
Sarabhai v/s Sarabhai	Hotstar	Hats Off Productions	The show was initially launched on Star One and returned in 2017 as a web series on Hotstar.
My Virtual Girlfriend	Arre	Monozygotic	The web series is about the relationship between a man and a one-of-its-kind artificial intelligence simulated robot.

45. "Netflix plans more local original content for India; five new shows in the pipeline," ET website, <https://economictimes.indiatimes.com/magazines/panache/netflix-plans-five-more-original-shows/articleshow/61075060.cms>, accessed 14 December 2017.

46. "Netflix to Make 'Sacred Games' as First Original Series in India," Vriety website, <http://variety.com/2016/digital/asia/netflix-sacred-games-series-india-1201789219/>, accessed 15 December 2017.

47. "Salute Siachen: India's first-ever celebrity expedition to Siachen honours the Indian Army," India Today website, <http://indiatoday.intoday.in/story/india-first-ever-celebrity-expedition-to-siachen-indian-army/1/737883.html>, accessed 15 December 2017.

Production houses expanded in scope

As OTT platforms battle it out in the hyper competitive OTT market, content production houses also see a huge opportunity for creating digital content. Several existing content companies and producers commenced creating content for OTT platforms, apart from new entrants in the space. Digital content creators now include SaReGaMa, Golden Karavan, Applause Entertainment, Vishesh Films, Balaji, Shemaroo Entertainment, OML, Endemol etc.

Telecom players partnered for a foothold in the Indian market

Players such as Vodafone, Reliance Jio and Airtel have launched their own OTT services to enter the growing market. Vodafone has developed its own OTT platform Vodafone Play, Airtel has launched Wynk Music, and Jio has launched Jio Movies. These players are providing subscription in the form of a bundled plan with data services. BSNL partnered with Eros Now to bundle and launch Eros's offerings across existing and new data users of BSNL, in association with SpeedPay, its multi-purpose offline wallet. BSNL also partnered with ZEEL's DittoTV, whereby the OTT service will be available to BSNL data subscribers. Idea also partnered with DittoTV to provide 90+ live channels to users.

Regional content investment grew

Data availability at low cost is accelerating growth in tier II and III cities for OTT players. Further, it is estimated that 75% of new Internet users will be from rural India and 75% of these new Internet users will consume data in local languages⁴⁸. To target this market, OTT players are moving toward regional language content. ALTDigital is also planning to launch shows in regional languages such as Tamil, Telugu, Bengali and Punjabi⁴⁹. International players like Netflix and Amazon Prime are also offering localized content by partnering with Indian content providers.

- ▶ Amazon Prime tied up with Bengali cinema's Shree Venkatesh Films (SVF) to expand its Bengali language content.
- ▶ SVF has further launched its subscription-led OTT platform Hoichoi, offering original web series, over 500 Bengali movies and 1,000 Bengali songs for audio streaming for Bengali audiences globally.
- ▶ Sony Liv entered the regional OTT space with a Marathi web-series, YOLO.

New avenues of revenues merged

- ▶ OTT players are increasingly looking toward new avenues such as brand association and advertising to generate revenue. For instance, Arre Original generates 75% through brand associations, 10% through advertising and the rest from syndication to platforms. Big FM is creating content for digital platforms, which is entirely advertiser funded.

48. Nasscom and Akamai Technologies

49. "OTT players charm users with regional content," The Hindu Business Line, <http://www.thehindubusinessline.com/info-tech/ott-players-charm-users-with-regional-content/article9614091.ece>, accessed 15 December 2017.

Challenges

Poor infrastructure

India's non-uniform broadband infrastructure/current infrastructural capabilities do not allow a subscriber to view a video with optimal quality and at the same speed everywhere. The average speed in India is quite low and even a five-second delay in playback of video due to buffering can cost a content publisher a quarter of their audience. This is improving as telcos promote their 4G services and bundle entertainment offerings with them.

Piracy

Indian OTT players generate significant traffic from streaming of live TV channels. As a result, the piracy of content, especially illegal live streaming of sports matches, is a significant concern. With the growth of broadband, piracy of content may further increase, impacting subscription revenue potential for OTT providers.

Complex IP and licensing regime

As audience fragment and platforms diversify, different content windows, geography restrictions, formatting terms, character rights, etc. emerge, leading to a very complex rights environment. The IP ownership and royalty definitions between artists, producers, aggregators etc. are also blurring, leading to intermittent litigation.

Limited storage on devices

Several smart devices and feature phones have limited storage, with OEMs using storage for price differentiation. This limits the number of apps, videos and other media propositions on the phone. The uninstall rates are hence over 60%, leading to system installed apps gathering a large user vis-a-vis. user-installed digital media apps. However, with the passage of time, this issue is getting resolved as the price of storage reduces.

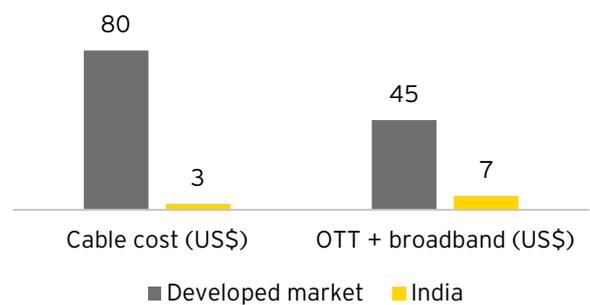
Low life time value (LTV)

Though the quantum of digital advertising has increased, the fragmentation of users and platforms combined with high churn rates have led to low monetization. The LTV for consumers - revenue earned through a converted consumer - is far lesser than the cost of content and operations. The difference is stark especially for advertising propositions, and success therefore depends on partnerships across content acquisition, customer acquisition and marketing.

Economics favor cable/DTH over broadband in India for now...

An important difference between India and developed entertainment markets is the cost of accessing cable TV vs. subscription and connectivity charges for OTT services.

Total cost of viewership (US\$)



Source: EY analysis

Cable ARPU in the US is US\$80-US\$100 per month. The subscription fee for Netflix is around US\$10 per month and connectivity charge for broadband is ~US\$35. Hence, Netflix is significantly cheaper than cable in the US. In India, cable/DTH ARPU is approximately US\$3 and connectivity charges are US\$4-US\$5 for 90 minutes of content per day. SVOD charges vary in addition from US\$0.7 to US\$12 for different services. Hence, for now, cable is still a cheaper option to OTT in India.

... however, there could be major disruptions in a few year^{s50}

While cable/DTH would remain cheaper than SVOD subscription + connectivity charges in the near term, it could change in the next five years. Even low-income households could have access to 100GB+/month at affordable rates. This alternate content carriage option (mobile) would result in lower carriage costs for broadcasters, though DPOs could be negatively impacted due to cord-cutting. It would also result in higher competition from SVOD OTT players. This could suppress the subscription and ad revenue for broadcasters as the fight for eyeballs intensifies. However, given the increase in free-to-air households, it would provide an alternate opportunity for broadcasters to tap into.

Credibility

Issues surface around bots being used to increase the number of ads served, clicks etc. Another aspect is that some ads are placed on sites where content is not appropriate. Ad viewability remains an issue, with many advertisers worried about whether an ad was actually viewed. Ad blocking software also impacts ad delivery. All these issues are valid and need to be addressed. Digital consumption will not change from the customer point of view - all trends indicate it will only grow - and now, being large enough, it must be made to succeed.

Digital future

If 2017 was the year of data disruption pushing up everything from consumption to subscription, the years ahead could witness multiple disruptive forces.

Dramatic change in broadband affordability

Large-scale fiber broadband and associated triple play cable offerings are soon expected to be launched in the country. The top 20 towns where penetration and uptake could be high would witness a dramatic change in broadband affordability with near 100 Gbps speeds offered at discounted data rates. Fiber broadband will also result in drastic changes in data volume, nature and format of content consumption. The rise in HD and 4K video consumption will also alter content production costs and licensing revenues.

TV and digital convergence

The idiot box will neither die nor survive; it will just turn connected and digital thereby transforming it into another digital platform. The next few years will witness the proliferation of consumer CPEs similar to the Roku box, which will bring internet to TV and change the EPG screen on TV. This with a fiber broadband-based triple play bundled cable subscription can potentially alter the TV distribution and digital platform landscape in the country. It will also make tent-pole properties all the more important, as discoverability of content becomes more important.

Traditional and digital advertising lines blur

Advertising on digitally enabled TVs will blur the line between traditional and digital advertising. Programmatic primetime advertising will also become a reality, dramatically altering ad rates. As targeting improves, the rate per viewer will also improve.

Digital measurement

Several leading Industry bodies are on the cusp of introducing measurement programs for digital. Programs like EKAM could pave the way for further shift in advertising budgets. The Audit Bureau of Circulation is also proposing a launch for its publication members. However, the lack of standardization among different measurement frameworks could potentially affect advertiser confidence.

Emergence of the second screen

The recent success of second screen interactive offerings like Rising Star and KBC Play Along indicates that the mobile phone could emerge as a strong second screen along with TV. Second screen advertising pilots are already underway and are expected to grow significantly in the next three years. The total time spent on television could grow from almost four hours today to as high as six hours a day, but this growth would be led on the second screen.

Dimensional content

Virtual and augmented reality experiments and associated growth of VR/AR apps on mobile indicate a strong consumption of basic dimensional content with mobile as the key access medium. This again has huge implications on content consumption, video and contextual advertising.

Birth of digital persona, and their death

The increasing time spent on digital in India, need for escapism and the fact that India is on the top charts of digital applications with personal data like Facebook, Instagram and WhatsApp indicate the emergence of a digital persona as an alter ego. Going forward, the profiling of digital persona will dictate advertising spends, ecommerce offerings and even digital credit worthiness. India could be one of the trendsetters along with China and Korea in this space.

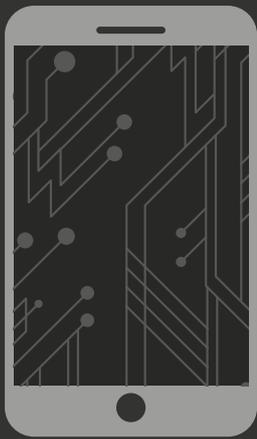
Over time, targetting will move towards each individual, to the audience of 1. Data - large, huge, massive amounts of data - will be stored, analysed and used on the fly, to enable individual experiences.

Know-your-customer and profiling will emerge as key roles in the digital media organization.

Transactions on the rise

While subscription will grow significantly, introduction of sachet pricing offers will result in increased micropayments and content transactions. Add to this the in-app purchases and virtual goods sales, and the transaction ecosystem is set to boom beyond 2020.

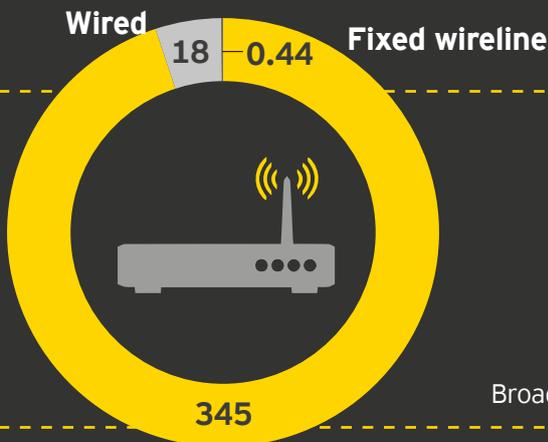
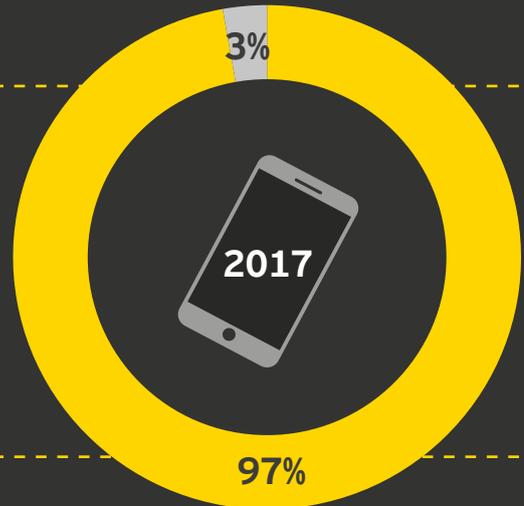
Disruption and growth are not new to the Indian digital fraternity. However, tectonic shifts in content formats, consumption trends, advertising techniques and consumer behaviour happening simultaneously will define the arrival of a new age in digital - The Age of Combustible Growth.



India Digital trendbook

Today, digital media is driven by advertising. Subscription will grow much faster till 2020 to reach 9% of the total revenue

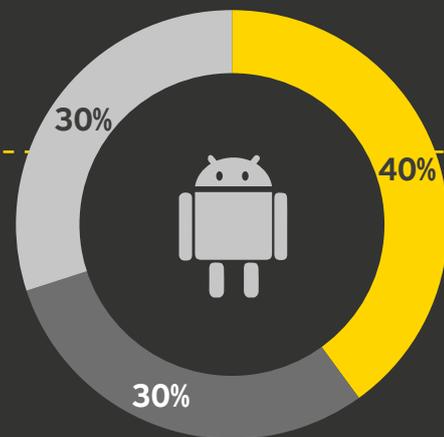
■ Subscription ■ Advertising



Wireless broadband rules the roost

Broadband subscriber base as on December 2017 as per TRAI

30% of app time spent by Indians is on entertainment



■ Social ■ Media ■ Others

Smartphones are aiding the growth of digital media in India



India is the **second largest smart phone market** in the world after China



83% of smartphones operate on the **Android system**



64% of smartphones in **urban areas** and **36%** in **rural areas**

Source: Money-cnn.com, financial-express.com, EY analysis

Rural internet users will overtake urban users by 2021

2016



Urban



Rural

2021E



Urban



Rural

Internet user base

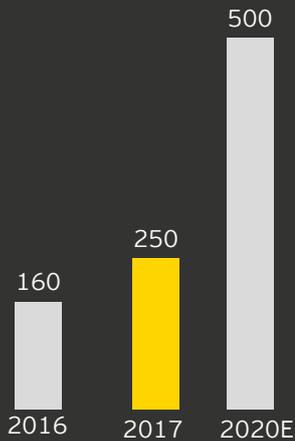
Youth video viewers will

grow **33%** and **women 22%** a year till 2021



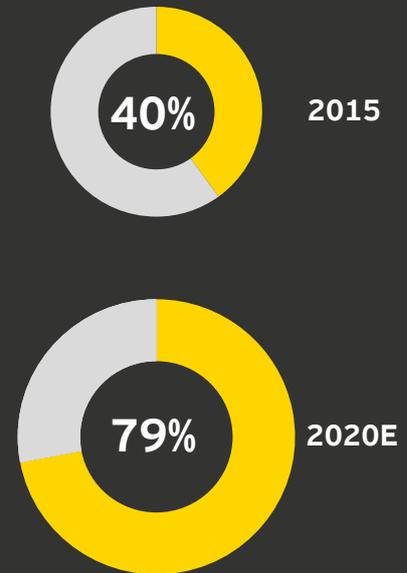
Online Video Audience in India (in million)

will double by 2020



Source: EY analysis

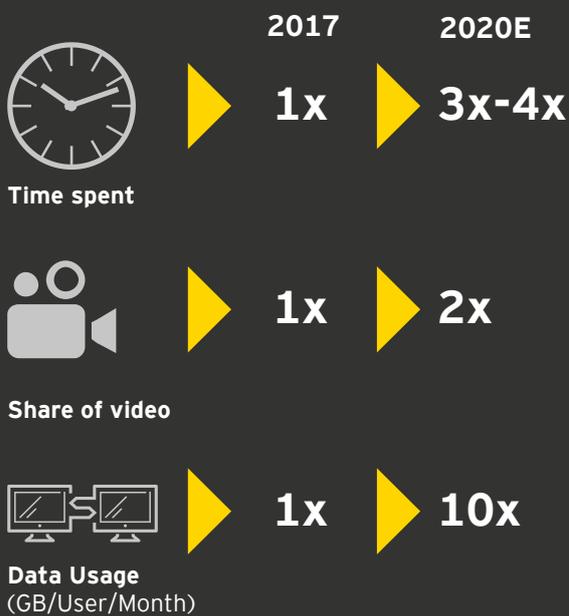
Video as a Percentage of Total Mobile Traffic will grow to **79%**



■ % of Video Traffic to Total Mobile Traffic

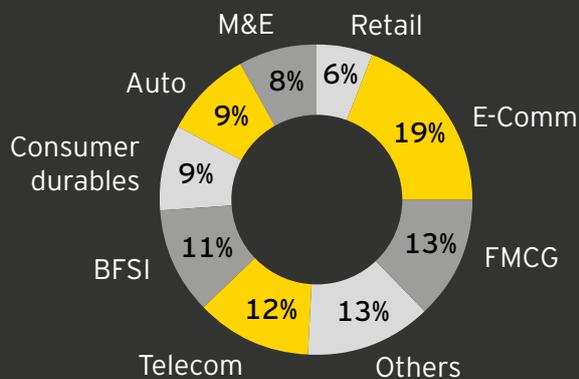
Source: Kleiner Perkins internet report 2017

Increase in Digital Media Consumption

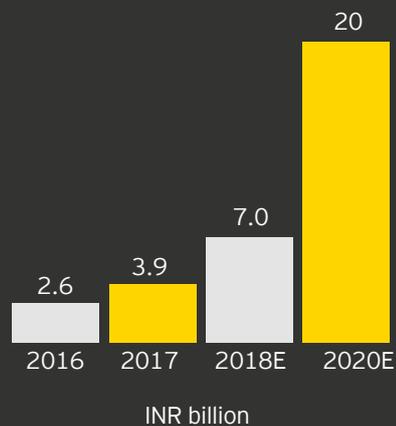


Source: EY analysis

e-Commerce drove digital advertising

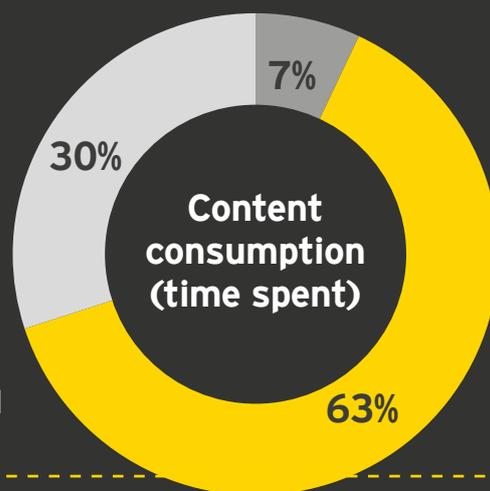


OTT subscription could touch INR20 billion by 2020



Source: Dentsu digital report

93% of time spent on digital videos is in Hindi and other regional languages



■ English
 ■ Hindi
 ■ Other regional languages

Powered by App Annie

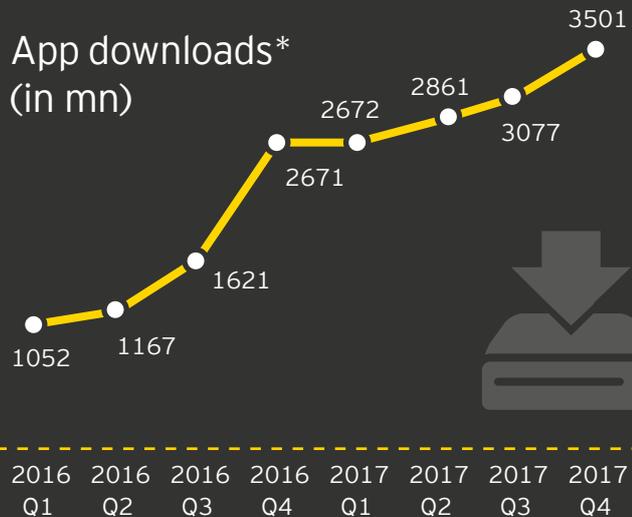


The Indian App story

App downloads in India witnessed a

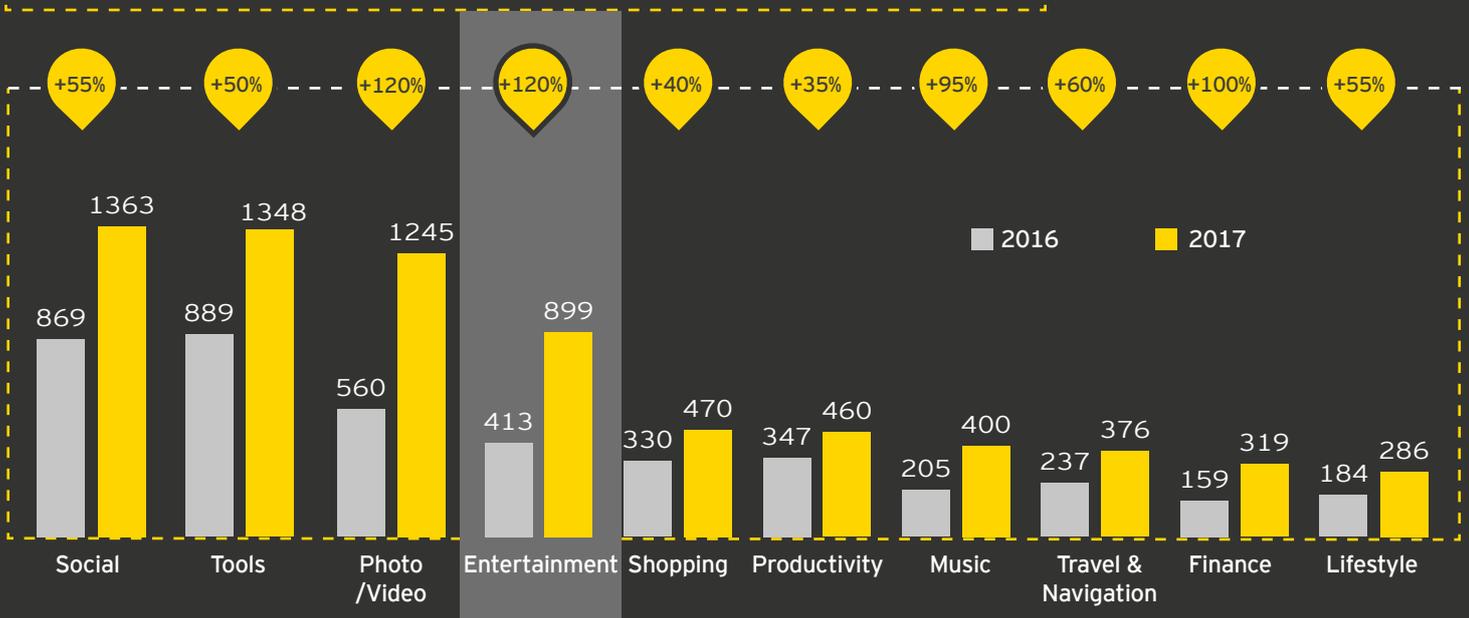
65%

growth with the introduction of **Jio in Q4 2016**



*Combined iOS App store and Google Play

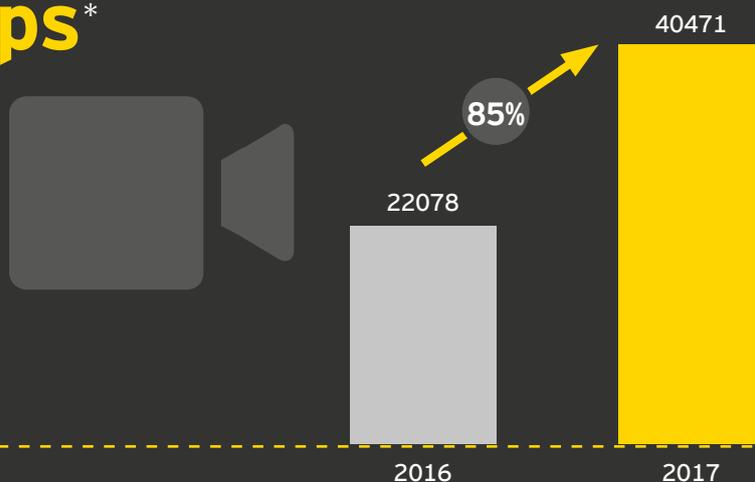
Entertainment apps* grew **120%** in 2017 and make up the **4th largest category**



*Combined iOS App store and Google Play

Total time spent on **Video Apps*** in India grew **85%** between **2016** and **2017**

Total time spent on video apps (in mn hours**)



**Total Time in Video Players & Editors and Entertainment store categories on Google Play

*Apps in Video Players & Editors and Entertainment store categories on Google Play

Top Video OTT apps of 2017

App name	Rank		
	By monthly active users	By downloads	By time spent by end of 2017
YouTube	1	8	1
hotstar	2	1	2
JioTV	3	2	3
JioCinema	4	4	6
Voot	5	3	4
Amazon Prime Video	6	5	5
Sony LIV	7	7	9
Airtel TV	8	6	13
Netflix	9	14	7
Tata Sky Mobile	10	11	15
OZEE	11	9	8
TVFPlay	12	21	12
YouTube Go	13	18	11
YuppTV	14	16	14
YouTube Kids	15	15	10
ALTBalaji	16	12	17
Sun NXT	17	10	19
Ditto TV	18	13	16
Viu	19	17	18
Eros Now	20	23	24
Hungama Play	21	22	25
nexGTV	22	19	22
Vimeo	23	25	21
Tubi TV	24	24	23
Zee Marathi	25	20	20

Source: All data has been provided by App Annie and has not been verified by EY. It has been presented in summary form

Expert speak



Gaurav Gandhi
COO, Viacom18 Digital Ventures

We saw an unprecedented growth in video streaming in 2017 and all signs are that 2018 too will be a big growth year. The large ad-supported streaming services are already seeing great traction on Video advertising and the upcoming Industry-wide common digital measurement service from BARC will provide further impetus to this growth.



Uday Sodhi
EVP and Head-Digital Business,
Sony Pictures Networks India

The future of Digital video consumption will be more choice-based fuelling in-demand and streaming services which will be the major disruption in the transformation of the digital ecosystem and India will become the highest consumer of Internet Video content globally and will be the biggest market for OTT services in the world!



Manish Maheshwari
CEO, Network18 Digital

In India, we will see serious move towards subscription in news this year, but it will take 2 to 3 years to reach meaningful scale.



Neeraj Roy
Founder & CEO, Hungama

By the end of 2025, I anticipate over 500 million consumers subscribing to a range of Media and Entertainment services, resulting in a INR600 billion annual market



CVL Srinivas
Country Manager, WPP India & CEO, GroupM South Asia

As media companies, we need to be prepared for a programmatic world across digital and linear media offerings by 2021.



Ajit Mohan
CEO, Hotstar

2017 was characterised by two big shifts in the online video space. One, consumers are gravitating towards high quality, professionally produced long form stories, whether TV shows, or movies, or sports. They are no longer satisfied by short clips or shoddy user generated content. The dramatic growth of premium streaming stands as a testimony to this trend. Second, savvy marketers are realising the power of platforms like Hotstar that marries the engagement of television with the audience consciousness of digital. That's fairly unique to India. In most markets, where premium streaming platforms are entirely behind paywalls and not open to advertisers, the only digital vehicles available to brands are UGC platforms or social media. Over the last 20-30 years, a lot of great brands have been built on television. There is a reason why this happened. Consumers were paying attention. In the shift from television to digital in other markets, what was gained was better audience understanding and sharper segmentation of consumers. What was lost, unfortunately, was users who were actually paying attention. A platform like Hotstar brings the best of both worlds. In my mind, both these trends are going to be reinforced this coming year



Saurabh Doshi
Head Entertainment Partnerships,
Facebook Asia Pacific

With millions of Indians getting online in the next few years, our community continues to grow. In order to help bring this community closer together, we aim to deliver relevant social experiences and ensure that the time spent on Facebook is time well spent. When done right, content and videos has the power to inspire conversations and interactions, and engage users in a richer social experience. We are committed to encourage such meaningful interactions to establish deeper connections among friends and spark conversations to foster a sense of community & wellbeing, than just a passive consumption experience



Nachiket Pantvaidya
CEO, Alt Balaji

Let people watch a large enough library of original and exclusive local content for a Rupee a day and the OTT video market will soon be rivalling that of TV

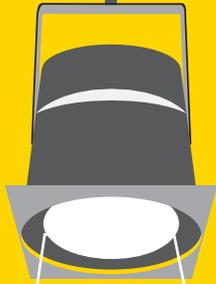
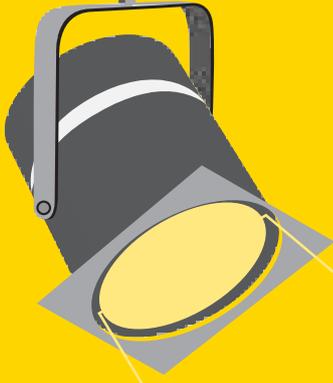
Expert speak



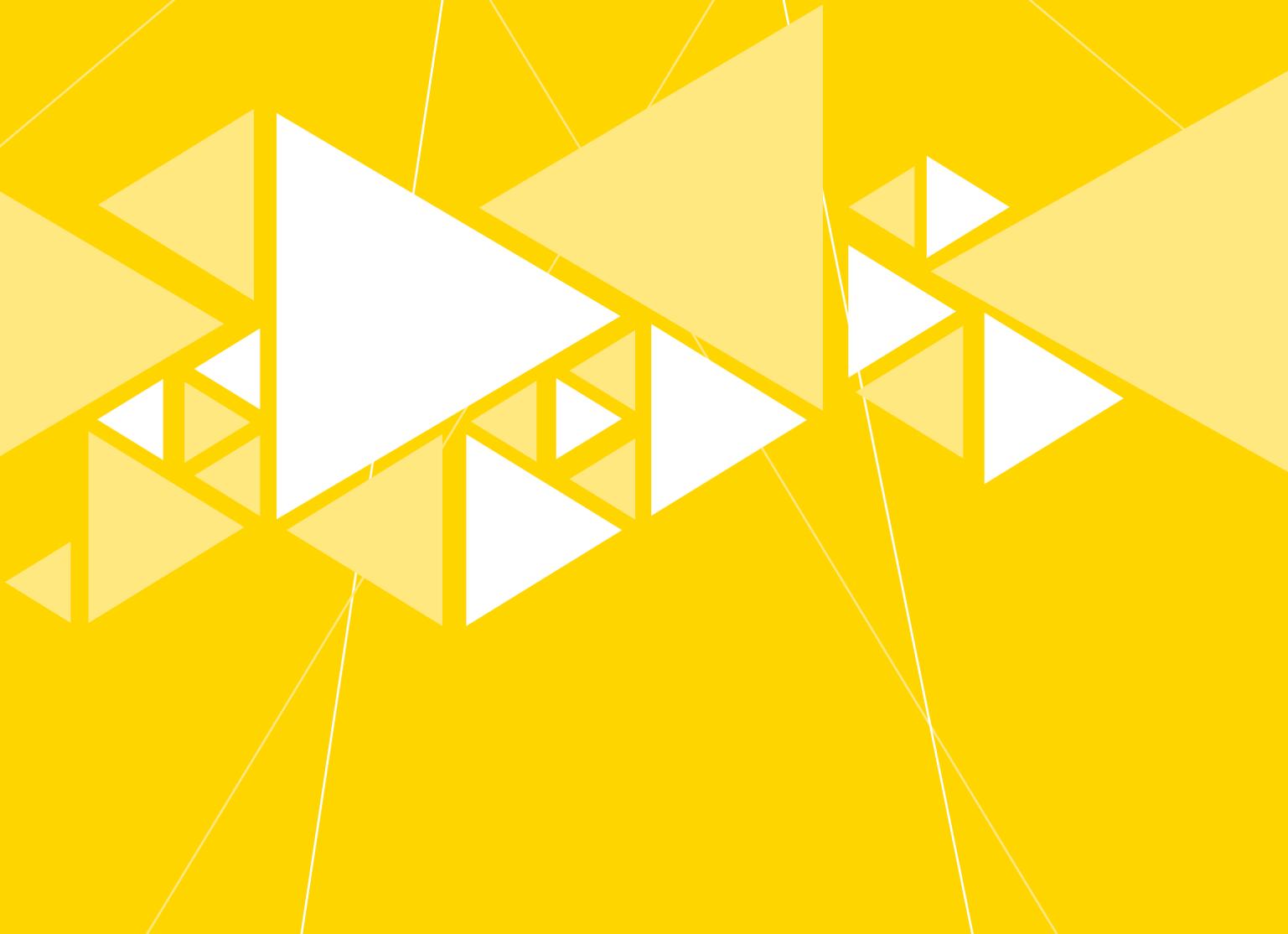
Archana Anand

EVP & Head of Digital- ZEE5 India

Increasing smartphone and internet penetration in India and falling mobile data rates have really brought the Internet within the reach of the masses. Video today already accounts for over 50% share of Internet traffic in India, and this is just going to explode. We've only seen the tip of the iceberg. The real surge in online video consumption will be driven by the Tier 2, Tier 3 markets and by people across markets who want to watch content- whether Indian or International, in the language of their comfort, in the language of their choice. With multi genre content across 12 languages and navigational experience across 11 languages, ZEE5 addresses the needs of this new Digital India, and this is what will be its strongest connect. We have the best of global and International content; and we have the best of Indian language content. This truly makes us the platform of choice across audiences.



Live events



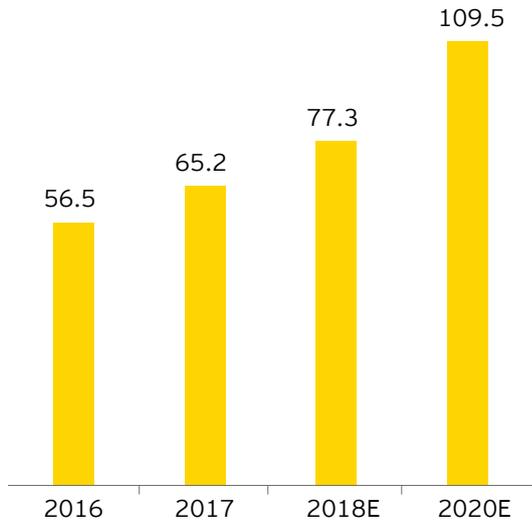
Events and activations

This section is extracted from the events and activations industry report titled #experience_next released by the Events & Entertainment Management Association (EEMA) and EY in 2017 and is based on interviews with over 65 organized media companies and 35 marketers.

Revenue of the organized events industry has increased to INR65.2 billion

The events segment has been growing at a 15% CAGR for the past five years, which is slightly faster than the growth of the Indian M&E industry. The segment is on track to reach INR77.3 billion by 2018. The expected growth rate of the segment will be around 18% over the next few years, which would take the size to INR109.5 billion by 2020.

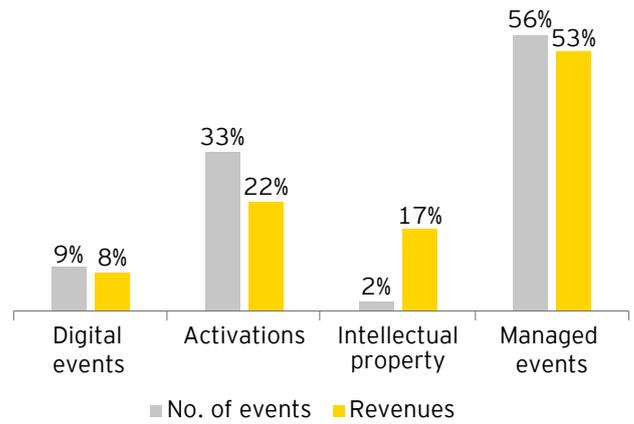
Organized event industry growth (in INR billion, gross of tax)



This value represents the revenue of “organized” events and activation agencies and does not include the multitude of “unorganized” event companies spread across the country. The size estimate also does not include the value of telecast rights of events (unless owned by an events and activation management company) the value of meetings, incentives, conferencing and exhibitions (MICE) conducted by pure travel companies, value of IP not owned by event companies and properties managed by in-house activation teams of advertisers and other segments of the M&E sector.

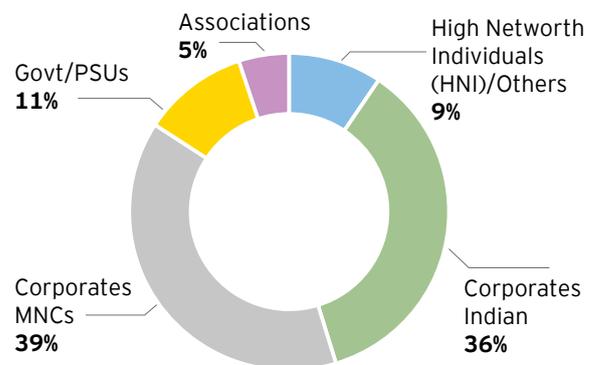
IPs generate a disproportionately high proportion of revenue

IPs continue to generate a disproportionate share of revenue for event companies, with many companies planning to launch one or more IP during the next two years. Digital events, which were less than 1% of total revenues two years ago, now command an 8% revenue share.



Corporates are the industry’s largest customers

Around 75% of all clients were corporates, equally split between domestic and international companies, while government and public sector units comprised 11% of the client base. The growth in personal events is reflected by HNIs, who comprised 9% of the client base.



Growth was driven by new product launches

Technology, FMCG, auto, M&E and telecom were the largest users of the events and activations industry. These sectors have been launching a slew of new products and services, which has led to high demand for events and activations. Event agencies which have started specializing in certain industries are in a position to understand their seasonality and proposed launches and ideate along with marketers, picking up a higher share of revenues. There is an opportunity to grow revenues from PSUs, beverage and tobacco companies etc. given that they are not always permitted to spend heavily on mass media.

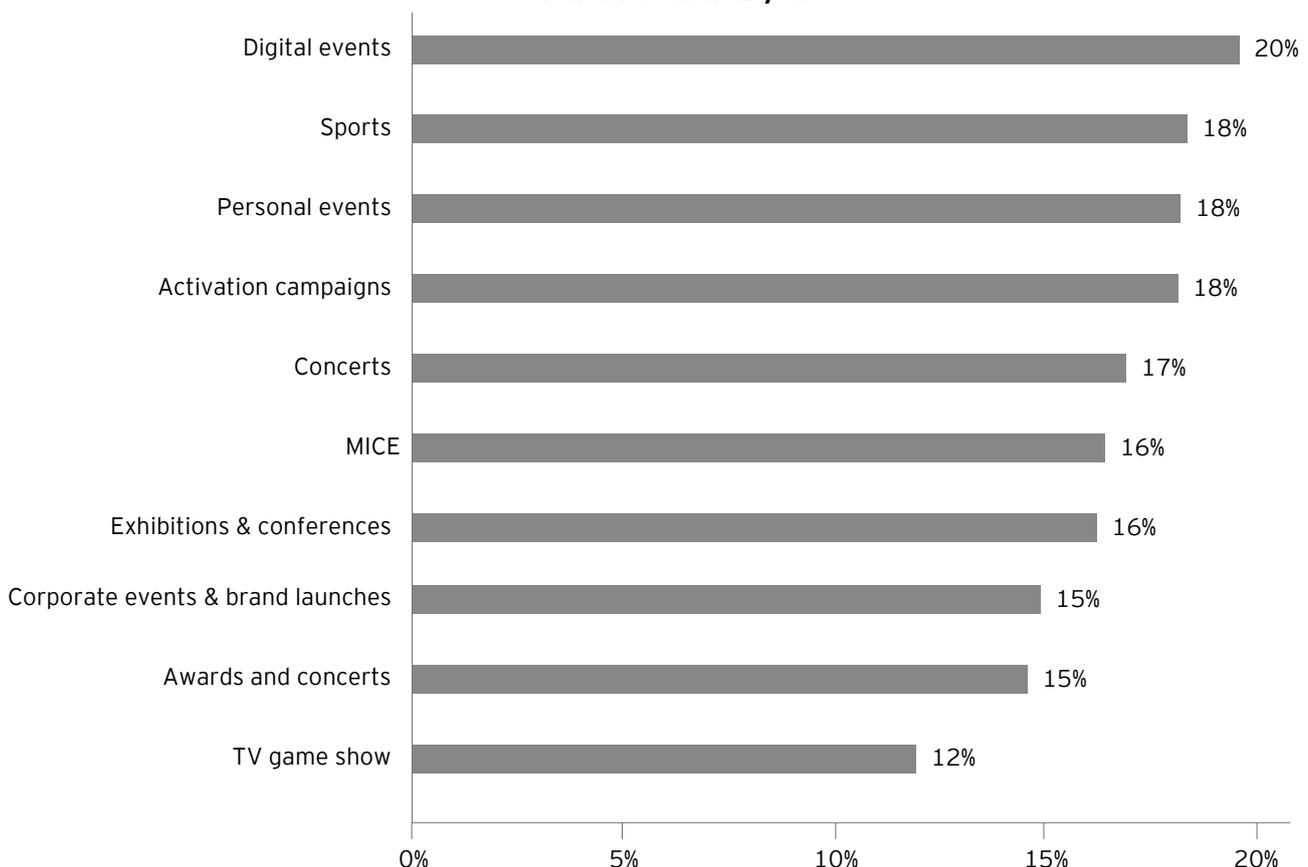
Event volumes continue to grow

By and large, all event types are expected to grow faster than before, on the back of fragmentation of ATL media and increased overall interest from marketers (this is corroborated by the findings of our marketer survey). Event volume growth is between 5 and 8% per annum. Managed events run the risk of getting commoditized, but the risk can be reduced with innovation and creativity.

Digital, Sports, personal events and activations will drive growth

Digital is driving growth, as companies feel that marketers' spends on digital events would grow at 20% by 2020. Digital activation can be provided at a fraction of the cost of in-person activation, and while the number of digital activations will increase significantly, the value of each will reduce. Driven by numerous sports leagues, as well as grassroots activities, and spurred by mandated social spends for profitable Indian corporates, companies also feel that sports would significantly grow at 18%. Rounding off the growth drivers were personal events, activations and concerts, on the back of increased disposable incomes and growing spends on ticketed events, which are expected to cross INR6.5 billion in 2018.

Growth rate next 2 years



The Government spent over INR1,000 crore on events and activations in 2017

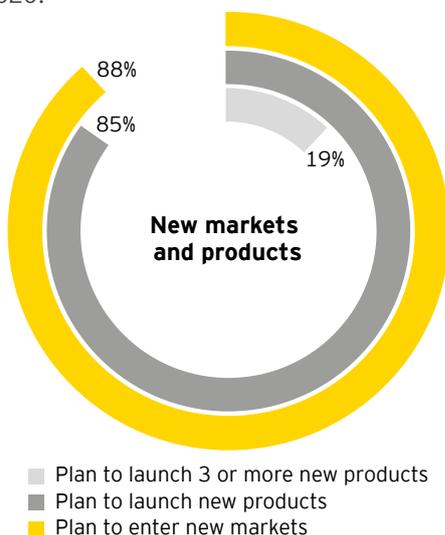
The Government has become a large patron of both events and activations over the last few years. Government spending on events is estimated to increase from INR 9 billion in 2016 to INR15 billion by 2020, at a growth rate of 14%. Government spends are being driven by several initiatives both at a Central and state level.

Rural events provide a large opportunity

With the Government’s clear focus on rural development, along with the implementation of multiple grassroots schemes and the tax relief and cash component advantages available, rural BTL/activations will have continued focus. Rural events and activations would gain increased importance over the next 2–3 years according to 95% of the organized event companies surveyed. With better infrastructure and connectivity between India and Bharat, the next 300 million middle-income customers for most organizations are expected to come from this part of the country. More connected, evolved and aspiring rural population is the natural progression for any organization. With the Government trying to bring rural India under the ambit of the digital network, rural advertising should see an increase.

Many new products or properties will be launched, across more markets

Over 85% of organized event companies plan to launch new products or properties in the next two years, and almost a fifth will launch three or more products. 88% of the event companies plan to expand into new markets for activations, rural marketing and focus on regional and national multi-city events. 80% of companies also plan to launch one or more IPs by 2020.



Marketers are spending more on BTL activities

We noted that 60% of marketers who used events and activations had BTL spends of 20% or more of their total marketing spends.

Of the marketers surveyed, 64% said that their BTL spends have grown over the past two years. The increase in spend appears to be a combination of various factors, including higher quality expectations, a wider geographic reach and inflation.

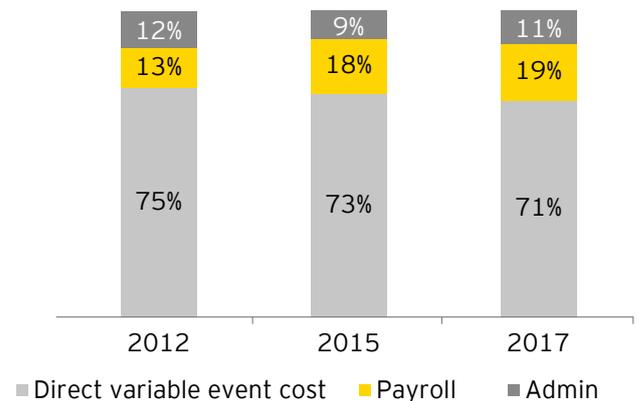
Even more heartening is the fact that 73% of marketers expected their BTL spends to grow during the next two years, with 43% expecting growth to be over 10% per annum.

Digital integration has become extremely important

Digital integration was either important or very important for the events of 90% of marketers. The main reason cited was the reduction in the average cost per person reached by their event, enabled by digital amplification.

Payroll costs continued to rise

Payroll costs are increasing and have reached 19% of total costs. This is higher than many other segments of the media industry, reflecting the lack of available talent. Costs are expected to increase at around 14% each year till 2020.



Almost all organized event companies were profitable

Most companies demonstrated profitability of around 8%–10% on average. Profitability is expected to continue for the next two to three years, with EBIDTA to be around 14% and PAT to be in the range of 5%–10% or higher

Key challenges need to be addressed

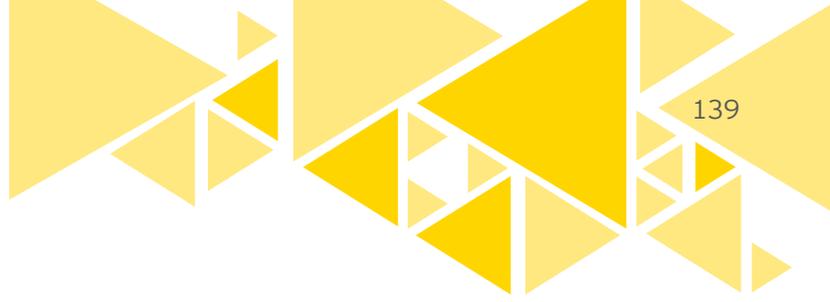
Lack of trained manpower continued to be the biggest challenge for the industry, with very few institutions available to provide trained personnel, and most of the training being provided on the job.

The challenge posed by rising event production cost needs to be addressed, especially as the segment faces high cost per contact compared to other segments.

The impact of onerous regulations – especially for multi-city events, where permissions are required from various local bodies – is limiting growth. Single-window clearances can help increase efficiency significantly. Rationalization of entertainment tax/local body tax – with certain states also planning to levy local body taxes – can be detrimental to events and activations. Clarity on local body taxes would be helpful to build confidence.

Credit is difficult to obtain for event companies, mainly as the segment does not have industry status as yet.

Inadequate venues – when compared to global cities – significantly limit India's ability to host international events and conferences. Incentives to develop large event and exhibition venues can significantly grow the number of international events held in India and give a boost to the tourism and hospitality industry as well.





Indian

Event Trendbook

Most companies provide managed events, but only

33%

provide digital events



Most organised event companies have

21-100

employees

100+ employees



20%

21-100 employees



56%

<20 employees



23%

73%

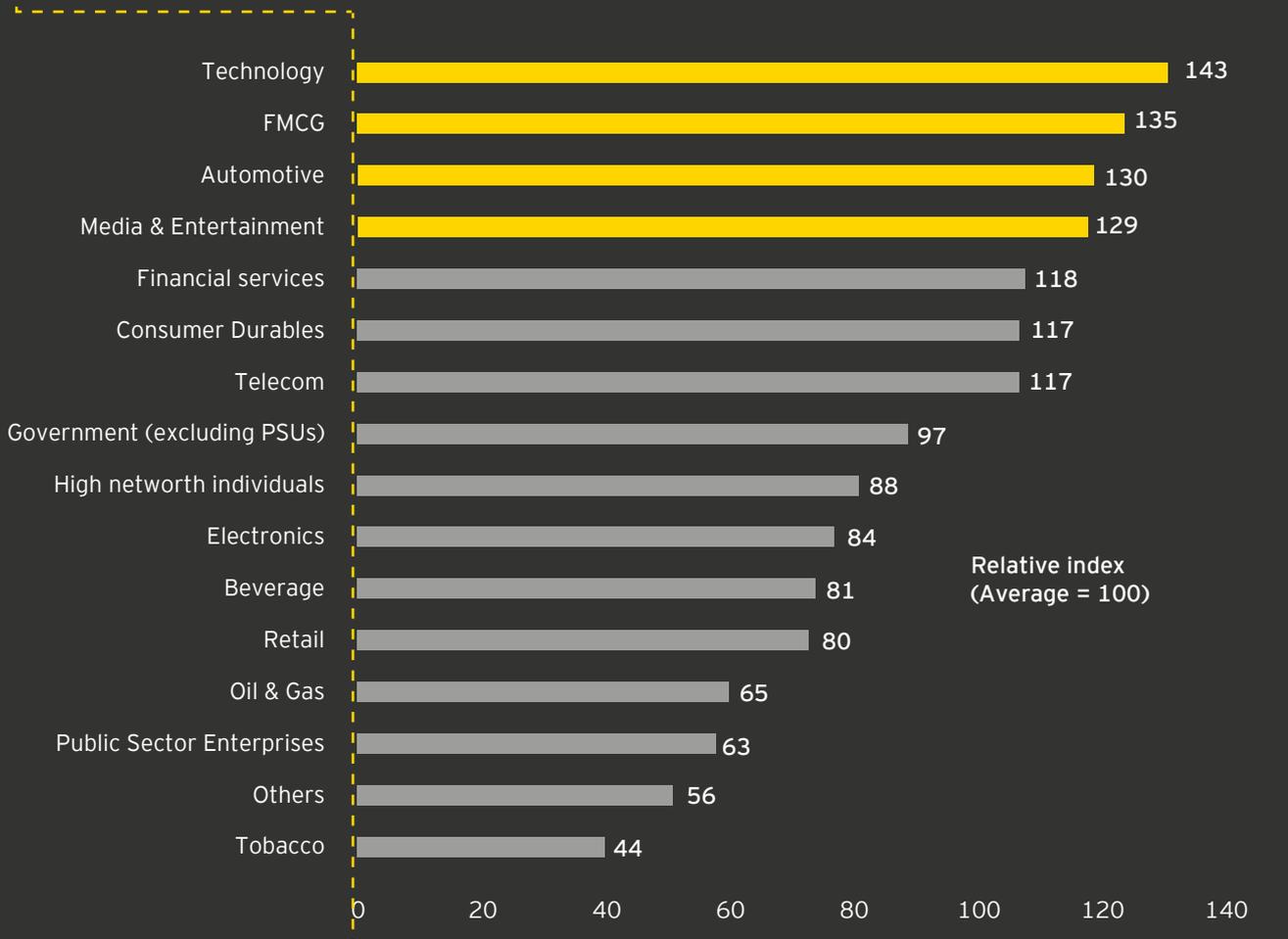
of marketers who used BTL expected their event spends to grow



43%

of them expected event spends to grow by over 10%

Tech, FMCG, Auto & M&E are the largest consumers of events



56%

of organised event companies provide services outside India as well



60% have more than one office in India.

25% had offices abroad.

Government spends

The government is spending more on events



2016



2020E



Expert speak



Atul Nath

MD, Candid Marketing

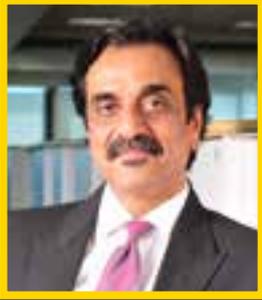
In this age of rapid change in digital and technology, the rules of marketing and communication are changing rapidly too. Ironically, this change makes the importance of experience that much more crucial. The brand activation and experiential marketing business is set for continued growth through technology innovation, data-based experiential marketing, brand advocacy & mobile proximity development.



Roshan Abbas

Managing Director - Geometry Global Encompass

The govt is putting it's might into reaching out to the people at large to promote its digital and outreach endeavours and so their spend on events is on a rise. Agencies that can offer scale and multi-disciplinary expertise are benefiting from the same.



Brian Tellis

Co-founder & Group CEO, Fountainhead MKTG

Experiential marketing is the creative and functional glue that marries Brand to current and potential customers. This mandates that we widen our perspective to better understand and serve both product and consumer. Going forward, data analytics, digital and production technologies will play a large role in understanding and aggregating customer communities.



Sabbas Joseph

Director, Wizcraft

Indian events and activation is poised to grow at 18% per annum, and with digital integration, will increase its efficiency for marketers.

With the Government's focus on ease of doing business and the digital framework connecting India the experience industry is poised to mount a springboard that would define a new India.

Radio



Radio industry in India: Stay tuned

Indian radio grew 6.5% in 2017

The Indian radio segment increased by around 6.5% in 2017, on the back of the lingering effect of demonetization between November 2016 to March 2017 and the impact of GST.

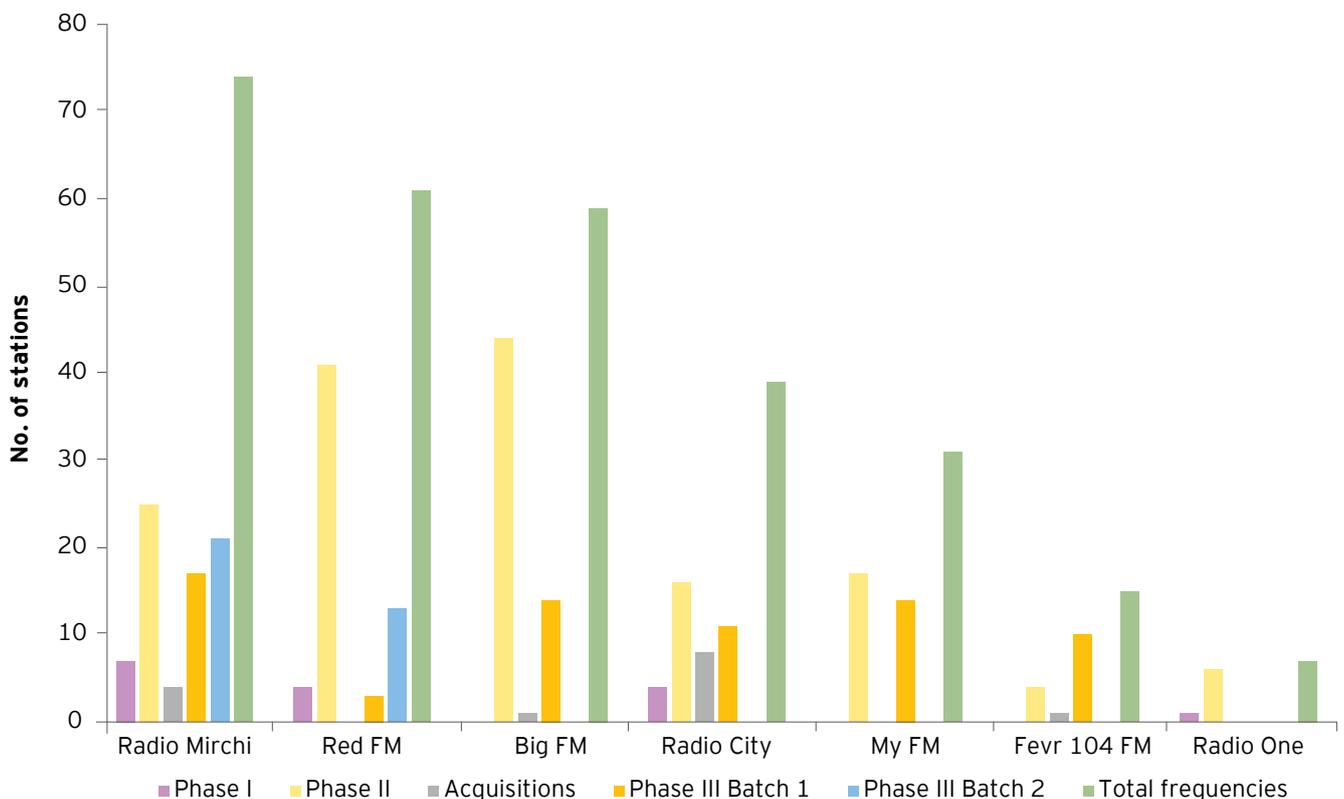
2016	2017	2018E	2020E
24.3	25.8	28.4	33.8

Gross of taxes (INR billion)

Key drivers of growth for the radio segment remain a large youth population, growth in the quality and quantity of film music on the radio, built-in FM receivers in most hand phones sold in India (76% of audiences listen to FM radio via mobile devices¹), increased time spent out of the home in transit, building a strong local connect. Also, radio is a free medium, and free offerings will always find a place in the entertainment mix of most Indians.

Growth has been volume-driven

Phase III saw the launch of 162 new FM radio stations, including across the key markets of Mumbai and Delhi. Licenses were acquired in 17 cities that had no operating FM licenses. New stations in existing cities and proliferation of private radio to smaller cities are likely to increase the listener base. These launches created an increase in the volume of inventory available, which was one the main reasons for the growth of industry revenues. Volume growth has put pressure on effective rates at an overall level and going forward, we expect that stations will need to curb inventory per hour to enable rate increases. Key advertising categories in 2017 were real estate, FMCG, BFSI, auto, telecom, e-commerce and media.



Source: MIB, IndiaNivesh Institutional Research

Note: After divestment of Goa station, operating number of stations is 73

Revenues remained heavily skewed toward larger cities

Around 60% of the radio segment's revenues are generated by the top 10 cities². Metro effective rates can be over 10x the rates of smaller cities. Station bouquet sales are increasing, as radio is now able to provide a deeper reach in many states. It is becoming a suitable reminder medium and an alternative to print, which is reflected by the number of print companies that also own radio stations.

Smaller stations provided a cost-effective option for local advertisers

The share of local advertising in the radio market has increased from 20%–30% in the early 2000s to up to 60% currently². Radio's key proposition is that it caters to the local market, allowing advertisers to target specific markets (unlike TV). This also allows radio companies to garner better pricing, as local advertisers' budgets are of smaller ticket sizes.

Transit radio saw a beginning

Companies are looking at airports, railways and metros as mediums to expand the reach of radio.

- ▶ Music Broadcast Ltd. (Radio City FM) partnered with Lucknow Metro Rail Corporation (LMRC) to entertain travelers and develop travel entertainment as an independent vertical.
- ▶ Sun Group (Red FM) is exploring potential partnerships to provide on-board entertainment to passengers, after a brief stint with Shatabdi trains (New Delhi and Kalka) in 2016.
- ▶ Entertainment Network India Ltd. (Radio Mirchi) has partnered with Delhi International Airport since 2015 to set up a custom-produced 24x7 airport radio station.

FM auctions received a tepid response

The year also marked a tepid response to Batch 2 of Phase III auctions of radio frequencies by the Government of India. Out of a total of 266 radio frequencies across 92 cities put up for auction, only 66 frequencies in 48 cities got sold to 11 companies³. The second batch witnessed the

2. Industry discussions, EY analysis

3. Radio Mirchi buys 21 new frequencies in FM auctions", <https://economictimes.indiatimes.com/industry/media/entertainment/media/radio-mirchi-buys-21-new-frequencies-in-fm-auctions/articleshow/57382269.cms>, 28th February 2017

participation of 14 companies compared with 28 companies that took part in first batch. Some of the reasons for the lower participation in the auctions can be higher migration fee, delay in operationalization of the newly acquired frequencies and high reserve price. Overall, the players focused on consolidating their operations in the current locations as against aggressively bidding for new radio frequencies in typically radio-dark cities. The Government's receipts from Batch 2 of the auctions were INR2020 million as against INR11,600 million earned from the Batch 1 auction conducted in 2015. ENIL and Sun TV Network emerged as the largest acquirers in the auction. While ENIL acquired the highest number of frequencies (21 frequencies) with a total spend of INR513 million, Sun TV Network emerged as the highest spender by acquiring 13 frequencies at a spend of INR805 million⁴, which included the two costliest frequencies: in Hyderabad for INR234.3 million and Dehradun for INR156.1 million.

Continuing its drive to increase the penetration of radio across the Indian geography, in December 2017 the Cabinet gave its approval for the e-auction of Batch 3 of private FM radio Phase III. Under this batch, the Government is expected to auction 683 radio frequencies in 236 cities with a potential to generate a revenue of INR11,000 million⁵. The roll-out of the third batch is expected to target majorly those cities that have no existing private FM radio channels, which include several cities in the border areas of Jammu and Kashmir and Northeast States, where the population is less than 1 lakh.

Content differentiation, at last

In Phase III, the Indian Government permitted a radio company to operate multiple frequencies in a city, subject to certain restrictions. This has led to the creation of differentiated content, be it Redtro from Sun Group or Ishq from Radio Mirchi. Radio companies are trying different genres of music as well as music in different languages, which will help grow the listener base. Though still in their infancy, it will be interesting to evaluate the commercial success of second channels in the coming years.

4. "ENIL and Sun TV spend big bucks in FM phase 3 batch 2 auction", http://www.business-standard.com/article/companies/enil-and-sun-tv-spend-big-bucks-in-fm-phase-3-batch-2-auction-117022700699_1.html, accessed on 1st February 2018.

5. "Cabinet okays e-auction of FM Radio Phase III", <http://www.thehindubusinessline.com/economy/policy/cabinet-okays-e-auction-of-fm-radio-phase-iii/article9999499.ece>, 9th January 2018.

Measurement of listenership is still lacking

Lack of a universally accepted radio measurement system continues to be a key area of concern both pre- and post-planning and has acted as a deterrent to the growth of the radio industry. Due to the absence of the Indian Readership Survey for three years, and RAM being restricted to only a handful of cities, there was no metric to enable return on investment. With the release of the IRS in 2018, we can expect to see more recent data being made available, and this should help the industry.

Further, the industry is working towards implementing its own measurement across 21 cities, pilots of which are expected to begin in 2018.

Consolidation, finally

In the recent past, several deals have been witnessed in radio, including the following:

- ▶ Essel Group has entered the FM radio space by acquiring a 49% stake in Anil Ambani's radio company. It has the option to buy out the remaining 51% after the three-year lock-in period, subject to approvals.
- ▶ Jagran Prakashan Limited has acquired Music Broadcast Ltd, which operates 39 FM radio stations under the Radio City and Radio Mantra brands
- ▶ ENIL, which had previously agreed to acquire seven Oye FM radio stations from TV Today, will not be acquiring three Metro FM Radio stations after the MIB disapproved its sale.
- ▶ BBC World Service launched 11 new language services, including four Indian languages - Telugu, Gujarati, Marathi and Punjabi. The move is part of its expansion to enhance social media presence to reach audiences across the globe. The company introduced the new languages across radio, TV, mobile and its web content, taking its total language count to 40 from 29.

Digital provides an opportunity for radio

Platforms such as Wynk, Gaana and Saavn are connecting with the younger generation of listeners by providing customized music experiences through genre-based content, recommendation engines etc. 2017 also saw Apple and Google entering the streaming music segment. While these business models are yet to be stabilized, and the services have in all cases a broadband cost and in some cases a subscription cost, it will result in some erosion of the premium consumer base of radio.

It is critical for the radio industry to be able to establish their digital brands and many customized channels on music platforms to remain relevant to premium audiences. They also have the ability to launch products around talk, news, comedy etc. on digital platforms.

One of the key assets that radio companies have developed is its radio jockeys (RJs). Popular RJs have a deep connect with their listeners and can build communities, which would have daily and high engagement levels. Communities can be monetized on social media and across digital and IVR infrastructure.

Radio also has the potential to launch second screen interactivity with its digital communities. For example, Radio One has launched Tambola where listeners play along with radio content. Radio can enable a series of interactive services such as polling, quizzes, play-along, contests and karaoke. Such activations would have a high monetization potential.

Automation will drive profitability⁶

The radio business is scalable and not manpower-intensive, allowing for several tasks to be automated. By investing in efficiency initiatives, radio players can grow while reducing manpower needs. Given that employee spends make up ~40% of total fixed costs, there is significant scope for cost rationalization. High fixed costs (80% of total expenses)⁶ will make weak and unprofitable players exit the business. Even in front-facing roles, manpower requirements will reduce on account of (a) increased programmatic ad buying, akin to digital platforms (measurement will be a key enabler to this shift), (b) commission-based direct selling agency model for small local advertisers, (c) automation of release order scheduling and (d) transparent open-ledger billing and collections etc.

Expert speak



Apurva Purohit

President, Jagran Prakashan

With the emergence of digital platforms and conversations aplenty on Radio's role in a consumer's life India is bucking the global trend where the medium is burgeoning. This can be attributed to the fact that the industry is witnessing a geographical reach expansion and radio's unique ability to strike a personal connect with its listeners, quite unlike other mediums. The Radio industry is poised to witness a lot more traction in the coming years, clocking in around 15% growth over the next one year.

With advertisers fast realizing the medium's massive reach, there has been a significant rise in ad expenditure as well. Although, there was initial skepticism with GST and demonetization kicking-in, the industry has weathered the storm and is well on its path towards a healthy growth



Prashant Panday

Managing Director & CEO, Entertainment Network (India) Ltd.

The sturdy radio is bound to see faster growth than all other traditional media in the years to come. With so much expansion underway thanks to Phase-3, the reach of radio is becoming bigger and bigger. Programming is getting more and more exciting and pathbreaking. And radio talent is finding new audiences, via video and mobile. The next 5 years will see radio more than double in size



Vineet Hukmani

MD and CEO, Radio One

Within the next three years, radio, the first social media and digital social media together will allow clear segregation of audiences into distinct, actionable tribes that will allow brands to super engage them and be able to measure the level of engagement superlatively. That is the future of profitable radio business.



Tarun Katial
CEO, RBNL

Radio needs to redefine its content in a manner that it competes not with itself, but with the plethora of content choices to customers like social, video etc. Radio needs to partner and collaborate with these newer media.



Satyanarayana Murthy
CEO, Indigo 91.9 FM

We are buoyant of the growth prospects in the fiscal 2018-19. Last year has seen sluggish growth on account of De-monetization and GST implementation. GDP growth, uptick in rural demand, adoption of payment wallets/payment banks, expected increase in Govt spends, FIFA World cup and whole lot of cricket action amongst others, shall increase the spends on radio. For better realization however, I see the need for Radio Industry to shore up the rates, especially in the legacy stations.

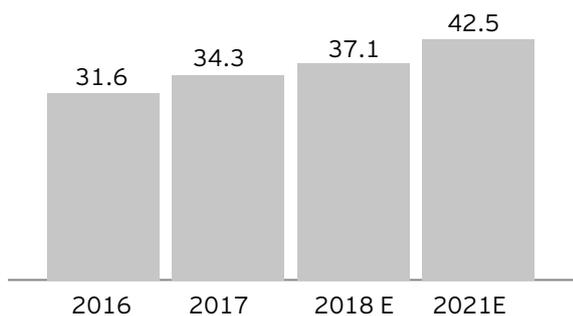
Out Of Home Media



2017 was a year of modest growth

In 2017, after March-April, the OOH industry in India started recovering from the effects of demonetization. Riding on the wave of new launches in the handset and auto segments, the industry witnessed 8.4% growth to reach INR34.3 billion.

Size of the OOH segment



Gross of tax (INR billion)

Billboards continued to dominate

While billboards continued to dominate the OOH landscape at about 40% of the advertising pie, transit media showed the strongest growth with new advertising opportunities at airports and mass rapid transport systems (MRTS), i.e., metro rails, in tier I and II cities.

There is a clear shift toward digital OOH which is expected to be the growth driver for the industry.

Leading the pack in OOH spending for two years in a row are mobile phone OEMs, followed by auto manufacturers. E-commerce had significantly reduced spends this year, a fallout of many service providers facing margin pressures. Government spending on OOH advertising also saw a weaker contribution this year.

Data and technology are bringing accountability

The Indian OOH industry is undergoing an overdue tectonic shift. An otherwise data-scarce industry (where the measurement of traditional sites remains an issue, with no universally accepted measurement metric across the industry), OOH is now moving toward a consumer data-driven media planning process. Feeding on increased consumer data, media planners can make far more informed decisions and access niche audiences in a way that was not possible before.

With the recognition and subsequent development of applications and tech services for the OOH sector, technology-centric installations are expected to be the norm. With increased penetration of AR and VR technologies, coupled with the ease of developing content for these and other DOOH applications, advertisers will be observed to gravitate to this medium with more gusto.

Transit OOH drove a premium, targeted offering

The Government's impetus to economic and infrastructure growth and smart city infrastructure development is widening the OOH landscape with several key projects lined up in the transit segment. Investments to the tune of INR100 billion in large-scale projects such as airports, highways and MRTS will bolster the industry in the coming years. This will impact not only the OOH avenues available to marketers but also the strong credibility of audience and location data the media is backed by, which has had a restriction in the traditional format.

India now has more than 80+ airports, of which 18 are connected to international destinations, catering to 265 million flyers. The Government has concrete plans to build more airports, which will further drive the aviation industry as well as the OOH transit medium.

Similarly, with MRTS becoming a pillar of the overall Indian infrastructure growth, it is emerging as one of the most preferred OOH destinations for advertisers. With dwell time between trains and innovative media formats at different touch points, MRTS is carving a niche for itself in the marketers' mind space.

These captive environments provide an advertising real estate that is effective and can provide reach and demographic data that can allow advertisers to reach their target segment with far more accuracy and less spillover. This kind of niche, consumer data-driven media planning has so far been seen in the way online media has been bought.

With close to 265 million travelers a year¹, airports serve as congregation points of premium audiences. In fact, the Delhi-Mumbai sector is the third busiest route in the world.

Like other mediums where media planning is data-driven, transit OOH environments such as airports and metros provide audience data such as commuter/passenger demographics and psychographic profiles, and daily eyeballs, which help brands geo-target the audience that they want to communicate with. For example, brands targeting premium NCCS A+ audiences have chosen media that is en route for business class passengers; also, baby care products companies are sponsoring baby care rooms and tracking how many mothers they are reaching daily and so on.

Railways got into the act

The Railways have taken the lead in OOH monetization, and have successfully started providing properties across stations, outside stations, train wraps etc. They are even planning for a digital experience within trains (with content). Station branding rights have gained popularity and are one of the offerings across metro and railway stations where brands can create landmarks and ingratiate themselves in commuters' daily lexicon.

Airport advertising

74%

relevance and effectiveness of airport ads

32%

of ads are more likely to be spread by word of mouth

Up to 3 hours

Spent by 70% of travelers at airports

12 min

time an airport activation retains customers

Top 3

activities at airports include looking at ads

INR 3,000

spent by about 30% of travelers shopping at airports

Source: Times OOH

Looking ahead

Sponsorships are becoming more important

OOH environments are offering multiple avenues for brands to engage with audiences. Sponsorship of utilities that add value to a traveler's journey allows brands to stay relevant and be a part of consumers' lives. From creating a lounge for a car manufacturer's users at airports to mobile charging stations at metro lines, brands are developing immersive ways to share brand stories. Partnering with OOH media owners and local bodies and co-creating utilities are gaining momentum in the Industry. The future will see branded properties becoming the norm.

DOOH will enable interactivity

OOH, especially DOOH, can integrate effectively with other platforms such as social media and mobile, which can help drive action through targeted campaigns and offers. Enabling interactivity with consumers through their hand-held devices will be the next big trend, as interactivity leads to increased time spent, more stickiness and a subtle messaging environment.

OOH will increasingly integrate with activations

Media owners are co-creating several events with brands in captive environments which are engaging with audiences and incentivizing participation – for example, surprise gifts sponsored by brands on baggage belts at airports and movie launches at metro stations.

However, operational issues remain

The lack of a comprehensively accepted measurement metric, particularly for billboards, is preventing the growth of this medium as it limits pricing support and evaluation of return on investment. The industry had come together recently to implement a standard operating procedure document for accepting and running campaigns, but compliance with it is yet not being tracked comprehensively. In addition, being subjected to the vagaries of local jurisdictions and regulators, there is a lack of uniformity and uncertainty in several aspects around permissions, guidelines and rules, which require to be streamlined to improve the ease-of-business quotient.

Our discussions with industry executives indicated certain aspects requiring change

- ▶ Collection of local body taxes despite advertising tax being subsumed under GST
- ▶ Uniformity of rules governing the OOH segment, thereby reducing the impact of multiplicity of authorities
- ▶ Reconsideration of the perception of digital OOH being a traffic hazard, which could spur investments in OOH infrastructure
- ▶ Standardization of interactions with municipalities and local bodies and compliance with defined policies



Online Gaming



Online Gaming in India: Inflection year for the industry

Online Gaming has started gaining traction among a larger Indian population with lower cost of smartphone devices which have gaming capabilities and reduced internet access cost. In addition, distribution of games through app stores has allowed increased access to a wide variety of games and allowed developers to reach wider audiences. Other factors that have played an important role in the rise of gaming is convenient payment methods, rising disposable income and direct carrier billing.

Online gaming grew 17.6 % in 2017

The online gaming segment grew from INR25.9 billion in 2016 to INR30.4 billion in 2017.

	2016	2017	2018E	2020E
Online gaming	25.9	30.4	40.1	68.3

The numbers above are in INR billion (gross of tax). This size excludes console gaming, Casinos, lotteries and offline betting.

We note a high correlation between growth in Internet access and Gaming

Total downloads of the top 10 games on the Google Play and Apple's iOS platforms increased to 24 million during the first quarter of 2017 from 18 million in the fourth quarter of 2016¹ a testimony of the impact of Jio's low cost broadband access. Total time spent surged to 2,120 million hours during the first quarter of 2017 from 1,630 million hours during the fourth quarter of 2016.² This is the same period where the cost of internet access on smartphones reduced after the increased competitive intensity in the Indian telecom market.

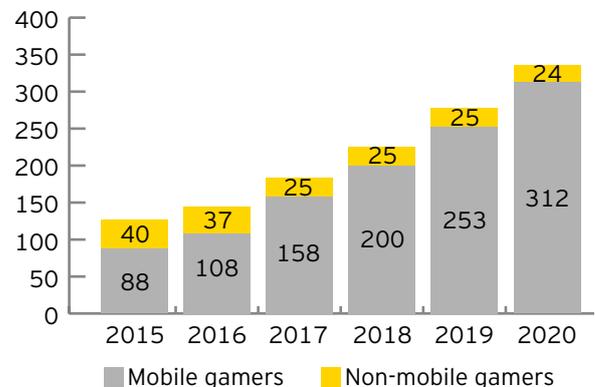
1. App Annie
2. m.dailyhunt.in
3. International Data Corporation
4. Industry discussions

India remains an underpenetrated smartphone market

In 2017, the smartphone user penetration for India was just 33%. However, India is the world's fastest growing smartphone market.³ Smartphones provide a convenient and affordable alternative to the expensive consoles required for casual gaming and increase in smartphone penetration helped in the growth of this segment.

Number of mobile gamers were 6x non-mobile gamers

Mobile and non-mobile gamers in million



Source: Nazara DRHP

Mobile was the platform of choice for gamers, contributing nearly 87% of gamers in 2017. We expect mobile gamers to grow to over 300 million or 93% of total online gamers by 2020.

Real money gaming led the growth for the industry

The online gaming industry in India is divided into three main genres - real-money games (including fantasy leagues), social games and casual games. Currently the size of the real-money gaming industry comprises approximately 55%⁴ of the overall gaming market. Despite the disruption in the real money gaming industry due to changes in regulations in Telangana, the industry continued to witness robust growth upwards of 25% in 2017 vs 2016.

Casual gaming witnessed a mixed year

Casual gaming companies that use various app stores for distribution witnessed exponential growth due to the reduction in data cost and access to cheaper smart devices. However, due to the disruption in the telecom industry which impacted telecom operator ARPU, the casual gaming companies that earned significant portion of their revenues from telecom operators witnessed a slowdown leading to a slower growth in the 8% -10% range. However, with the launch of new gaming studios that are developing interesting and catchy games such as Ludo King, the casual gaming industry is expected to grow rapidly.

Commissions model dominant for Real Money games, whereas Freemium model preferred for Casual games

Revenue models for online gaming companies vary depending on the genre of the game. Social and casual gaming companies rely on advertisement, in app purchases or subscription revenues through mobile operator billing. The most popular model for developers is the freemium model where games can be downloaded for free but in-app purchase are required for unlocking parts of the game-play. Most of the real money gaming revenues depend on "commissions" i.e., the percentage of fees collected from winners.

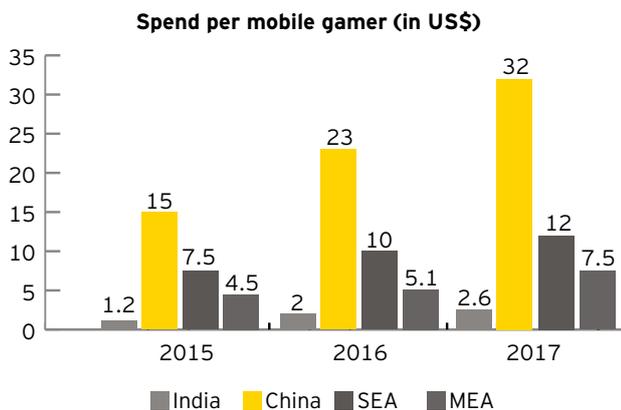
Average revenue streams



Source: EY estimates

Revenue per gamer increasing, leading to rapid industry growth

Over the next few years as the penetration of online gaming increases, other consumer companies will realize gaming as an important platform for advertising their products resulting in further growth. Hence the revenue from advertising for gaming companies is expected to increase. Further, the increasing spend per mobile gamer from US\$ 2 in 2016 to US\$2.6 in 2017 is expected to accelerate further.



Source: Nazara DRHP

Online card games were the fastest growing segment

Several popular Indian card games are gaining significant traction and are growing by over 25% per year⁵. This segment is attracting large numbers throughout the consumer base from the old generation to young adults across both male and female. Card games have always been one of the favourite past-times for Indians and through these online games individuals don't need to find friends/family to play these games with but can easily log on to the website and start a game with other players during their free time.

The two key segments within online card games are real money games and social games. In the social gaming space, players play for virtual currency which they can replenish through in-app purchases. Both the segments are gaining rapidly and are expected to continue the high growth trajectory.

Currently, 4 out of the 10 top grossing apps on App Annie for Google Playstore in India are social card games apps.⁶

Localised content is driving growth

Localisation with a user-friendly interface is the key to penetrate the Indian gaming market. One of the key reasons of China's successful gaming market is its strategy to create localised games. A survey conducted by Gamesbond shows that 43% of developers who distribute their games globally, localise the content. Adding multi-lingual options helps people to understand and accept the game better, for instance having word games and quiz games in regional languages will increase its adoption in non-metro regions. Monetization capabilities of localized Indian games is better than that of other global casual and sports games. For Eg: Rummy and Teen Patti (Indian card games) are very popular online games in India. Another example is Sachin Saga Cricket Champions had 2 million downloads in less than a month of its launch. Mech Mocha's partnership with Halfbrick Studios to localise the Jetpack Joyride game as per Indian market requirements is an example for other global casual games to be localized as per content in India.

Localisation of content can help attract global companies who may want to leverage and monetize the localization strategy. For example, UK based Stride gaming has acquired 51% stake in Passion Gaming, a Rummy-focused online gaming company.

Gamers were 24 years old on average

While most global gamers are above 25 years of age, gaming population in India has an average age of 24 years.⁷ It is expected that in the next few years when the present gamers grow up and have access to increased disposable income and move towards more complex games, it will lead to faster growth of the industry. With 45% of India's population under 25 years of age, there is a huge scope for the growth of Indian gaming industry.

Gaming became an integral part of Interactive Media planning

In line with global trends, Indian media houses are using gaming as an interactive form of entertainment to actively engage the consumers. There have been some big success stories of gaming integration into media consumption, including TV, Movies and Sports.

5. Industry discussions

6. App Annie

7. Nazara DRHP

For TV, 'Jio KBC play along' in collaboration with Sony TV, generated over three million users per episode, and helped Jio Chat add millions to its mobile application download base, while conversely Sony Entertainment TV's viewership went up significantly. For Films, Baahubali: The Game crossed 1 million downloads in its first month, and became the top-most downloaded game and the 10th most downloaded app in the country⁸ and Sultan: The Game jumped to #1 position of Top Free Games on Google Play within 2 days of game release⁹. In sports, specifically cricket, Fantasy sports has been gaining significant traction and has resulted in investment in 2 fantasy league companies.

Radio and print, too, can effectively use gaming to enhance audience connect through contests, quizzes and leader boards.

ESports is a niche and fast-growing segment in India

While mobile gaming is witnessing rapid growth in the casual & real money gaming segment, hard-core and professional gamers are increasing in number and catching onto eSports. Currently, the most prominent games which fall under eSports are Counter-Strike, Dota2, Call of Duty, League of Legends. The format of eSports tournaments is that there are multiple online qualifier rounds which happen digitally across recognized eSports platforms and the final rounds are organized as offline events in large stadiums. ESports tournaments are telecast on digital platforms such as Twitch, Youtube and also on television channels such as ESPN. Globally, eSports has become a multi-billion dollar industry on par with field sports such as football, basketball, etc. In India, the ESL premiership by Nodwin Gaming is televised on Dsport TV channel.

ESports in India is still at a nascent stage as compared to the size of the global industry but is attracting large investments. The total prize pool in India was approximately INR 20million in 2017. There were large investments in the industry, For Eg: Nazara entered eSports through the investment into Nodwin Gaming and Ronnie Screwala's announced launch of an eSports league - UCypher.

Industry bodies are starting to create awareness

The real money gaming industry is attempting to be self-regulated with the help of an apex body named AIGF- All India Gaming Federation which was formed to oversee the problems and issues faced by gaming stakeholders in India. NASSCOM Gaming Forum has created a common platform to share best practices and knowledge both from the business and the development perspective and may be suited to provide a self-regulation framework for casual gaming.

Proactive adoption of regulatory standards and its certification will help industry operators to build trust among government, regulatory bodies, states and consumers. Bringing standardization amongst the operators by implementation of best practices will help in reducing the burden of inspection and reporting. Assessment and certification shall ensure consistent and quality experience for the customers.

International quality game developers can enable "Make games in India"

The traditional mind-set that gaming can only be a hobby and you cannot build a career out of game development has discouraged many students to take it professionally. With limited Game Development courses, there is a compromise in the quality of games developed in India. For India to compete in the international market with experienced professionals, government initiatives like National Skill Development Corporation and its collaboration with Google India to train application developers for mobile platform on Android and Web portals are required. NSDC can play a crucial role in improving country's gaming ecosystem.

8. <http://zeenews.india.com/gaming/baahubali-the-game-crosses-1-million-downloads-2003886.html> and several other news portals such as DNA, mid-day, statesman, sify, etc reported same
9. https://www.indiaonline.com/article/news-business-wire-advertising/sultan-the-game-a-front-runner-on-google-play-jumps-to-1-position-within-2-days-of-release-116061400281_1.html

Cyber security initiatives build confidence

With the rapid growth of gaming industry and more money flowing into games, it has become a lucrative target for cyber criminals to attack it with tools and techniques they once used to hack financial institutions. Some of the common techniques used by attackers are Distributed Denial of Service (DDoS), Phishing, Malware, Ransomware, Hijacking Player Account and Gold Farming. As per Akamai, India had 8,369,704 web application attacks in Q3 2017 and the gaming industry suffered 86% of DDoS attacks, traffic being directed at their assets.¹⁰ Chinese hackers who have created cyber havoc internationally, will shift its focus to India in 2018 as reported by FireEye. Globally video game publishers lose up to 40%¹¹ of their in-game revenue and micro-transactions to fraudsters each year. The malware attack against Steam, a multi-OS gaming platform, led to 77,000 Steam account details being hijacked and pillaged every month, which caused 22,000 players to walk away.¹³ There is a need for Cyber threat management that enables organization to assess their internal and external risks and vulnerabilities by performing real-time testing on their online platforms, infrastructure, source code and other critical risk areas.

Need for a Responsible Gaming Framework

In India there is no proper regulatory framework for gaming. Indian regulations are not in sync with technology advancements. The industry is governed by state legislations:

- ▶ 13 states permit state run lotteries¹²
- ▶ No regulation for online gaming
- ▶ Lack of clarity on game of skill vs game of chance
- ▶ No policy framework in place to address industry issues

Internationally, there are associations and regulatory bodies which have developed principles, technical standards which need to be adopted by industry operators. Some of the key regulatory frameworks are:

- ▶ IAGR eGambling Guidelines
- ▶ Gaming Standards Association
- ▶ European committee of standardization
- ▶ Responsible Remote Gaming Policy

A consistent, proactive regulatory framework is required for India which should include technical and process standards and which needs to be adopted by industry operators for various scale of operation, nature and medium to address concern areas of various stakeholders. It will address various aspects like fair and transparent gaming, secure operating environment, privacy, player record and behaviours.

The gaming sector has significant potential not just for the gaming companies but for the other media and entertainment companies. The proliferation of gaming in media industry is limited only by one's creativity, which when fully exploited, can take audience engagement to an altogether different realm.

10. AIGF Estimates

11. <https://www.akamai.com/de/de/multimedia/documents/state-of-the-internet/q3-2017-state-of-the-internet-security-report.pdf>

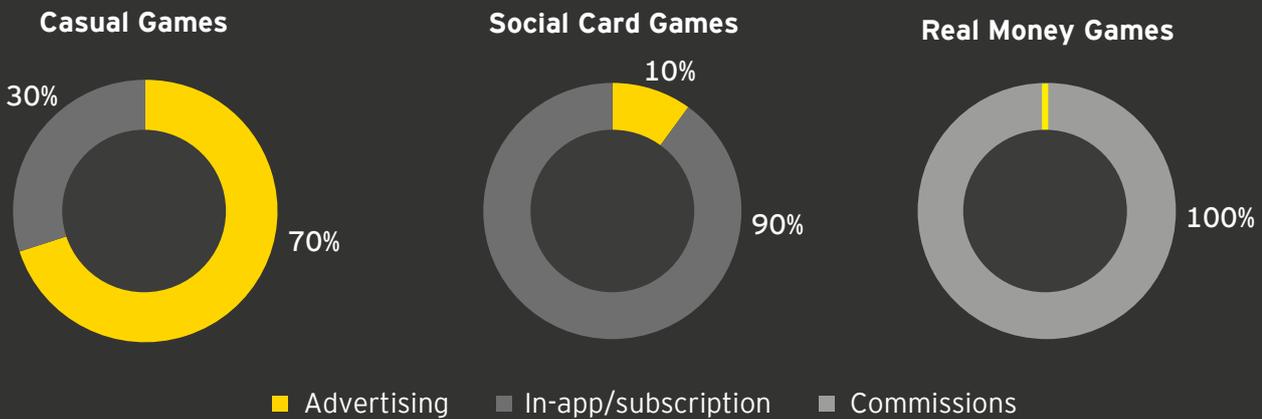
12. www.venturebeat.com

13. www.indiatoday.in



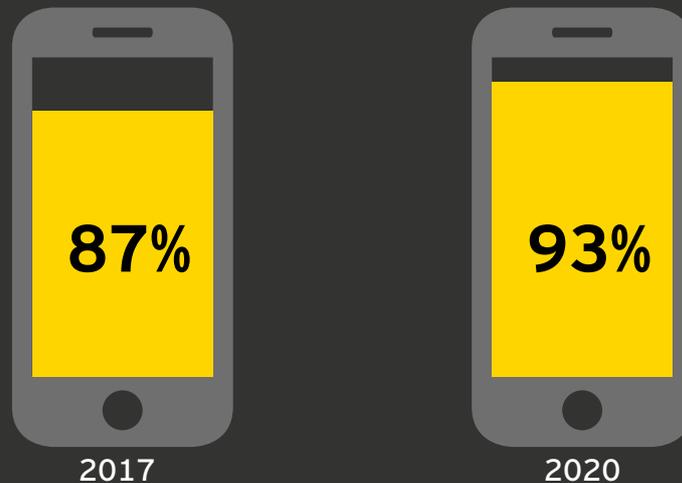
India gaming trendbook

Revenue streams



Source: EY estimates

Mobile gamers

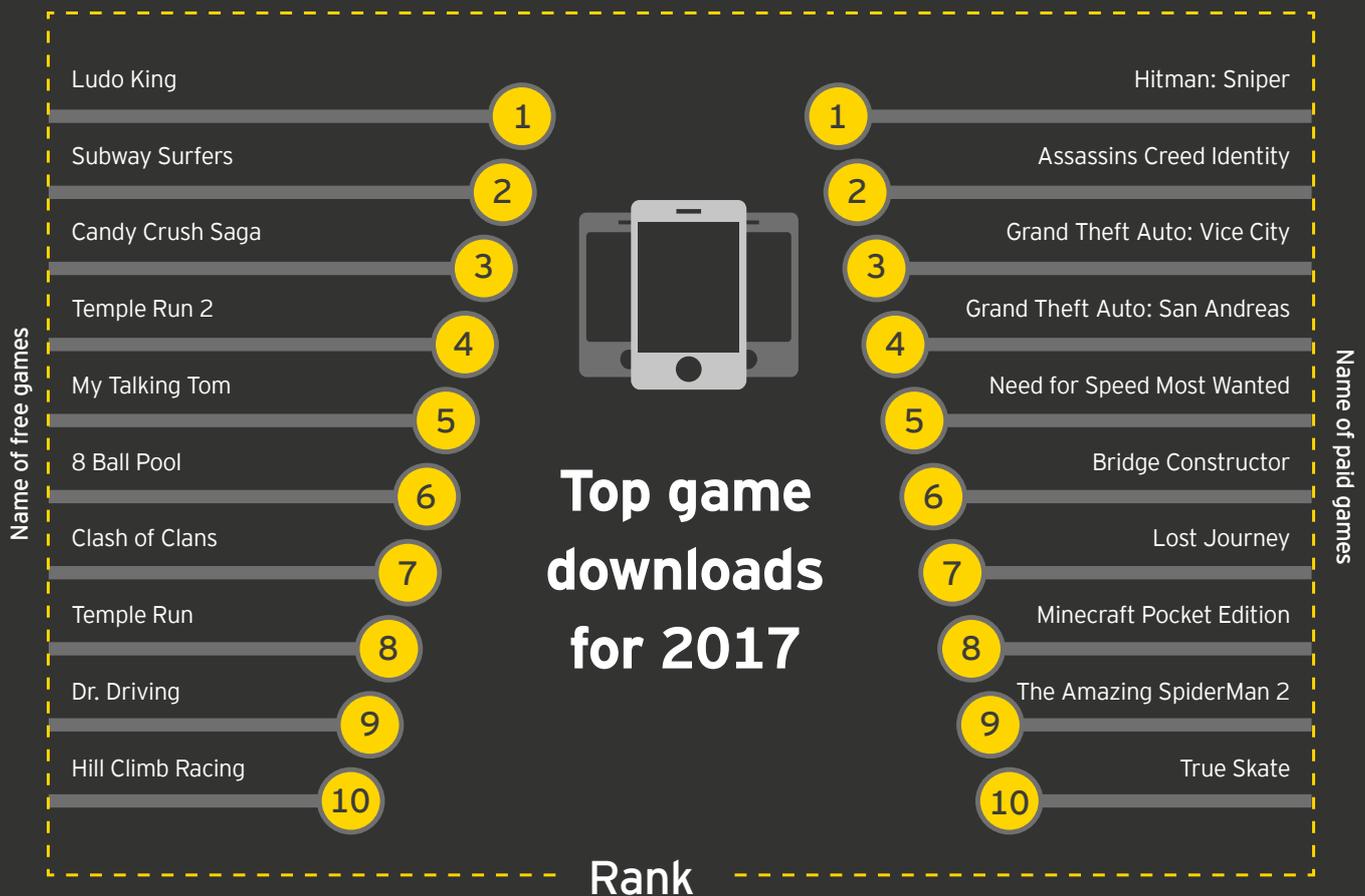


Source: Nazara DRHP

80%

of consumption
is **driven by
men**

Source: AIGF Estimates



Source: App Annie

Expert speak



Nitish Mittersain

Founder & Managing Director, Nazara Technologies

The diverse Indian economy has led to emergence of strong regional presence in vernacular languages for all large media companies. Going forward, we expect gaming to replicate this trend with emergence of vernacular language for mobile gaming emerging as a key theme for the next 3-5 years



Rajesh Rao

CEO, Dhruva Interactive

Indians are playing in large numbers, we are in 'habit formation' stage, and at some time in the near future there will be an inflection point when people will begin to micro-transact. This played out similarly in China, which is now the largest mobile market in the world



Bhavin Pandya

Founder & CEO - Play Games 24x7

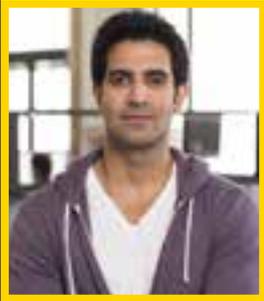
I believe the online skill gaming market in India has the potential for exponential growth over the next few years if the right regulatory framework is put in place and that framework is recognized by the relevant authorities.



Roland Landers

CEO, All India Gaming Federation

If technology collaboration under FDI is opened up in Gaming then the Indian Gaming companies will benefit immensely from International best practices.



Ankush Gera
Founder/CEO Junglee Games

Real money gaming as a vertical within the technology ecosystem is growing rapidly at over 50% year on year. The industry can grow even more rapidly and drive major investment and employment with the right infrastructure and government support.



Harsh Jain
CEO & Co-Founder -Dream11

Fantasy Sports is the perfect catalyst to increase fan engagement which is why all major Sports Leagues use it as their primary tool for fan engagement. India has seen an exponential growth in Fantasy Sports users from 20 lakh in 2016 to 2 crore in 2018, with an estimated 10 crore Indian sports fans playing Fantasy Sports by 2020.



Saurabh Aggarwal
Founder, Octro Inc.

With the improvement in the data consumption ecosystem, mobile games are set for an explosive growth in India. Good quality locally relevant games will ride this wave and local content will trump over western content, just like Bollywood did over Hollywood. Global chart toppers coming out of India in near future is also a realistic expectation.

Deepak Gullapalli
CEO & Founder Head Infotech India Pvt Ltd

India boasts of a variety of local games that we have all enjoyed. There is a big opportunity to innovate and take these games to the mobile phone to bring Indian games to the world and allow global audiences to enjoy these games. We believe there is a good possibility for a local Indian social game to become the next candy crush.

Expert speak



Manish Agarwal
CEO, Nazara Technologies

The gaming ecosystem in India has started demonstrating high growth on the back on increasing data consumption of smart phones. During these times, smaller companies with high growth potential are looking for strategic alignment with larger players for capital and enhanced distribution capabilities. This has resulted in an increase in investments/acquisitions in the gaming space. We expect this trend to continue for the next 2 -3 years



Akshat Rathee
Founder, Nodwin Gaming

Esports is rapidly becoming a gold standard to reach young males for activation and content consumption. As a truly interactive sport straddling digital media and youth it will attract brands that will increasingly want to use it as a go to medium to reach customers.



Ashish Kapadia
MD, Delta Corp

By regularising gaming, the government will be able to curb illegal industry, generate employment and generate revenue from the growing gaming industry



Nitesh Damani
Director, Sugai & Damani

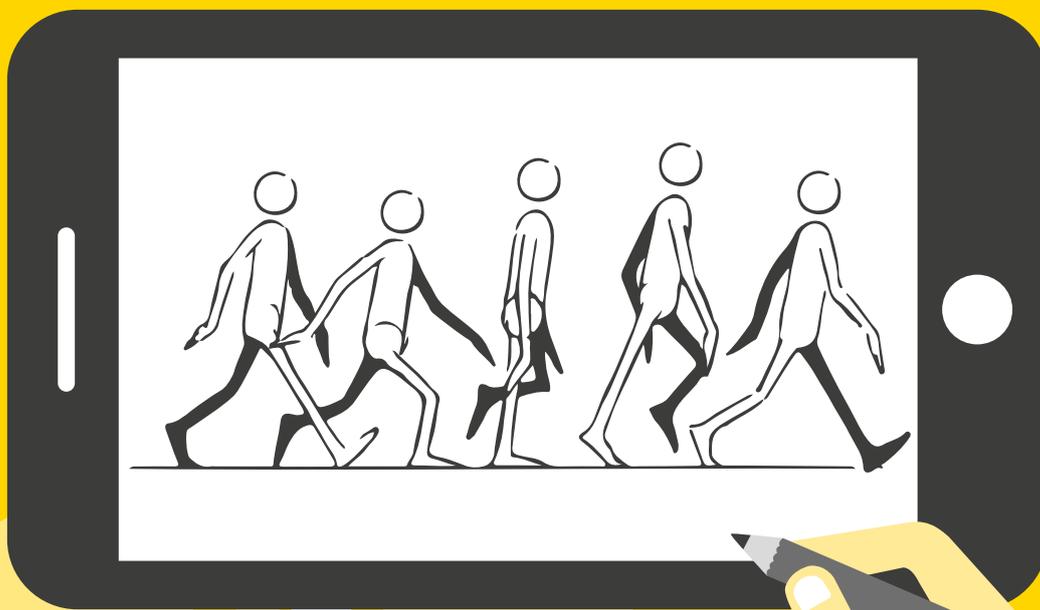
For the growth of this industry, Tax structure should be improvised and there should be more clarity in terms of Government Regulations.



Arpita Kapoor
CEO, Mech Mocha

If technology collaboration under FDI is opened up in Gaming then the Indian Gaming companies will benefit immensely from International best practices.

Animation and VFX



The animation and VFX industry has grown significantly over the years, not only supporting the growing Indian M&E sector but also serving the world. In 2017, the industry grew by 23% to reach INR67 billion.

	CY16	CY17	CY18E	CY20E
Animation	15.0	17.0	18.9	23.2
Post-production	15.9	18.3	20.9	26.9
VFX	23.2	31.3	40.6	63.5
Total	54.1	66.6	80.4	113.6

Amounts are gross of tax, in INR billion

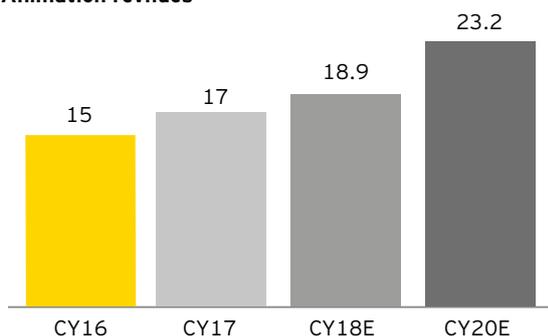
Animation

India has emerged as a key animation development market.

The growth of the industry is expected to get a boost as Hollywood studios tap India's large pool of low-cost, English-speaking animators who are familiar with the western culture. The present trend of increased consumption in tier II and tier III Indian cities is creating even more opportunities for the industry.

The animation sector in India has been growing at a steady pace over the past few years and reached INR17 billion in 2017, registering a growth of 13% over 2016. It is expected to grow at a CAGR of 11% till 2020.

Animation revenues



INR billion (gross of tax)

Growth in the animation segment within the M&E industry is driven by:

- ▶ The increased share of domestic content in TV and related growth in domestic TV animation. This trend is expected to continue for another 2-3 years as there is going to be very high demand for varied domestic content across broadcast channels.
- ▶ The emergence of global digital platforms such as Netflix, Amazon and VooT and their associated spend on content, globally and in India.
- ▶ Large animation studios picking up end-to-end animation jobs and outsourcing less intensive parts to smaller studios in non-metro regions, leading to growth of many niche animation studios with turnover below INR300 million.

Indian animation landscape is driven by television and film

The animation market in India is led by content it creates for television, film and digital platforms. The film segment in the domestic market is nascent; however, Indian animation houses are working on parts of various Hollywood animation features.

Animation in international broadcasting – growing destinations

The volume and quality of offshore work for broadcast companies increased in 2017. Repeat business and cost-reduction initiatives of international broadcasters are expected to further spur animation offshoring. India is now attracting work from geographies such as France, Germany and the Middle East, other than just the Americas and the UK, thus driving up the volume of international TV productions outsourced to India. Indian animation producers have also begun to create original IPs for a global TV and digital audience, commissioned by international studios and distributors.

Animation in domestic broadcasting – leading the charge for differentiation

India has a population of 373 million in the age group of 0–14¹. The reach of the global animation industry on television in India has given kids of different age groups a choice from 350 plus animation shows.

However, broadcasters in India are increasingly looking at creating differentiation and long-term stickiness with their audiences, and that led to an increase in the percentage of domestically produced content on TV channels in 2017. IPs such as Chota Bheem and Motu Patlu have set the benchmarks, and led to both broadcasters and content production houses looking at creating sustainable IPs for both Hindi and other regional markets.

On the downside, the commissioning model designed by the broadcasters in India make them retain the IPs. Therefore, the creators/animation studios sometimes do not see much monetization potential in the long run. This trend has started to change in certain cases.

Animation in international movies – India moving up the value chain

In 2017, there were a number of movies where Indian animation companies played a more prominent role, by executing larger and end-to-end projects on an international scale – giving both advantages of billing and margin enhancement. This escalation of India in the animation value chain was led by 3D animated characters, motion capture integrated animation work, end-to-end production sequences etc.

The key change driven by moving up the value chain is that India is differentiating itself from other destinations (such as China and Malaysia) by demonstrating better understanding of western sensibilities and smoother execution owing to a largely fluent English-speaking workforce.

The nature of contracts has also changed from fixed-fee deals to co-production, revenue share and licensing arrangements. Initially, the revenue share was based on territorial rights with Indian studios ending up with less attractive sub-continental rights. Currently, co-production deals are being struck by select studios on a global revenue share model. This is enhancing the ability of studios to undertake large movie projects.

Cost arbitrage is still the key driver for animation of foreign movies in India. Our discussions indicate that the cost of producing a full-length animated movie in the US is US\$71 million- US\$106 million, whereas the same work can be produced in India at US\$13 million- US\$22 million, a saving of approximately 80%.² Many western countries are actively looking at destinations like India to develop animation movies with moderate budgets.

Animation in domestic movies – the struggle continues

The domestic animated movie market is around one to three movies a year, some of which would be film franchisees of TV animated content. In 2017, there were just two such film releases², including Hanuman: The Dumdaar. Such films typically do not always work, as:

- ▶ Audiences are used to content of international standards and hence have not taken to Indian animated movies, many of which were produced in 2D or low-end 3D animation.
- ▶ In India, animation is still perceived to be a kids-centric entertainment medium and thus fails to attract crossover scripts, which leads to limited audiences and box office collections. This situation can be improved with better production budgets, scripts with a wider appeal and larger distribution.
- ▶ Most films have been produced within INR100 million, and had miniscule marketing budgets as well.

Animation in digital – led by children's content

The proliferation of digital platforms such as Netflix, Amazon Prime Video and VooT in India and their associated spend on content is increasing business for animation production houses in India. Amazon Prime Video partnered with the likes of Green Gold Animation to commission exclusive animated series of its popular IPs such as Chota Bheem. Netflix signed Green Gold to produce Asia's first Netflix animation original with their own IP - Mighty Little Bheem - to be syndicated in over 190 countries. Kids' entertainment channels and online offerings such as YouTube Kids and Sony LiV Kids are also targeting audience in this age group.

1. World Bank data, accessed 24 October 2017.

2. Industry discussions

Since the digital industry in India is still new and evolving, the creators and animation studios get to retain the IPs, which is an advantage for them and they can monetize the IPs by merchandising, syndication etc. in the long run.

Content consumption on YouTube has grown significantly in the last year, thus increasing the demand for direct to consumer content. The consumption medium for animation shows is shifting toward online modes. Various entertainment providers are using video upload platforms to increase viewership. Various channels such as ChuChu TV, Oh My Genius, CVS 3D Rhyme and Wow Kidz feature among the top viewed networks/channels on YouTube offering kids entertainment.

Animation in advertising – driven by digital ads

Domestic driven business drives over 90% of this line of business, given the quick turnaround required in advertising projects. In 2017, the growth in digital advertising, both banners and video, increased the demand for linear ads to be re-created digitally. The proportion of animated ads today is less than 5%, but the share is beginning to grow³.

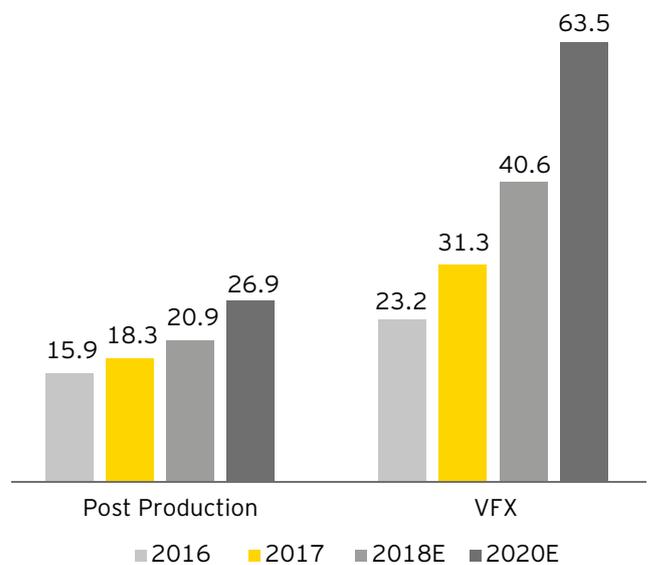
Animation in gaming – “made in India” game art

Animation houses and art outsourcing firms cater to game art for gaming development – and outsourcing of this game art to India is increasing. While earlier, the game art was being developed for high-end gaming on PC and consoles, with India’s prowess in mobile platforms, and global growth of mobile gaming, more and more game art for mobile games is being outsourced to India. India has built a niche for 3D art, while China is well known for 2D animation.

Game art can range from extremely basic backdrops for use in social media games such as Farmville on Facebook, to games for the PlayStation and Xbox 360, such as Counter Strike, FIFA and Halo. Various tech giants have also extended their offerings to the gaming industry. Amazon has its own game engine Lumberyard, allowing developers to use it for a number of feature additions to their games. Google is also offering developers to incorporate VR technologies into its games.

VFX

Proliferation of platforms, growth in audience and consumption spike due to falling data rates have contributed to high demand for content. Last year witnessed a surge in content production for various platforms, and consequently the demand for post-production also increased. In particular, VFX, which enhances the visual quality of content and brings about differentiation by special effects, was much in demand.



Increase in domestic demand

Sequels need differentiation

In 2017 the trend of sequels to successful franchises continued. Sequels, however, demand differentiation from the earlier film. Differentiation of visuals is one way to achieve that, which also creates more buzz and pull during the opening weekend. This leads to an increase in budget allocation for VFX with movies. In 2017, VFX-heavy films included Tiger Zinda Hai where shots like Salman Khan fighting the wolves and Padmaavat where the heroine’s midriff was seen covered – thanks to VFX, the need to re-shoot the song was eliminated.

In 2018, Salman Khan will be teaming up with Ali Abbas Zafar for the third time for a movie titled Bharat. The actor will be portraying five different looks with the help of prosthetic and VFX in the film, which covers 70 years, beginning in the 1940s. Shah Rukh Khan is prepping up for his upcoming Anand L Rai directorial “Zero” which is going to be high on VFX and CGI effects. The actor will use VFX to look like a dwarf in the film. The trend is expected to continue for the year to come. Sequels like Kick 2 and Race 3, which have higher VFX budgets, have already been announced.

More 3D releases = more conversion work

Additionally, there is a trend of Indian movies wanting to be released in 3D, leading to an increase in the amount of conversion work. Unlike most "big-budget" Indian movies, Padmaavat has been released in 3D largely to provide a grand experience to the audience.

Regional demand on the upswing

The Baahubali effect has brought to the fore regional potential and is expected to lead to a spike in VFX budgets in regional and crossover films. For instance, in Baahubali – The Beginning, out of the total INR3 billion budget, INR850 million was spent on VFX³. Baahubali: The Conclusion, released in April 2017, used 33 animation studios for VFX post-production, working over a span of 15 months⁴.

This is also helping VFX houses to set up and grow. The upcoming Tamil-language sci-fi thriller "2.0" featuring Rajinikanth and co-starring Akshay Kumar is reportedly one of the most expensive films in the history of Indian cinema and has used a substantial amount of VFX. The filmmakers have identified 1,000 shots from the film and used 10 different VFX companies.

High visual appeal drives demand from GECs

The success of Bajirao Mastani has also spurred period dramas, which are heavy on VFX. This is especially significant on GECs, where shows like Porus and mythological serials are increasing in the number of VFX-dominated shots. Audience demand for better quality content on the back of exposure to dubbed international content and the Hollywood rub-off effect in terms of computer imagery has also led to the CGI component growing for special effects.

While film VFX work is time consuming and creatively intense, broadcast work is speed oriented and highly repetitive. Boutique firms do the bulk of the VFX work for broadcast. Despite the difference in work and organizational structure, the salaries and cost of production are the same in film and broadcast work. Most of the work is done as season packages and is bundled for a 24-episode season.

Increase in content commissioned by digital platforms

Amazon and Netflix have commissioned exclusive digital shows in India, which has boosted demand for digital content with high-quality VFX. Additionally, international Netflix series also have outsourced VFX projects to India. Smaller post-production houses have also started opening channels on YouTube, leading to additional revenue streams on advertising. Many theme parks and entertainment centers are being opened and this will increase opportunities for studios for simulations/visualizations/7D and 4D theaters. This will greatly help boost smaller VFX studios.

India making its mark as a VFX offshoring destination

Global captives setting-up shop

India has become a destination choice for many captives. Technicolor is expanding its workforce and VFX global giants Double Negative and Digital Domain have set up offices in India. 2017 witnessed a huge demand for talent from these captives and the industry is expected to hire about 2,500 to 3,000 personnel in the coming year. In early 2017, The Mill, Mr. X and Mikros Image made their India entry under the Technicolor umbrella, and the launch of Technicolor India Production Services (known by its acronym TIPS) has offered a new bespoke VFX platform to these Technicolor brands to ramp up studio operations in India. Digital Domain Holdings, which runs one of the largest independent visual effects company, is ramping up its international expansion with the opening of a new studio in India in Hyderabad. It is the 5th studio and the 10th location globally for the company, which earlier this year had opened facilities in Beijing and Hong Kong.

Tapping into India's demand

Combined with the recent projections for smartphone growth and mobile bandwidth expansion, the people of India are primed to demand and expect premium content. The demand is in line with Digital Domain's efforts to expand into virtual reality content and services. Its Canadian subsidiaries, Immersive Ventures and IM360 Entertainment, are involved in creating original virtual reality content.

3. "Adding to Baahubali's magic: doing it with VFX," Hindustan Times, <http://www.hindustantimes.com/education/adding-to-baahubali-s-magic-doing-it-with-vfx/story-606BEi2UGftOYqpsb4xWHN.html>, accessed 24 October 2017.
4. "The curious case of Indian animation," The Hindu, <http://www.thehindu.com/entertainment/movies/the-curious-case-of-indian-animation/article17646834.ece>, accessed 24 October 2017.

India going global and gaining VFX market share

The VFX budget of a movie is dependent on the type of movie (size and genre). Globally, the indicative range of VFX budgets to production budgets are as follows:

Type of film	Production Budget	VFX Requirement	VFX Budget
Independent Film	US\$5 - 15 mn	Minimal	US\$ 1 - 3 mn
Mid range	US\$50 mn	Moderate	US\$ 10 mn
Big Budget (typically top 20 movies of the year)*	US\$100 - 150 mn	High	US\$30 - 50 mn

*Note: Depending upon the genre of the film, some big budget films have VFX budgets in the US\$60 - 100 mn range

India's share of budget and quality of services outsourced has improved thanks to the captive talent that works in India as an extended arm rather than an outsourced provider. India has evolved in terms of skillsets, and movement of talent has helped local/domestic studios command a larger share of the global VFX pie. Technicolor India believes in providing end-to-end solutions and not just operating as a low-cost outsourcing studio, and the same model could be observed with TIPS VFX.

Indian studios are expanding globally to tap into international projects and markets. Prime Focus has expanded globally by setting up post-production studios as well as acquiring other post and VFX services studios in markets in Europe and Canada to deliver end-to-end work on international projects.

VFX in advertising leveraged for greater impact and improved look and feel

Industry interviews indicated that technologically, Indian TVCs were at par with international markets except for niche sound effects. Recently, the advertising industry has been increasing its use of VFX. The advertising industry can benefit immensely through VFX in the form of cost savings - a commercial that typically costs INR3.5 million can be made for INR2.4 million if VFX is used judiciously.

VFX helps brands to create ads on a grander scale to break the monotony among the clutter of ads in digital space as well on TV. For example, the ad "Ranveer Ching returns" was claimed to be the most expensive ad film ever made with an advertising budget of INR750 million, similar to that of a mid-size Hindi film. The ad was directed by renowned filmmaker Rohit Shetty and showed a dystopian future where the lead actor rides a chariot into an arena to combat hunger and save the people from starvation. Supported by YRF, the five-minute ad registered more than 6 million views on YouTube alone upon its release. NY VFXWAALA was responsible for creating the dystopian city.

Our understanding is that only 30%-40% of VFX is given to a third party, while the remaining is carried out in-house by the advertising production companies.

India as an outsourcing destination for animation and VFX

International projects account for over 70% of revenues

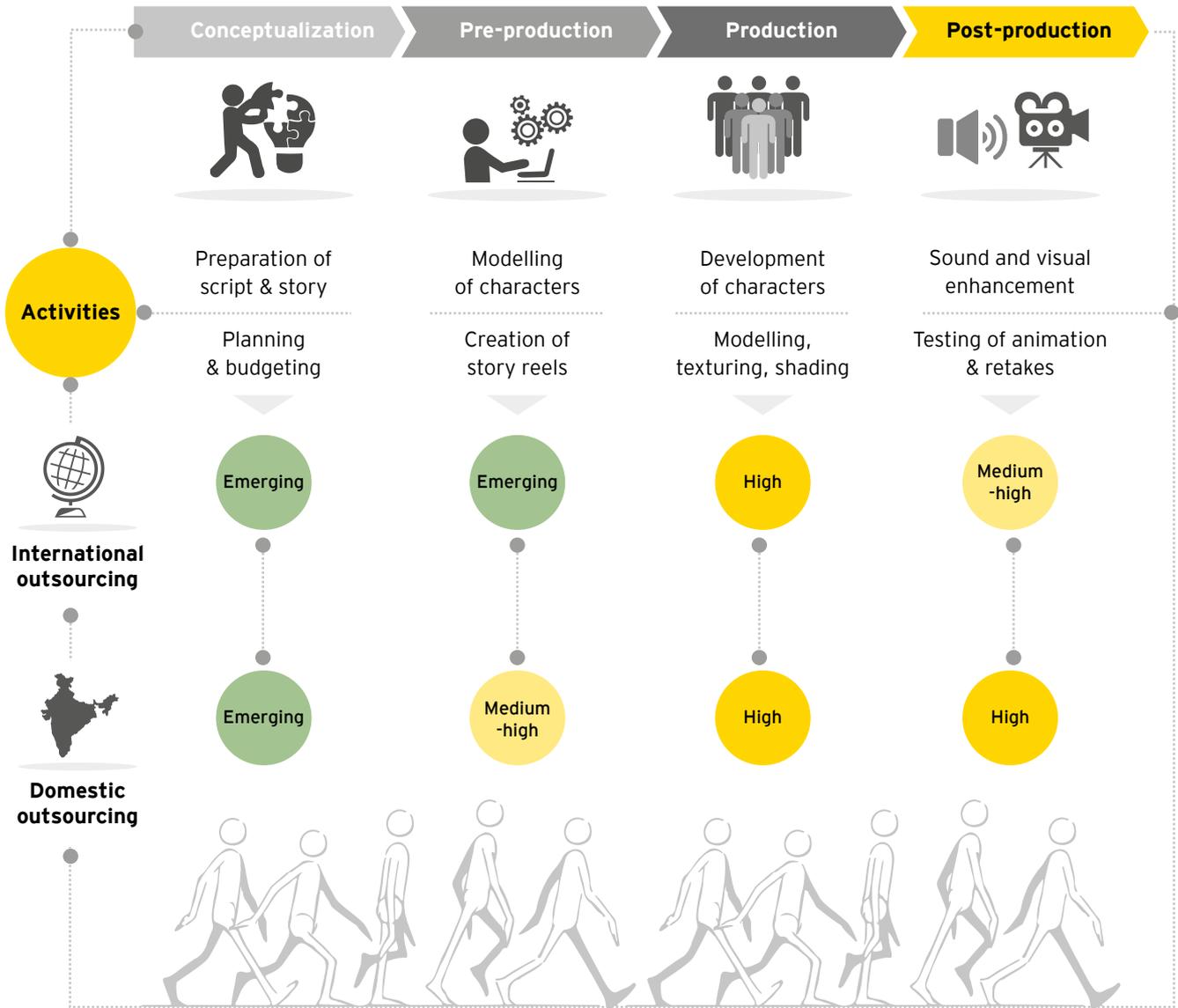
The Indian share in the global animation industry is less than 1%; however, it is expected to increase in the coming years⁵. Yet, international projects account for 70%-80% of the Indian industry revenues⁶.

Indian animation studios and companies are moving up the value chain and have started to create their own intellectual property rights. Global conglomerates such as Sony, Walt Disney and Warner Brothers have been outsourcing animation characters and special effects to Indian companies. The animation industry is 70% art and only 30% technology, leading to small enterprises driven by the passion of art bagging prominent deals.

India has been a popular destination for foreign production houses to outsource 3D animation projects and is increasing its market share in the segment. Indian animation studios are increasingly developing content for global consumers via online platforms such as Apple iTunes, Android, Netflix and Microsoft store.

5. "Karnataka's new animation & gaming policy to offer sops to bring in high-end tech to B'luru," Economic Times, <https://tech.economictimes.indiatimes.com/news/technology/ktaka-opens-field-for-gaming-cos-with-new-policy/57051201>, accessed 24 October 2017.

6. "Does India's Animation Industry Owe Its Success To Baahubali?" Huffington Post, http://www.huffingtonpost.in/2017/06/20/baahubali-effect-the-phenomenal-growth-of-indias-animation-ind_a_22491164/, accessed 24 October 2017.

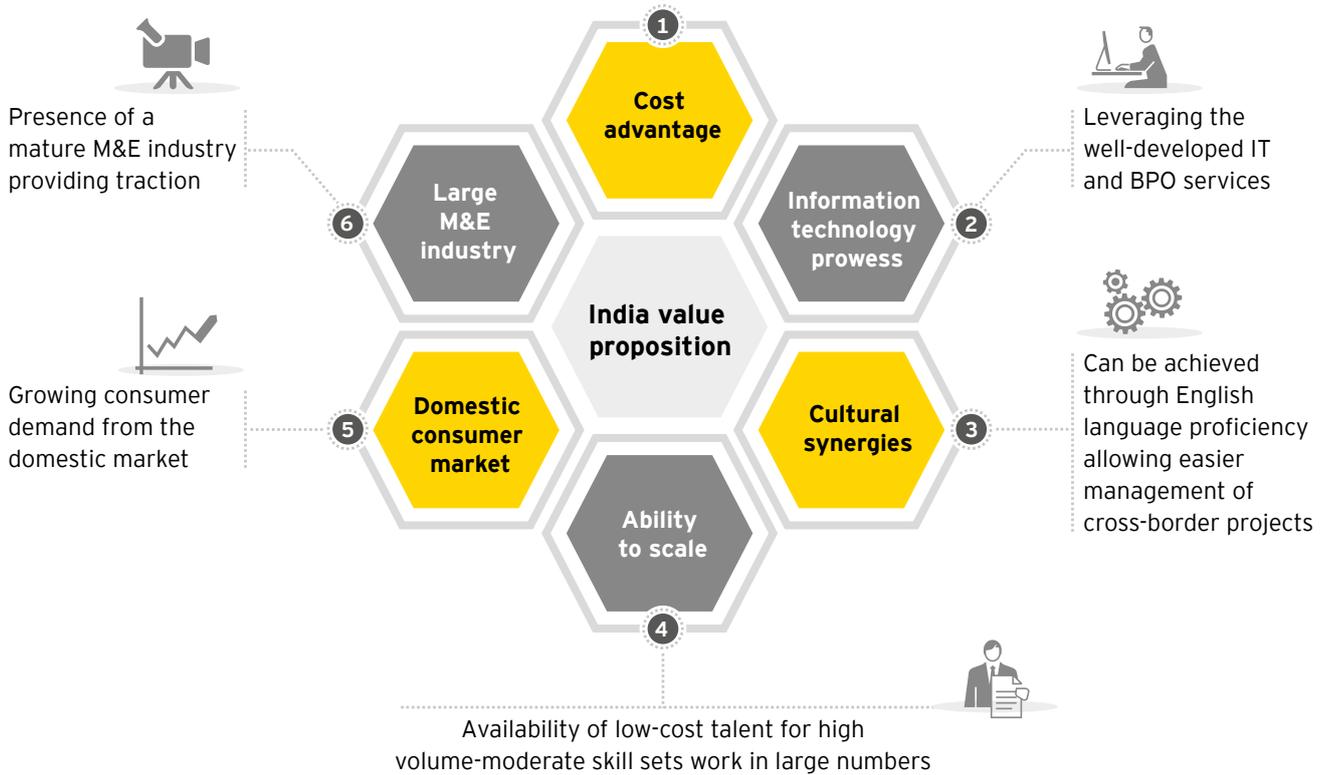


Source: EY analysis

Governments of various states such as Maharashtra (allocation of land for setting up the National Centre of Excellence for Animation, VFX, Gaming and Comics), Karnataka (policy design to include digital art education in curricula of certain fine arts schools) and Telangana (planning to set up an incubation center in Hyderabad) have announced/planned policies in support of the animation industry. Such initiatives will enable the Indian animation industry to effectively compete with established markets such as the US and Canada and tackle competition from emerging centers such as South Korea, France, China and Malaysia.

India's value proposition - lower cost and higher quality

High quality animation and gaming content can be created between one-sixth and one-fourth of the cost of production in the developed markets such as the US or the UK internationally as home markets are stagnant or over-saturated



Source: EY analysis

Cost advantage

The cost of 2D animation production in India is approximately one-fourth of that in North America and about 20%-25% lower than in countries such as Korea and the Philippines. The key countries outsourcing animation production work to India include the US, the UK, France, Italy and Spain.

Comparative estimated costs for 30 minutes of animated content (in US\$)*

Content	India	Korea and the Philippines	North America
2D hand-drawn	45,000-50,000	60,750-67,500	180,000-200,000
3D	90,000	121,500	360,000
Backend production	200,000	270,000	800,000
Flash animation	20,000	27,000	80,000

*Can vary depending on studio and nature of work

Source: Industry discussions

Ability to scale

Animation studios in the country provide a large pool of low-cost, high-quality software engineers. A number of Indian animation companies have set up high-tech studios (equipped with state-of-the-art hardware and software) to execute overseas projects.

English language proficiency

A large English-speaking workforce in the country helps effectively overcome the language barrier. A number of animation companies in the country are also creating skilled manpower for the animation market through various training programs.

Developing training infrastructure

Numerous individual training programs are available from leading advertising and media institutes in the country. These institutes offer various programs in animation and digital production. The Kerala Government helped Accel Animation Studios establish the KINFRA Film and Video Park - the largest motion capture facility in Trivandrum. The focus of this park is on infotainment with investment opportunities in video studios, outdoor shooting facilities, animation and special effect studios, CD/DVD services, teleport facilities and digital cinema production. The park also has an exclusive "animation zone" and a proposal for an animation school is underway⁷.

Augmented reality (AR) was used for marketing movies such as Ferrari Ki Sawari and Nenu Raju, Nene Mantri. In view of the growing popularity of the medium, the Indian Government has decided to start a new AR institute at Varanasi in public-private partnership mode.

All these developments will drive significant growth, both in terms of revenue and participation in the value chain, and will position India as a leading country in animation production and outsourcing.

Creating a positive regulatory environment⁸

An overall favorable regulatory environment for the M&E industry is likely to provide a boost to the animation sector as well. Some of the recent initiatives by the Government are detailed below (the list is indicative):

Central initiatives

The Government of India has increased the FDI limit from 74% to 100% in the sector through the automatic route, provided it is in compliance with the Reserve Bank of India guidelines. The Government has also granted industry status to the film industry for easy access to institutional finance.

The Government has carved out a National Film Policy to tap the potential of the film sector mainly for the animation segment and has agreed to set up the National Centre of Excellence for Animation, Gaming, Visual Effects and Comics industry in Mumbai.

The Indian and Canadian Governments have signed an audio-visual co-production deal that would help producers from both countries to explore their technical, creative, artistic, financial and marketing resources for co-productions and, subsequently, lead to exchange of culture and art among them.

7. "KINFRA Parks," Kerala Industrial Infrastructure Development Corporation, <http://kinfra.org/departments/kinfra-film-video-park-kazhakkuttom>, accessed 24 October 2017.
8. "Media and Entertainment," Ministry of External Affairs, Govt. of India, http://indiaibusiness.nic.in/newdesign/index.php?param=industryservices_landing/381/3, accessed 24 October 2017.
9. "Karnataka Govt. Looks to Help 100 Startups through ELEVATE 100," Inc42, <https://inc42.com/buzz/karnataka-elevate-priyank-kharge/>, accessed 7 December 2017.

Karnataka

The Government of Karnataka has launched the ELEVATE 100 program to boost start-ups in the state. The program aims to identify 100 of the most innovative start-ups in the field of animation, IT, biotech, agritech, manufacturing and pharma. At present, the ELEVATE program is supported by a US\$61.7 million (INR4 billion) fund⁹.

The Government of Karnataka announced the Karnataka Animation, Visual Effects, Gaming and Comics Policy (Next Gen KAVGC Policy), addressing the areas of skill development, infrastructure growth, ecosystem expansion, marketing support as well as financial concessions and incentives. Since talent is the backbone for the creative sector of AVGC, the new policy focuses heavily on skill development with initiatives such as industry-led finishing school and a proposed Centre of Excellence in partnership with a premier global institution.

The new KAVGC policy also offers financial concessions and incentives in the form of venture funds for start-ups, proof of concept grants for original IP and production grants to support studios to invest back in manpower and technology resources to make them competitive on the global as well as domestic stage. Additionally, it also aims to increase the number of Digital Art Centres in Karnataka from 7 to 50 to implement digital art and animation curriculum in select fine art schools across Karnataka¹⁰.

The Karnataka Government announced a grant of INR25 million for IP in the animation sector with the aim of developing outstanding content for a global audience from Karnataka. It will provide a grant of up to INR5 million to each of the IPs in the field of animation to promote the creation of original content that will showcase top-notch storytelling effects. The grant to IPs in animation will be part of the Idea2PoC initiative, which was launched by the Karnataka Startup Cell. Idea2PoC is part of the multi-sector startup policy of Karnataka¹¹.

Maharashtra

The Maharashtra Government has also come up with a number of provisions in its IT/ITeS policy to promote the AVGC sector, including attracting global companies, focusing on legal framework for intellectual property creation and protection.

The Maharashtra Government announced a project to set up India's first training institute dedicated to animation, visual effects, gaming and comics for which 20 acres of land is to be allocated in the Goregaon Film City premises. The project has received a green signal from the Government and it will be brought up in collaboration with the Union Ministry of Information & Broadcasting. The institute will be named the National Centre for Excellence for Animation, Visual effects, Gaming and Comics, which will be set up and run by the Indian Institute of Mass Communication¹².

The state government also intends to set up two AVGC parks in Lonavala and Pune.

Telangana

The Telangana Government is also actively promoting the AVGC sector and is planning to set up an incubation center IMAGE (Innovation in Multimedia, Animation, Gaming and Entertainment) in Hyderabad. It laid the foundation for the IMAGE Tower, which is planned to have a built up area of 1.6 million square feet and will be functional by 2020¹³.

Telangana's Information Technology, Electronics and Communications Department has signed an MoU with Vancouver Film School (VFS), Canada, to create a satellite campus of VFS in Hyderabad with a vision of creating an ecosystem for Creative (AVCG) Sector. The institute will offer programs in animation, VFX, game development and film, which will provide skills to students, at par with international industry standards¹⁴.

Gujarat

The Gujarat Government has also come up with a number of provisions in its IT/ITeS policy to promote the AVGC sector. The state government also intends to set up AVGC parks.

10. "Karnataka unveils policy to propel Bengaluru as a global hub in AVGC," The Hindu, <http://www.thehindu.com/news/national/karnataka/karnataka-unveils-policy-to-propel-bengaluru-as-a-global-hub-in-avgc/article19545916.ece>, accessed 8 December 2017.

11. "Karnataka sets aside Rs 2.5 Cr for original IPs in animation," ET Tech, <https://tech.economictimes.indiatimes.com/news/technology/karnataka-sets-aside-rs-2-5-cr-for-original-ips-in-animation/58675069>, accessed 8 December 2017

12. "Maharashtra govt sanctions 20 acres of land for AVGC training institute," AnimationXpress, <http://www.animationxpress.com/index.php/latest-news/maharashtra-government-20-acres-avgc-training-institute>, accessed 8 December 2017.

13. "Foundation for IMAGE Tower for multimedia, animation laid," Times of India, <https://timesofindia.indiatimes.com/business/india-business/foundation-for-image-tower-for-multimedia-animation-laid/articleshow/61518178.cms>, accessed 9 November 2017.

14. "Telangana Govt. signed MoU with Vancouver Film School (VFS)," IT Electronics & Communication Department website, <http://it.telangana.gov.in/telangana-govt-signed-mou-with-vancouver-film-school-vfs/>, accessed 8 December 2017.

Imperatives for growth

Development of human capital

Talent pool

There is absence of employable resources primarily due to low awareness of animation as a career. More so, there is a difference between skills in animation tools and creative skills, the latter of which the industry lacks at large. Lack of skill sets is cited as one of the reasons why services such as character development and high-end animation movies are not offshored to India.

Education infrastructure needs scale

There are only a handful of good schools in India that team animation, illustration and design. The education or training provided by many small animation and VFX training institutes in India is basic and emphasis is paid usually on the technical/tools aspects. Training for custom requirements is lacking, which reduces the ability of Indian professionals to engage in innovative and high-quality projects. There is also no standardized and widely accepted, up-to-date quality curriculum across the few institutes in India.

Standardization

The education industry needs to see standardization of higher education in arts, creative and animation to create recognized degrees for recruitment. The gap between educated students and employable workforce has to be bridged. This is especially significant in higher education as the talent is scarce on the top of the pyramid especially for creative directors, animation producers etc. Standardization will help define faculty, syllabus and infrastructure requirements, thereby enabling leading education institutes to offer high-end animation courses with a recognized degree.

Placement focus

Many smaller animation education institutions focus on enrolment but lack the facilities to cater to placements or recruitment. If the focus on market placements is increased and students can be facilitated along with industry support, the huge gap can be bridged.

Recommended initiatives

The following initiatives are recommended to enhance the availability of manpower and improve skill sets:

- ▶ Setting up of special areas or zones to create an ecosystem where it becomes easier for animation companies to set up shop, find talent, raise funding and proliferate and learn from best practices employed by other companies within the ecosystem
- ▶ Standardize the curriculum for animation and gaming education across the country
- ▶ Implement policy measures to enable skilled expert talent to be easily hired in India to train resources

Media & Entertainment Skills Council

FICCI has been championing the cause of talent through the Media & Entertainment Skills Council (MESCC), which is a not-for-profit organization, registered under the Societies Registration Act, 1860. The Council has been promoted by FICCI with financial support by the National Skill Development Corporation (NSDC). MESCC has a mandate to create approximately 1.2 million skilled workforce by 2022 and contribute to the National Skill Mission of creating 500 million skilled workforce by 2022.

Many institutes are being opened by government as well as private players that will increase the quality and originality of the work produced in India.

Financial constraints and support

In India, more financial allocations are required compared to international studios for animation productions. The higher costs of production of animated content for TV versus the conventional daily soaps, poses a threat for the relative profitability of animated shows. Moreover, the time needed to produce good-quality content using animation or VFX typically outweighs the benefits of using it in the daily TV schedules¹⁵.

There is a dire need to streamline investments into the industry both from banks and private equity. Many smaller studios are struggling to scale with demand due to the lack of funds. Initiatives are required to showcase the potential of the industry to investors and also market their capabilities globally. A common investment platform/investment fund for start-ups etc. could benefit animation studios. These funds can be used to create IPs, invest in talent and keep projects and smaller studios afloat and sustainable.

15. "Indian animation and VFX industry is getting bigger and better," Economic Times, https://economictimes.indiatimes.com/industry/media/entertainment/media/indian-animation-and-vfx-industry-is-getting-bigger-and-better/articleshow/58896119.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst, accessed 9 November 2017.

As compared to nations such as the US, the UK, China, Japan, Malaysia and Canada, the Indian animation industry lacks government support in the form of tax rebates, grants or favorable policies. This enables other countries that offer better benefits to the movie studios to gain additional business. It also decreases the bargaining power of the domestic animation providers with the international studios.

Rebates by governments in foreign countries affect India's competitiveness in the movie business. Canada offers tax rebate and labor incentives. The UK, Malaysia, UAE and Eastern European Countries offer a production rebate that positively impacts the producers to allocate funds better. Also, India competes with Malaysia, China and Singapore for animation markets in Asia. These countries have the advantage of being heavily backed by the Government for investments and R&D benefits.

The Government could consider providing a tax holiday to the animation studios so as to encourage investments in this sector. Grants and rebates should be provided to studios engaged in cutting-edge development work and foreign studios looking to set up large-scale units in India. Tax breaks and incentives to the domestic industry can go a long way in rebalancing the dynamics in favor of India.

Need to invest in domestic animated franchises

The Indian market has not been receptive to domestic animated films, with only a handful of releases in 2017, which saw a lukewarm box office response. In the country, the domestic market consumes an estimated one-third of the entire production of animation and related works. This is contrary to the robust performance of Hollywood content, pointing toward a need for investing in local animated franchises. Every year, many Hollywood movies from established franchises that have gained an audience in the country over the years are released to much acclaim and box office success.

VFX needs to deliver more value than just a post-production service

VFX in India is still primarily an "after-production thought." Hollywood films involve the VFX unit at every stage of the film especially pre-production so as to get the correct inputs and detailing during film production. This in turn increases the quality of the VFX work done during post-production.

Unlike animation, VFX offshoring is still at a nascent stage except for captives and globally integrated studios. Smaller studios wanting to compete in the global arena have to enhance skill sets and deliver superior quality work to establish credibility. The flow of low-end rotoscoping and wire removal work in volumes has been happening for the past few years. However, the margins will largely come from higher-end work, which smaller studios have to scale to in order to compete with captives.

Creating a VFX technology powerhouse

VFX tools and technologies need to be created, which can enable a differentiation versus international service providers. For example, International Studios developed early IP for water sequences by which underwater imagery can be created using proprietary software tools. Digital creation of such tools and technologies requires risk taking, skilling and training and unless such technical IPs are created, VFX will always remain a support industry. In the immediate term, a heavy focus on AR and VR is needed. Investments in labs focusing on fictional narration and storytelling are a must. Jio Studios is the first company to make huge investments in VR technology in India. By 2020, most phones could come with a VR headset.

Vision to consolidate

The following key strategic levers can further spur the momentum of growth in animation and VFX in India:

Development of original IP: Indian animation studios have now evolved up the value chain to develop IPs for both Indian and global markets. The focus on original IPs along with growth in related revenue streams such as licensing, syndication and merchandising can tremendously boost the standing of the Indian animation industry.

Monetization of content with direct-to-consumer offerings generates advertising revenues and possible transaction opportunities and holds huge potential for the future given the growth of digital penetration.

The industry is already seeing domestic offshoring of work, which is very positive for the entire ecosystem.

Efficiency drivers such as RPA, auto formatting, text to speech and speech to text can drive significant efficiencies in operations and enhance competitive advantages, apart from preventing higher-cost nations from becoming more cost competitive.

Investment in new entertainment distribution formats from an early stage - across AR, VR, film exhibition, 8K etc. - will enable co-development of technology and service offerings and increase India's share in the international VFX market

M&A deals for scale - with foreign investments - would enable Indian animation and VFX companies to scale up and compete more effectively in the international market.

Overall, the next three years and beyond are exciting times for the animation industry and can potentially see India emerging as an animation powerhouse.

Animation for all ages



Ashish S K

Chairman, FICCI Animation, VFX, Gaming & Comics FORUM & Founder, PUNNARYUG.

Animation in most of the parts of the world is centred around kids. The struggle to move up the value chain and redefine Animation content as family entertainment genre has been a challenge. Animation to grow in acceptance and increase its market share the inclusion as family entertainment is inevitable. While kids are the true building blocks of any nation, while we embark on the journey of creating "Ek Bharat, Shreshtha Bharat, Swaccha Bharat" overall development of kids in India needs to be looked at with a more serious approach.

In today's time and age when world is becoming a smaller place, time zones and distances are no more a barrier. There is an overload of information that is thrown on us every minute and hence the relevance of information at the right time become crucial. 'Right Information' at 'Right Time' is something that we should spend some time discussing which will help the kids consume, understand and appreciate better. In India Kids content is scarce or let me state that it really doesn't exist if one compares the kind of right culture, history and heritage we have as a country. Perhaps we in India have more Hero's, super Hero's, characters and winners and most part of the world. But we hardly celebrate them in our country, we have hardly written stories about them and tried to narrate them to the world. They say 'it's never too late'. Need of the hour is to have an exclusive kid's public broadcasting channel that will focus on original animated content for kids. This platform will help in populating and celebrating our Hero's & characters thru stories that will make us and our kids proud to be Indians. Our kids will get exposed on Indian History, Indian Culture, Indian Folk

tales and Indian Traditions before they get trapped under the world wide web (www). They will be far more informed and appreciative of India than what they are today.

While we understand the globalisation era and appreciate the exposure that our kids may get thru foreign content, all we had been asking is a right balance between foreign and Indian animated content.

How can we dream of building a strong nation when the value systems of today's Indian kids are being moulded and based on foreign culture as reflected in these shows.

Our kids will be unable to understand and appreciate the cultural diversity of India due to erosion of sense of belonging and unable to associate with our cultural roots.

While kids relish the animated content the acceptance of animation content in the GEC and News network will immediately broaden the viewer base and market size.

This will also result into death of rich art forms and culture, heritage, mythology which prevailed through centuries in our own history that constitutes the belief of India as a country.

How the content policy change will help:

1. Promote responsible programming in Animation content space.
2. Provide free access of kids' programming in cable dark areas.
3. Emphasize on entertainment with education and vice-versa.
4. Promote rich Indian culture, History and Tradition.
5. Expose Animation thru our rich heritage of art, music, mythology and customs.
6. Animation content to find space on GEC networks and new networks

This will also enable Indian animation content providers sell global rights and take our story overseas and populate our culture and tradition across the world.

Now, having looked at the problem, the possible solution and its merit are very clearly visible.

Few critical and simple steps like Prasar Bharati starting a kids digital terrestrial free to air channel (A kid's public broadcasting channel) to start with will immensely help.

We believe Prasar Bharati as a platform can play a pivotal role in the process.

Most of the successful countries globally who have promoted kids content in the best manner have followed this process and results for them has been astounding. With its widest reach the public broadcasting kids channel with the right kind of programming for kids will be able to lead the way and create a path for nation building just as other successful countries have public broadcasting services for nurturing kids and preparing them for future.

The outcome will not only be confined with development of kids, but will create a huge splash in the overall development of the animation sector in India.

Some of the tangible benefits of this are given below:

- 1. Indian animation industry will produce more IPs*
- 2. Create new creative & techno-creative job opportunities and new revenue stream*
- 3. Produce local and relevant content*
- 4. Employment opportunities for rural, tribal youth and artisan who are skilled with local art forms giving fresh lease of life to the dying Indian art forms*
- 5. Provide a healthy alternative to kids' formal learning tools.*
- 6. Lay a strong foundation for animated content to grow organically to all ages.*

With its unmatched penetration in comparison to the cable & satellite channels a public broadcasting kids channel will surely position itself as a differentiator. Quality animation programming will also generate more viewership in all ages and thus attract more advertising revenues.

This is probably the only way to strengthen the AVGC industry & bring about sustainability stability and growth to the artist community and other stake holders. What used to be the cost arbitrage and sometimes the skills arbitrage that attracted services work to India in the past has moved to other Asian countries. Lack of adequate policies for the AVGC sector in India which is still in its nascent state is the root cause of this situation. A strong national policy as well as state level policies to support the creative, art & performing arts industry is a need of this hour.

The aim of this initiative should be to educate children with our rich and vibrant culture and expose them to cultural diversity of India along with quality entertainment. At the same time create a sense of application for artistic and animation story telling amongst the all ages.

The creative, art and performing arts sector fortunately have a lot more intangibles to offer to the India society. This phenomenon of off balance on intangibles may be also contributing to delayed justice for the AVGC sector. In addition now the AR-VR- IR & MR sectors are also getting ready to offer whole bunch of engaging animation content for all ages. Global studios continue to come to India for higher quality output. Growing the domestic market and its potential exploitation is the only answer to save the industry and creative jobs in India.

The day when we will see the animated content acceptance in family entertainment genre or animation for all ages in India, the creative content eco-system will see a new stability. The animated content has a longer shelf life and acceptance globally for its content neutrality design. India will reposition itself in the growing creative content economy globally as an when animation grows as content all ages.

Expert speak



Namit Malhotra

Founder, Executive Chairman and Global CEO of Prime Focus Limited

The tremendous growth of VFX in domestic and regional films as well as increasing budget allocation on visual effects is driving domestic demand for our services. At the same time, big budget Hollywood releases are fuelling a global demand which can only be addressed by globally diverse yet integrated pipelines such as ours. Over the years we have expanded internationally and our merger with Double Negative has positioned us as a Tier 1 player which enables us to capture a larger share of the global VFX business.



Chaitanya Chinchlikar

Vice President - Business Development & Chief Technology Officer, Whistling Woods International

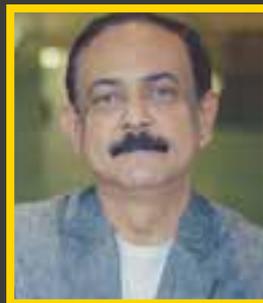
Creating the right talent goes beyond tools & software. Expertise in the Creative Arts, Narratology, Script Development, Character Creation & Development are skills which differentiate real talent from work-for-hire artists. Quality of content, IP creation, Box office success & Global acceptance will follow when we bridge the dearth of creative talent among our next-gen industry professionals.



P. Jayakumar

Chief Operating Officer, Toonz Media Group

The rise in demand in the domestic TV market combined with evolution up the value chain in terms of offshored work is boosting the volume and realisations respectively. This combined with original content for digital platforms will drive growth till 2020.



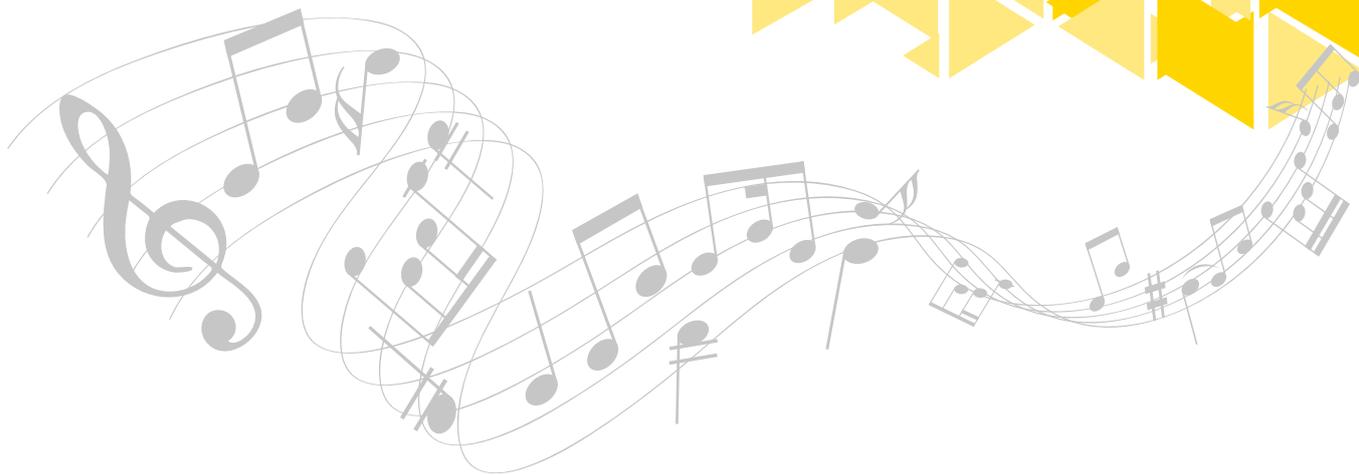
A K Madhavan

Founder and Chief Executive Officer, Assemblage Entertainment Pvt. Ltd.

The Indian animation industry is at a cusp of inflection where potential value is created by differentiated high quality premium content. As this value gets ploughed back, it further enriches quality content, and create a virtuous cycle for growth.

Music



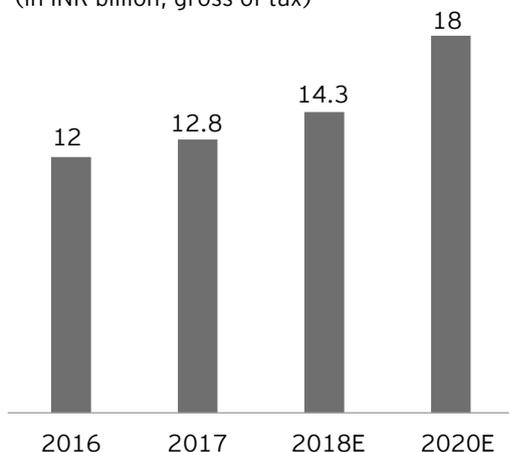


Back on the growth trajectory

India is one of the countries where digital music sales have overtaken physical sales. Sales of digital music or through digital channels account for around 65% of overall music sales in India¹. However, despite the high level of consumption, the music industry accounts for less than 1% of the Indian M&E industry. Revenue leakages through piracy, the steady decline of physical formats, disintermediation due to the emergence of new media, price erosion due to disintermediation and high content-acquisition costs have been roadblocks in the industry's growth.

The Indian recorded music industry has revived after years of declining revenues, particularly due to the increase in digital and synchronization revenues. It was ranked 19th worldwide in sales in 2017. Digitally pirated music remained the most popular source of consumption. More than half (53%) of the digital revenue came from ad-supported streams, followed by mobile personalization (25%). Downloads contributed a mere 2% of the digital revenues². The industry is expected to witness a growth pattern in the future with music consumption being supported by a mix of advertising and subscription, and a build-up of ancillary revenue streams³. The paid subscriber penetration among online music users is expected to increase to 5% and the number of online music listeners in India is expected to reach 273 million by 2020⁴.

Size of the music industry
(in INR billion, gross of tax)



Note: All values are at end customer values. Size based on music label revenues is INR 9.2 billion

Bollywood continues to dominate

The Indian music industry is split into three streams: Hindi genre, which accounts for 60% of the consumption, and the international and regional genres, which constitute approximately 20% each. Further, in the music industry, songs related to movies have the highest share in terms of revenue, and soundtracks account for nearly 80% of the country's revenue. The dependence is mutual, as films rely on good music to generate substantial opening revenues.

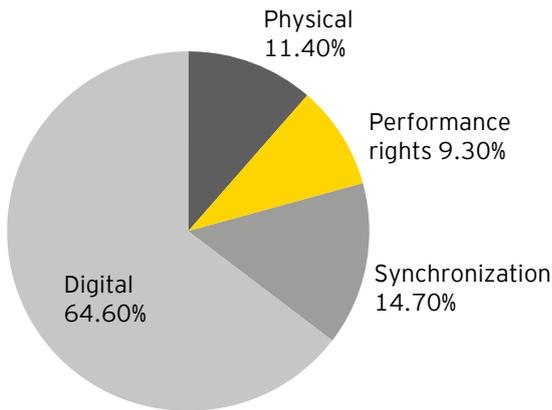
Streaming music gains significantly

Sale of music through digital channels accounted for approximately 65% of the overall music sales in India in 2017. India has now overtaken the US to become the world's second-largest smartphone market after China, with shipments reaching over 40 million units. The continuous growth of digital infrastructure and positive policy implementations by the Government have paved the way for future growth of digital music. Audio streaming consumption has a strong correlation with the use of smartphones: 93% of people reported using mobile devices for music consumption in 2017, a rise from 85% in 2016⁵. Falling data rates (led by purse-friendly packs introduced by Reliance Jio), coupled with growth in streaming music options (Apple Music and Google Play launched services in 2017, with Amazon poised for launch in 2018), are further expected to boost the digital music industry.

1. "Media and Entertainment Industry Report," IBEF website, <http://www.ibef.org/industry/media-entertainment-india.aspx>, accessed 18 October 2017.
2. "Interim Economy: An Introduction to India's Digital Music Industry - Ed Peto," Medianama, <https://www.medianama.com/2017/07/223-india-digital-music-industry>, accessed on 18 October 2017.
3. "Indian music industry to cross Rs 1000 crore mark by 2020," Radioandmusic website, <http://www.radioandmusic.com/biz/music/151020-indian-music-industry-cross-rs-1000-crore-mark-2020#>, accessed 18 October 2017.
4. "Digital music industry in India expected to cross Rs 3,100 crore in revenues by 2020: report," LiveMint, <http://www.livemint.com/Consumer/5HQ1Vt9XQxqNpXlqDFPGO/Digital-music-industry-in-India-expected-to-cross-Rs3100-cr.html>, accessed 18 October 2017.

Interestingly, leading Indian digital music players are steadily moving toward offline modes of music consumption through paid premium services. The offline mode allows users to directly cache songs and videos to their mobile devices

Revenue breakdown for the music industry



Source: IFPI Global Music Report, 2017

to view or listen anywhere, anytime, even in the absence of internet connectivity, thereby enhancing customer experience.

- ▶ Reliance Jio is offering its streaming service 'Jio Music' free of cost with all the features, with the only requirement being a Reliance Jio SIM.
- ▶ Google Play Music, launched in April 2017, offers a subscription-based model with the feature of compiling an offline playlist from its 40 million local and international song collection⁶.

The top music apps in India by installs and monthly active users by the end of 2017 were as follows:

Rank	App
1	Google Play Music
2	Wynk
3	Jio Beats
4	Saavn
5	Gaana

Source: App Annie

- IMI study 2017
- "Google Play Music subscription launched in India at Rs 89, to allow offline streaming," Hindustan Times, <http://www.hindustantimes.com/tech/google-play-music-subscription-launched-in-india-at-rs-89-to-allow-offline-streaming/story-EeGeLyeG2EMw4IznHYICxN.html>, accessed 17 October 2017.
- Discussion with SaReGaMa management

Physical formats continue to decline, but...

Physical music CD distribution has been seeing a continuous decline due to rising consumption of music on digital platforms. The contribution of physical sales to the Indian music industry revenue at 11% is far lower than the global share of 34%. Industry players are focusing on digital distribution to cater to evolving consumer demands.

However, SaReGaMa launched its Carvaan Bluetooth speaker-based music product in 2017, which has seen significant uptake of over 200,000 units between July and December 2017⁷. The speaker comes loaded with thousands of songs in the digital format. This sale value, however, is not considered in sizing the industry, as the product is included under electronics and consumer durables.

Business models are diversifying

Music companies have diversified into alternative revenue streams that offer synergies with their core music business. Sony Music and Tips have diversified into film production, and SaReGaMa announced a slate of 100 films. Players have ventured into producing edutainment-based content for children, current affairs magazines, concerts, themed restaurants, artist management, hardware products, business content and spiritual content.

The non-film music market comprises around 30% of the overall music industry's revenues. A number of streaming services are launching their original content by collaborating with local artists. Saavn has launched originals consisting of audio stories, podcasts and commentaries. Hungama has an original audio series labeled Mera Wala Music and Gaana has launched Specials. Online ticketing company BookMyShow also has an offering Jukebox⁸.

Regional music continues to grow⁹

As local artists from across the country are securing a sizeable fan base, the consumption of music in regional languages is increasing steadily. Distributors such as Sony's The Orchard and Believe Digital have helped usher the regional repertoire into the digital age, regularly signing deals with content owners such as Muzik 247 and Aditya Music India. Regional record labels such as Aditya Music India have also signed deals with various digital music majors to share their catalog across digital platforms internationally. Aditya Music's catalog includes Telugu, Tamil and Kannada

- "Click M for Music," Financial Express, <http://www.financialexpress.com/industry/click-m-for-music/888040/>, accessed 17 October 2017.
- "Indian music industry is less than \$200 mn, fraction of global music industry: Neeraj Kalyan," radioandmusicbiz website, <http://www.radioandmusic.com/biz/music/labels/national/indian-music-industry-less-200-mn-fraction-global-music-industry-neeraj-kalyan-150804>, accessed 17 October 2017.

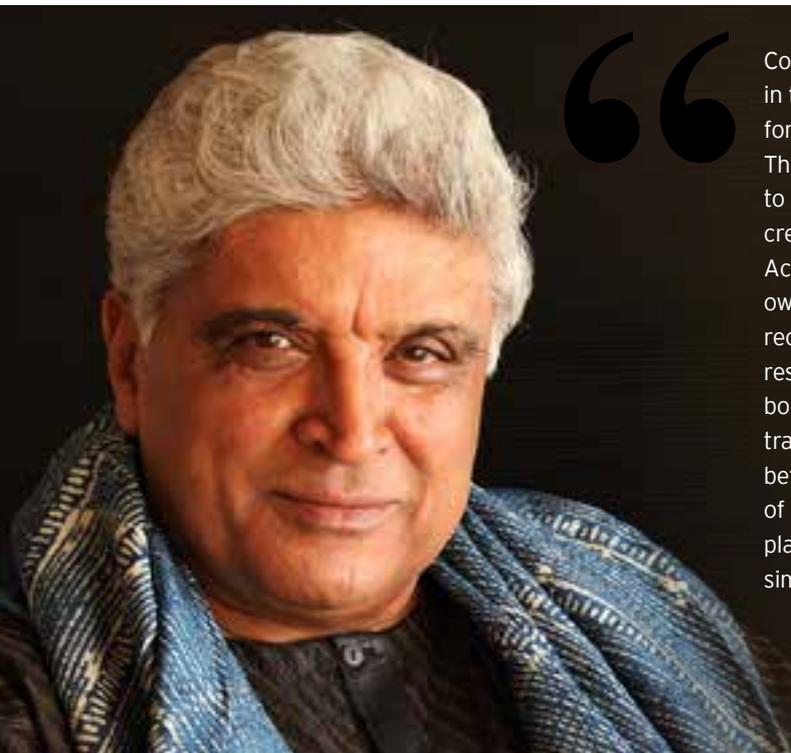
film songs, along with Carnatic classical, devotional and folk songs. Streaming services are also focusing on the regional market – for example, Wynk has 500 music labels across 12 languages¹⁰.

An ecosystem for independent, non-film musicians is emerging

Outside of the Bollywood ecosystem, there exist a handful of online tools for emerging artists to self-release and interact directly with their fans. Saavn has its own artist and repertoire (A&R) team in New York City which collaborates with independent artists on marketing campaigns through its Artist Originals program; fellow service Hungama runs a similar initiative called Artist Aloud and raises money for new artists. Sony Music and post-production facility Knack Studios have collaboratively announced the launch of The Madras Gig, a platform for indie talent across South India¹¹. BeingU Music and Sony Music will be working on an exclusive partnership and introducing original musical content in 2018¹².

The Government recognized the IPRS

The Indian Performing Right Society (IPRS), after 48 years of its operations, received its official registration as a copyright society back from the Government. This makes it the only official and functional copyright society for musical works and associated literary works in India (for collecting royalties of underlying musical and literary works).



“ Collective Management Organizations perform a critical function in the Copyright sector not only for the creative community but for platforms and services which exploit copyrighted works as well. This “single window” system allows affordable and efficient access to copyrighted works while ensuring fair remuneration to copyright creators and music labels. The 2012 Amendments to the Copyright Act, 1957 addressed historical imbalances between creators and owners, allowing for the Indian Performing Right Society to be reconstituted. Authors, composers and music publishers having resolved to put their differences aside is an historic event and bodes well for the Industry. The new IPRS comes with a message of transparency, fairness and support. A truly symbiotic relationship between copyright creators, owners and platforms basis principles of reasonableness and respect for the law will allow the sector and platforms to grow but the adoption of international best practices and simplified licenses will ultimately also benefit consumers.

Javed Akhtar

Chairman, Indian Performing
Right Society Ltd.

10. “Wynk Music crosses 50 million downloads; 45% users are non-Airtel customers,” Medianama, <https://www.medianama.com/2017/03/223-wynk-crosses-50-million-downloads/>, accessed 17 October 2017.

11. “Sony music Knack studios launch indie talent platform for south India,” Hindu Business Line, <http://www.thehindubusinessline.com/news/national/sony-music-knack-studios-launch-indie-talent-platform-for-south/article9944939.ece>, accessed on 25 January 2018

12. “Sony music partner with Being Music,” Radio and Music, <http://www.radioandmusic.com/biz/music/labels/171214-sony-music-gets-exclusive-partnership-beingu-music>, accessed on 25 January 2018

Key profit/value drivers

- ▶ **Growing online audience:** India is estimated to have 481 million internet users with a 65% urban penetration and a 20% rural penetration. India's smartphone penetration grew to 33% in December 2017¹³. The country's online audience is expected to grow further with increasing investments in mobile networks and smartphone penetration. In March 2017, Wynk Music crossed 50 million downloads on Android and iOS since its inception in September 2014. Reliance's JioMusic app also achieved 10 million downloads on Google Play Store¹⁴, and Gaana, a Times Internet-owned music streaming service, crossed 40 million monthly users in September 2017¹⁵.
- ▶ **Increasing FM radio licensing revenues:** The increasing penetration of private FM radio stations (royalties are currently 2% of a station's net advertising revenues¹⁶) will increase music consumption and increase revenues accordingly. Music is currently available to all radio companies on an automatic licensing basis¹⁷.
- ▶ **Favorable demographics:** India's earning population (over 25 years of age) is expected to grow from 40% to 55%-60% of the total population by 2020. The increase in earning population combined with the ease in ability to pay through mobile wallets and other mediums is expected to drive entertainment spending in the media industry. In 2017, the daily smartphone usage reached to 2.2 hours in the 13-30 years age group and 1.8 hours in the 31-50 years age group. Mobile internet users spend 40% of the data usage on audio and video services.
- ▶ **Monetizing digital content:** Online music users are expected to witness a 10-fold rise, reaching 273 million users by 2020 from 27 million in 2015. Music companies are thus increasing their focus on monetizing digital music content to drive their revenues¹⁸.
- ▶ **Increasing popularity of live music shows:** Live music shows and festivals are becoming increasingly popular in India, driven by events such as NH7 Weekender, Supersonic, EVC and Sunburn.
- ▶ **The GST impact:** The recently launched Goods and Services Tax (GST) is going to benefit the music industry in India through a reduction of rates for some products and the availability of input credit set-offs. GST has also resolved the situation of multiplicity of taxes on the music industry. Further, seamless credit of taxes on procurement is also allowed to music companies on all major procurements. While the temporary transfer of music rights was liable to both service tax and VAT, taking the effective tax rate to 21%, the tax rate in the GST regime is now 12%. Perpetual sale of music rights was liable to VAT at 6%, which is now liable to GST at 12%.

13. IMAI - Kartar IMRB, accessed via Timesofindia.com

14. "MyJio app achieves 100 million downloads on Google Play Store: report," Livemint, <http://www.livemint.com/Technology/u3AP1h9ozHnbwWRXWnbbvO/MyJio-app-achieves-100-million-downloads-on-Google-Play-Store.html>, accessed 18 October 2017.

15. "Gaana crosses 40 million monthly users in September," Medianama, <https://www.medianama.com/2017/10/223-176386/>, accessed 18 October 2017.

16. "Media and Entertainment Industry Report," IBEF website, <http://www.ibef.org/industry/media-entertainment-india.aspx>, accessed 18 October 2017.

17. EY Analysis

18. "How India, The Global Music Industry's Sleeping Giant, Is Finally Waking Up," Forbes, <https://www.forbes.com/sites/cheriehu/2017/09/23/how-india-the-global-music-industrys-sleeping-giant-is-finally-waking-up/#786aa02a30bf>, accessed 17 October 2017.

Key challenges

- ▶ **Piracy:** Piracy, both physical and digital, although declining at the global level, remains a perennial challenge in India's music industry. The industry is fighting this threat by concerted measures such as conducting raids on pirates, creating more awareness among customers and adopting new paid models to track streaming and downloads on the internet and mobile phones. Industry bodies such as Phonographic Performance Limited (PPL) and Indian Music Industry (IMI) have established vigilance teams to curb music-copyright violations in various cities in collaboration with the local police. For instance, famous music download site songs.pk was banned by Calcutta High Court in 2016 following a petition filed by Sagarika Music Pvt. Ltd.¹⁹ IIPA has also recommended that India should remain on the Priority Watch List in 2017²⁰.
- ▶ **High content-acquisition costs:** Music companies continue to pay dearly to acquire film music, which can be as high as 25% to 30% of the film's total cost. Furthermore, music companies have to pay for content rights upfront and bear the entire risk for a film's success. Music labels acquire music rights much before the theatrical release of movies, which poses a high risk if the movie does not do well. The trend is expected to continue going forward.
- ▶ **Paid-service model still in the nascent stage:** The biggest issue is the general music consumer's apparent unwillingness to pay for music. Ad-supported models, be it streaming or regular FM, are always subject to economic growth, as ad budgets are the first to be cut in a downturn. The non-existence of a subscription model ecosystem may hinder the growth of the music industry. While India-based streaming services may have amassed over 100 million users, the overall conversion rate to paying is estimated to be around 1%. The key challenges faced by the industry are as follows:
 - ▶ Payment mechanisms need to be simplified to attract young users, senior citizens and illiterate users who wish to buy music at one touch.
 - ▶ A significant part of the overall music catalog is still missing from digital stores, and getting this content digitized and distributed will likely be one of the top priorities for 2018.
 - ▶ Music streaming players, while struggling to monetize their offerings, also reported high minimum guarantees from labels, putting additional pressure on bottom lines.
 - ▶ Many top digital players are struggling to chalk out a scalable model, whereby users would see value in paying for listening to music. Though user acquisitions are on the rise, the challenge remains in converting them into paying users.

19. "Popular Music Download Site Is Blocked in India," Telecomtalk, <http://telecomtalk.info/popular-music-download-site-is-blocked-in-india/88150/>, accessed 17 October 2017.

20. "Report on Copyright Infringement and protection and enforcement," IIPA, <http://www.iipawebsite.com/rbc/2017/2017SPEC301INDIA.PDF>, accessed 17 October 2017.

► **Growing competition from music video websites:**

YouTube is one of the most viewed platforms for music. Music videos have the highest viewership on YouTube as compared to other genres, with over 3 billion views. Facebook is also entering this field with a multi-year licensing deal that lets the social network carry songs and artists from the world's biggest record label, Universal Music Group, across its platforms²¹. T-Series, a music label and movie studio continues to hold on to its #1 spot in the top 250 YouTube channels and notes a remarkable achievement by surpassing the 30 million subscriber mark on YouTube, with more than 27 billion video views. T-Series has an audience base spread across India, US, UK, Mainland Europe, UAE, Pakistan, Bangladesh, ASEAN, Australia, New Zealand etc²².

- **Low royalties:** Royalty payouts per stream remain abysmally low. This is a problem especially for independent musicians with smaller fan bases. The market industry standard for royalties is estimated at 0.0011 cents per stream. Globally, Spotify pays US\$0.0038 per play to unsigned artists, and Apple, US\$0.0064²³.

Regulatory environment

The Indian Copyright Act, 1957 governs the laws and applicable rules related to music copyrights in India. Indian courts are becoming increasingly aware of digital piracy and are supporting legitimate digital and creative industries. This Act was extensively amended in 2012, extending the rights of performers and broadcasting organizations. The major thrust of amendments was on eliminating the unequal treatment meted out to lyricists and music composers of copyrighted works incorporated in cinematograph films owing to the contractual practice in the Indian entertainment industry. The amendments tried to bring the Indian copyright regime in sync with technological advances and associated international developments. Accordingly, the ambit of reproduction rights has been widened to include storing of the work in any medium by electronic means.

- **Anti-piracy regulations:** The Government has refocused on the challenge the M&E industry is facing due to digital piracy. A social media campaign to promote Indian geographical indications (GIs) has been launched by the Cell for IPR Promotions & Management (CIPAM) – with the #LetsTalkIP hashtag. This movement aims to make more people aware of the importance of intellectual property rights (IPRs)²⁴. State governments are also setting up their IP rights unit. For instance, Telangana Government has set up the Telangana Intellectual Property Crime Unit under the Cyber Crime Wing of the CID to deal with complaints about online piracy, becoming the first state in the country to launch an exclusive unit. Further, the Cyber Cell of the Maharashtra Police has started a Digital Crime Unit that works toward systematically eliminating websites that upload pirated content²⁵.

21. "Facebook steps onto YouTube turf with Universal deal," Indian Express, <http://indianexpress.com/article/technology/tech-news-technology/facebook-steps-onto-youtube-turf-with-universal-music-deal-4993998/> "Facebook steps http://indianexpress.com/article/technology/tech-news-technology/facebook-steps-onto-youtube-turf-with-universal-music-deal-4993998/"

22. <http://www.radioandmusic.com/biz/music/labels/171226-t-series-crosses-30-million-subscribers-on-youtube>

23. "From villain to hero: How streaming is reviving a dying music industry," Live Mint, <http://www.livemint.com/Leisure/jaHVhfYwWOkC48hJxNPI/From-villain-to-hero-How-streaming-is-reviving-a-dying-musi.html>, accessed on 25 January 2018

24. "IPR awareness government launches let's talk campaign," Indian television, <http://www.indiantelevision.com/mam/media-and-advertising/ad-campaigns/ipr-awareness-govt-launches-letstalkip-sm-campaign-170905>, accessed on 25 January 2018

25. "Maharashtra police steps up fight against pirated content," Hindu Business Line, <http://www.thehindubusinessline.com/news/national/maharashtra-police-steps-up-fight-against-pirated-content/article10045282.ece>, accessed on 25 January 2018



Expert speak



Blaise Fernandes

President & CEO - Indian Music Industry

For the third consecutive year, in 2017 the recorded music industry witnessed growth, in India and globally, proving the immense value of music in the streaming era. Recognising the trend, the Indian Music Industry has embraced technology even more closely to create a better experience for consumers. With the proliferation of smart-phones and access to hi-speed data at affordable prices, the digital ecosystem in India grew phenomenally both in terms of content creation as well as consumption. With a robust digital infrastructure and right population demographic, aided by encouraging government policies, India has the potential to be among the Top 10 markets for music in the world by 2020. However, some challenges need to be addressed. The misuse of DMCA needs to be addressed, once this is addressed the value gap gets reduced. Globally established and progressive digital licensing norms have to be recognised in India to create value for all involved in the value chain. The DIPP's #LetsTalkIP is a step in the right direction.



Vikram Mehra

MD, SaReGaMa

Customer doesn't pay for music. Physical form factor is dead. There is no commercial model for story led cinema. We are challenging all these beliefs. And our secret tool is in understanding what customers really want. Key to success in Entertainment is understanding and giving customer what she wants, rather than assuming we know what she wants.



Pradeep Guha
CEO, INX Media

Marketing gurus are uniformly agreed on the power of music as a unifying factor amongst youth. Infact, some studies have rated music even higher than sports in mobilizing the younger cohorts. India being one of the youngest countries in the world has about the largest population in the 15-30 age group or, as our Prime Minister often says, enjoys a huge demographic dividend. Unfortunately, despite these glaring data points and the well-known values of audio branding, marketers do not quite recognize the value of music. Perhaps, the fault lies with the stakeholders of the music business who tend to discount the power of their own product. Advertisers consider music almost the last in the food chain as far as their spends on commercial communication is concerned. It's time the stakeholders (music television, radio, streaming services and others) came together to form an Indian Music Association to initiate ongoing qualitative research and market the magic of music.

As someone rightly said, "Logic only gives man what he needsMagic gives him what he wants



Karan Singh
CEO, Sunburn

Sunburn today is Asia's largest and one of the world's leading dance music festival brands. The main festival moved to oxford golf resort Pune in 2017 and saw a peak record attendance of over 100k on NYE. Over the entire season sunburn hosted over 70 events across India with an aggregate attendance of 750k fans. The brand has garnered strong sponsor interest and is one of India's top youth connect platforms, with Ola on board as title sponsor alongside brands like Renault, Kingfisher, Oppo and Tata Sky. On digital & content front the brand has impressive numbers including 2.1 million fans on FB, 2 million on Twitter, 400k on Instagram, placing it in the top 5 globally on each count. The live stream was also a resounding success with over 11 million viewers from across the globe.

Sports



Sports in India: Constructive disruptions

Global force; Indian format

Global queues remain positive

Live sports events offer a lucrative proposition to various stakeholders in the industry value chain, such as broadcasters, sponsors, event organizers, athletes and spectators. In 2017, the global sponsorship spend forecast touched ~US\$62 billion and global media rights spend hit US\$47 billion, a 7.6% increase over 2016. It is expected that global sports media rights will breach the US\$50 billion barrier in 2019 and could reach US\$54.3 billion by 2021¹. Cricket is due to break the US\$1.0 billion revenue mark in 2018 with the start of the new US\$510 million-per-year Indian Premier League global rights contract.

Indian sports set many benchmarks

The year 2017 saw many positives. Some landmark announcements included:

- ▶ India's Sports Ministry announced the Khelo India School Games, and allocated INR17.6 billion for the period 2017-18 to 2019-20².
- ▶ The 17th edition of the U-17 World Cup was held in India and became the most attended in the history of the event.

- ▶ IPL rights were awarded for INR163.5 billion for the period 2018 to 2022³.
- ▶ Launch of new sports leagues, such as Table Tennis, Poker, Cue Slam, Mumbai Cricket etc.
- ▶ Vivo acquired the IPL title sponsorship for INR22 billion across 5 years⁴.
- ▶ Oppo acquired the Indian cricket team's sponsorship rights for INR10.8 billion till 2022, 100% higher than the reserve price of INR5.4 billion⁵
- ▶ Hero MotoCorp renewed Indian Super League title sponsorship for next three years at an estimated INR1.6 billion⁶.
- ▶ Pro Kabaddi League secured Vivo as a five-year title sponsor at an estimated INR3 billion⁷.

1. The annual TVSM Global Report - 2017 by SportBusiness Group
 2. <https://timesofindia.indiatimes.com/Sports/more-Sports/others/khelo-india-relaunch-will-change-Sports-scenario-in-india-rathore/articleshow/62011186.cms>
 3. <https://timesofindia.indiatimes.com/sports/cricket/ipl/top-stories/star-india-wins-ipl-media-rights-for-next-five-years/articleshow/60355842.cms>
 4. <http://www.financialexpress.com/industry/ipl-title-sponsorship-vivo-gets-rights-with-rs-2199-cr-bid/738719/>

5. http://www.livemint.com/Consumer/HoSPDMbHPUEMleH218yxpM/Oppo-to-sponsor-Indian-cricket-team-replacing-Star-India.html?utm_source=scroll&utm_medium=referral&utm_campaign=scroll
 6. http://www.business-standard.com/article/companies/hero-motocorp-renews-isl-sponsorship-for-next-three-years-at-rs-160-cr-117072101127_1.html
 7. <https://economictimes.indiatimes.com/industry/services/advertising/after-ipl-vivo-signs-up-as-title-sponsor-of-pro-kabaddi-league/articleshow/58583507.cms>

As a country, India's performance in sports continued to improve

One of the key drivers of sports is how a country performs across international events. Some key statistics around this are:

- ▶ The Indian national cricket team created a record in 2017 with its unbeaten run at home and the Indian blind cricket team won the T20 World Cup beating rivals Pakistan in the final.
- ▶ Indian women also did the country proud by reaching the final of ICC Women's Cricket World Cup despite losing the title to England.
- ▶ India had a golden run at the 22nd Asian Athletics Championships 2017, winning 29 medals.
- ▶ Indian billiards champion Pankaj Advani continued his dominance with his 18th world title.
- ▶ Five-time world boxing champion Mary Kom made a resounding international comeback with a gold medal at the Asian Boxing Championships.
- ▶ Vijender Singh defended his Asia Pacific Super Middleweight and Oriental Super Middleweight titles.
- ▶ Indian men's hockey team won gold at the Asia Cup and bronze in the Hockey World League Final.
- ▶ Indian women's hockey team scripted history by winning the Asia Cup after 13 years.
- ▶ It was also the year of reckoning for Indian golf with international wins. Shubhankar Sharma, Aditi Ashok, Shiv Kapur and Gaganjeet Bhullar made India proud in golf.
- ▶ India finished the 2017 World Para Athletics Championships with a record tally of five medals.
- ▶ 13 major titles were won by seven different players as India's dominance continued in badminton.
- ▶ Athletic brilliance was also demonstrated by professionals across weight lifting, fencing, bodybuilding, mixed martial arts and tennis.

India won just two medals in the Rio Olympics, despite boasting a population of 1.3 billion. But the emerging booming "super" sports leagues culture has made India's sports market sizzle. Many of the independent leagues are improving the quality and breadth of sports in India and offering young hopefuls a platform to showcase their talent beyond cricket. With this, advertiser interest has grown as well and these sports today see more big brands supporting them as sponsors. This rise in the popularity of sports and the frequent hosting of large sports events in India provide ample business opportunities for corporates. The result is not only increased branding and sponsorships but also growth in sports start-ups. Entrepreneurs – many of them former amateur sports people – are setting up new businesses ranging from e-tailing sports apparel and goods to providing sports analytics.

Revenue drivers

Sports revenues comprise central sponsorship (excluding on-air), team sponsorship, media rights (domestic and overseas across broadcast, radio and digital), franchise fees and local league revenue, ticketing and ancillary revenues.

Broadcast rights remain the biggest source of revenues

The sale of broadcasting and media rights is the biggest source of revenue for most sports organizations, and can account for 55% to 70% of total revenues⁸. It helps in generating the funds required to finance major sports events, refurbish sports infrastructure and contribute to the development of sports at the grass-roots level. Broadcasters stand to earn major royalties from the sale of their exclusive footage to other media outlets, which further enables them to invest in the organizational and technical undertaking involved in broadcasting sports events. Amid the rise of digital mediums, rights to distribute content and images online have also become an additional revenue stream for sports franchises. Periodic updates and the right to feature live score feeds of cricket matches has developed into a competitive market in India.

IPL's business value grew from US\$4.2 billion in 2016 to US\$5.3 billion in 2017⁹.

8. Review of sample league business plans; EY analysis

9. "IPL's business value grows by 26% over the last year," Best Media Info website, <http://bestmediainfo.com/2017/08/ipl-s-business-value-grows-by-26-over-the-last-year/>, accessed 13 December 2017.

In addition, broadcast rights for other sports are also seeing growth.

Sponsorship is growing at a healthy rate

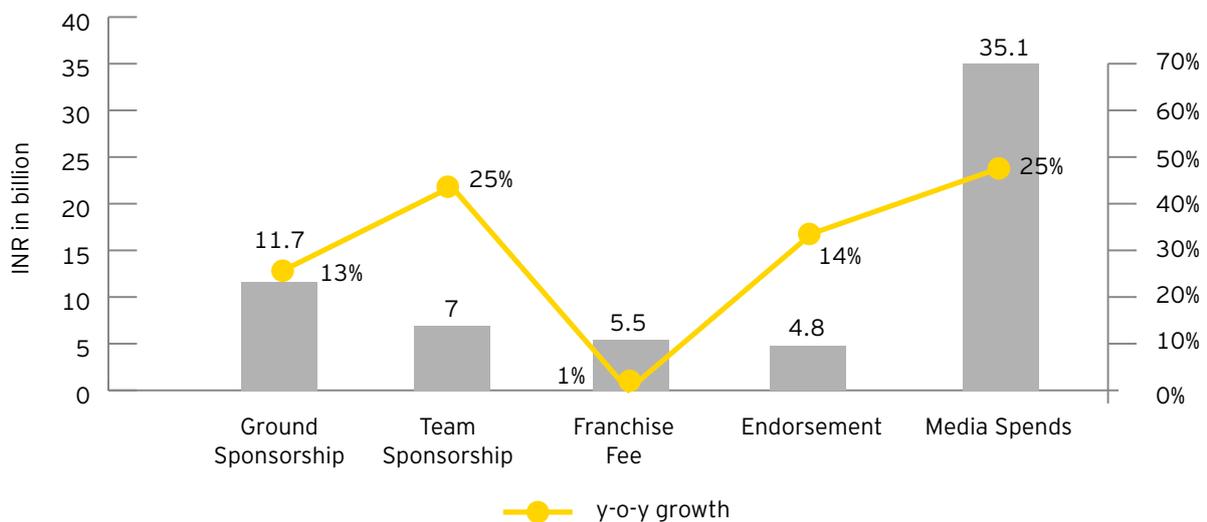
The use of sports in corporate and brand development in India continues to grow steadily. Sports sponsorship is driven by technological support throughout the system, increasing availability and consumption of sports online, growing options in sports events (beyond cricket) and use of social media to spread awareness and excitement about events. Sports sponsorship grew at an impressive rate of over 19% in 2016, to INR64 billion, a jump from INR54 billion garnered in 2015¹⁰. The amount in 2017 is estimated to be INR82 billion¹¹ – a growth of 28% from 2016.

The biggest growth driver for sports sponsorship in 2017 was media spends, which grew 24.6% from INR28 billion to INR35 billion¹². When separately looked at between TV, print and digital, growth has been the highest on TV, followed by digital. Cricket was, expectedly, the biggest driver, and within cricket, it was the Indian Premier League.

Another key development in 2016, which will increasingly become the norm going forward, was the introduction of separate inventory sales for standard definition (SD) and high definition (HD) channels.

Sponsorships of jerseys and perimeter boards also saw significant traction across larger properties.

Sponsorship breakup 2016



10. "Here's what you need to know about India's sports sponsorship market," Economic Times, <https://brandequity.economictimes.indiatimes.com/news/marketing/heres-what-you-need-to-know-about-indias-sports-sponsorship-market/57670882>, accessed 12 February 2018.

11. EY analysis

12. "Here's what you need to know about India's sports sponsorship market," Economic Times, <https://brandequity.economictimes.indiatimes.com/news/marketing/heres-what-you-need-to-know-about-indias-sports-sponsorship-market/57670882>, accessed 12 February 2018.

Ticketing revenues continue to remain under-indexed

Ticketing and F&B revenue is currently a small chunk of the overall market, estimated at 10%–25%¹³. This is unlike in matured markets, where ticketing and F&B drive major revenues.

Sports funding through corporate social responsibility (CSR) reached an all-time high

Corporate India spends on sports CSR were INR420 million in 2016-17. It was the best ever value in terms of the Government's direct CSR receipts for sports. This was clubbed with the Board of Control for Cricket in India contributing INR350 million to the government funds for promotion of other sports.

Much more than media

Sports remains a segment that has significant impact outside of the stadium and the screen. The sports apparel market - including clothing, equipment, shoes etc. - is estimated at INR180 billion¹⁴. 75% of the sports equipment market is based in Jalandhar and Meerut and 70% of the sports apparel market is unorganized. In addition, there are around 21,000 fitness clubs / gyms in India, with every metro city across India having 10-15 large sports clubs. This market is estimated at around INR100 billion-INR150 billion¹⁵.

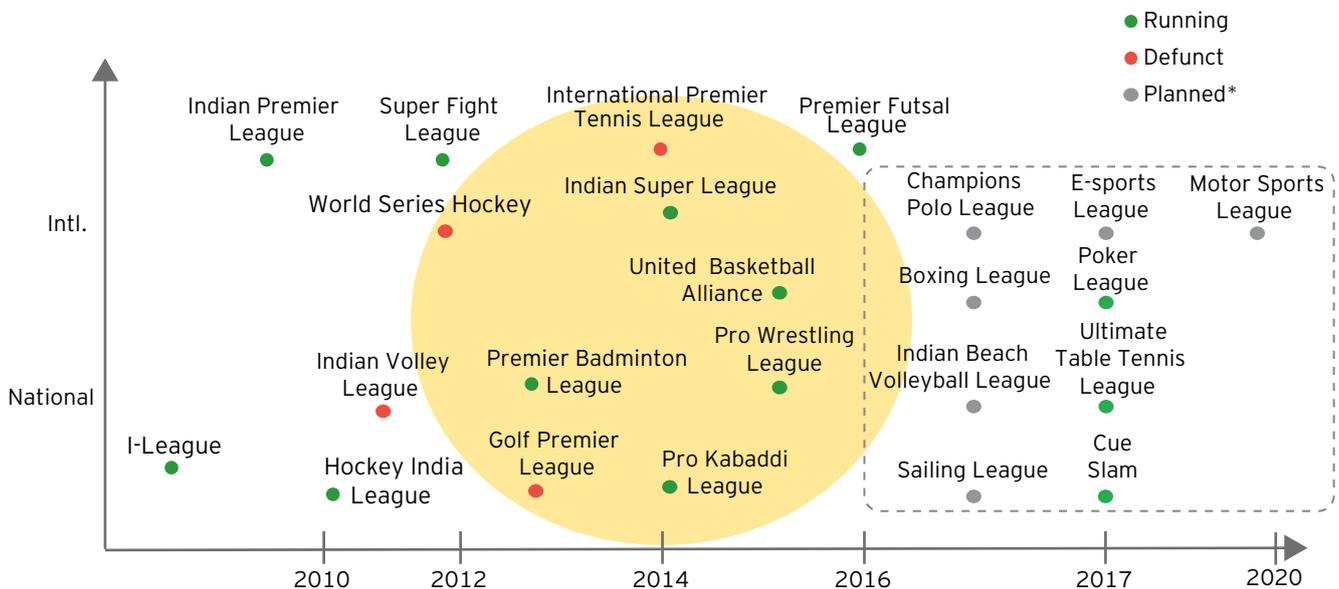
The sports genre is widening its appeal

League mania

The number of sports leagues has grown significantly on the back of private investments. Sports bodies across kabaddi, football, boxing, badminton etc. have initiated private participation to enable launch of leagues.

The formation of various leagues in India has created a robust ecosystem with the IPL leading the way to ISL, PBL, PWL, PKL, UBA Pro Basketball League (UBA), HIL, Indian Tennis Premier league (ITPL), Champions Tennis League (CTL), Premier Futsal, WKL, PGL among others. While most have performed well, a few of these have lost traction due to lack of sponsorship, incorrect franchisee models or inability to garner a sizeable TV audience.

According to the TV Advertising Mapping Report by SilverPush, the fifth season of PKL in 2017 saw a surge in viewership by 59% as compared to the inaugural day of season 4. The rising popularity of the event has resulted in an increase in the number of advertisers wanting to own ad spots in the event¹⁶.



13. Sportex 2017, EY analysis

14. Based on discussions with industry sources and the following: http://www.exchange4media.com/Marketing/How-fast-can-Pro-Kabaddi-franchises-turn-profitable_61024.html; <https://brandequity.economicstimes.indiatimes.com/news/media/isl-classico-anybody/60183828>; <https://economicstimes.indiatimes.com/industry/media/entertainment/media/ipl-is-a-money-spinner-as-it-amasses-rs-2500-Cr-in-its-ninth-season/articleshow/52720049.cms>

15. Sportex 2017, EY analysis

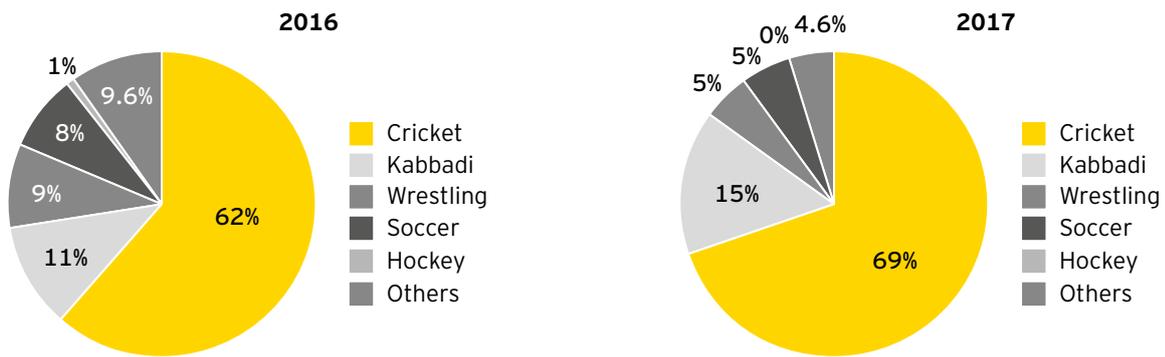
16. "Pro-Kabaddi 5 witnessed 59% spike in viewership: SilverPush Report," Exchange4media.com, http://www.exchange4media.com/marketing/pro-kabaddi-5-witnessed-59-spike-in-viewershipsilverpush-report_70585.html, accessed 19 September 2017.

Non-cricket consumption crosses 30%

Sports in India is no longer just about cricket. This change has been accompanied by a shift in parental behavior – parents now view sports as a viable career option considering the money that sports people playing in these leagues make. Advertisers are following the audiences who are moving in to watch these new sports leagues. Not surprisingly, broadcasters are also strengthening their sports offerings. The rise in the number of sports channels is another clear indicator of the growth of the sports genre. The number of sports channels that BARC India measures has gone up from 17 in 2015 to 25 in 2017.

While cricket still holds a major share in viewership, other sports contributed to around 31% of the genre viewership in 2017. Of this, approximately 50% of the viewership came from PKL.

Popular sports properties in India on TV



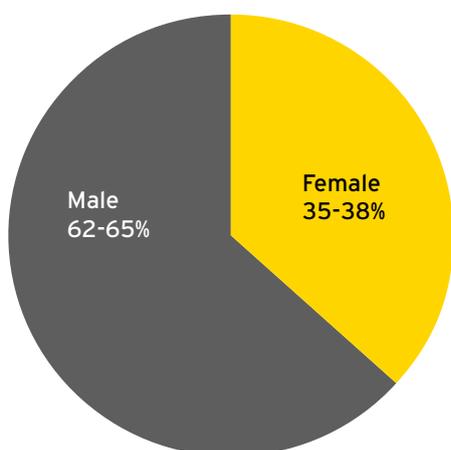
(% share of sum of normalized impressions)

Source: BARC

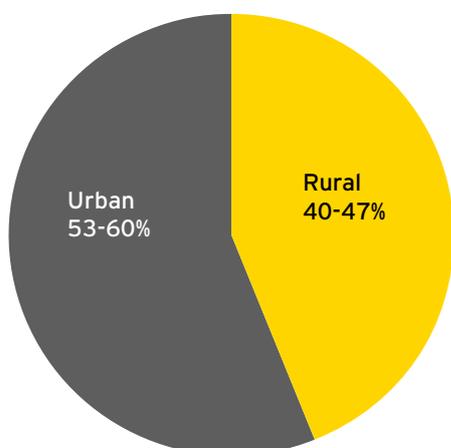
Move over, metro male!!

Sports, typically targeted by advertisers for metro and male audiences, has seen growth across rural and female audiences. Female audiences have reached up to 38% of total audiences, helped by notable performances by women in sports during the past two years across cricket, golf, boxing, badminton, tennis, gymnastics and athletics. Similarly, rural audiences have grown to up to 47%. Launch of a free-to-air sports channel on DD FreeDish, as well as the availability of DD sports, has increase the reach of sports to a much wider population¹⁷.

Viewership for major leagues IPL, ISL & PKL (Gender split)



Viewership for major leagues IPL & ISL (Rural-Urban split)



17. BARC, Industry discussions,

18. "Digital may be the future of live sports events," Hindu Business Line website, <http://www.thehindubusinessline.com/news/Sports/digital-may-be-the-future-of-live-sports-events/article9844782.ece>, accessed 13 December 2017.

Increased interest from foreign sports brands

Global leagues, federations, clubs and sports companies clearly recognize India's potential and have been investing in various initiatives, with a few even opening offices here, such as the La Liga and the NBA. While not all may launch their leagues, they are monetizing sports through licensing agreements for grassroot programs, merchandise, training camps etc.

Sports on digital will grow exponentially

Broadcast rights are likely to remain an industry priority through the next deal cycle, but sports properties are focused on innovative digital and immersive products to reach new audiences, deepen engagement and differentiate OTT offerings. Like the plans global majors have for enabling social activity and game-day interactivity on sports, Indian sports rights owners are moving toward significant innovation to drive stickiness and immersion, which promise good times for sports fans going forward.

During the 2017 auction for IPL rights, players such as Facebook, YuppTv, Reliance Jio, Airtel, Star and Times Internet were among the bidders for digital rights. The highest amount bid was INR39 billion (Facebook), followed by INR32.8 billion (Airtel) - an over 6x growth as compared to the winning bid value less than three years ago.

Social media channels are a crucial factor in viewership growth of IPL, making it one of the fastest growing sports leagues on Twitter with 4.9 million followers and over 1.8 million fans on Facebook in 2017. Further, average time spent on Hotstar watching IPL went up from 30-35 minutes (IPL 9) to 40-45 minutes (IPL 10)¹⁸.

Sports federations, teams, athletes, leagues, broadcasters and sponsors are leveraging the power of digital to drive fan engagement. 40-50 million Indians are actively consuming sports content on digital mediums¹⁹. Sports properties are connecting with their audiences online, and this consumer database on digital will be key to connect with the audience for further downstream ancillary revenues (digital fan memorabilia, loyalty program, contests/polls etc.)

19. <https://www.sportstechie.com/espn-enters-the-india-digital-media-market-in-partnership-with-sony/>

From national to local to international

While national sports continued to drive the growth of the Indian sports industry, it led to the creation of several state and city-based sports models. Sports leagues across cricket, kabaddi and football have been created at a state and city level, and even club level, which provide sponsorship and team ownership options to local advertisers. Many newspaper companies such as ABP and Lokmat drive sports leagues coupled with their print and digital offerings across tier I and II cities within the states they operate in. Cineyug also launched a T10 cricket tournament in the Middle East, for local investors in sports.

Trends shaping the future of sports

Social broadcasting

A major driver of growth will depend on how consumers, particularly younger viewers, watch sports today. Millennials and centennials are increasingly attractive fan segments – and each group requires a distinct approach. The game-changer is the meteoric rise of social broadcasting. Both Twitter and Facebook are pushing their “live” functionality, which is increasingly becoming the first place many fans, especially younger ones, go to witness live action. Twitter has announced that sports is one of the main sectors it plans to develop on this front, already signing a deal to live stream the NFL. Meanwhile, YouTube Live has struck a deal to live stream the UEFA Champions League finals in partnership with BT Sports. Broadcasters will look to modernize their offerings, both to remain commercial and adapt to the growing number of typically younger sports fans who watch their sports online.

Increased use of data in sport

Sports leagues and teams are increasingly leveraging data, ranging from fan engagement and ticketing to performance improvement and digital interactions. At present, most global professional sports teams, and increasingly Indian teams, have specialized analytics teams to:

- ▶ Improve performance: Performance analytics is being used to identify weaknesses, track improvements and observe trends.
- ▶ Engage audiences: Sports broadcast programs are now using real-time analytics and animation to play out what-if scenarios to engage audiences, and social media analytics to gauge their sentiment. IPL team Royal Challengers Bangalore (RCB) has launched its own viewer interactive system “RCB Bold Bot,” an AI-enabled application with chat bot system to enhance viewer’s engagement experience²⁰.
- ▶ Prevent sports injuries: Analytics is also helping professional sports teams prevent injuries by analyzing the data collected from wearable devices.

Immersion

Fans want to be closer to the action, to the athletes, to the stats and to the most revealing camera angles. They want the insider’s view. As a result, generating constant, captivating, exclusive content has become a modern marketer’s priority.

20. “RCB is the first Indian Sports team to introduce AI,” RCB website, <https://www.royalchallengers.com/news/rcb-first-indian-Sports-team-introduce-ai%C2%A0-22645>, accessed 13 December 2017.

As 83% of sports fans²¹ admit to checking their social networks while watching live games, sports properties are feverishly experimenting with ways to create a deeper engagement with fans and bring them closer to the action. Along with Fantasy Sports and weekly Google Hangouts with players, below are some other fan engagement examples across the globe:

- ▶ Technology found in GAME Golf allows professionals to track their swings and share with fans on social media.
- ▶ NASCAR's implementation of a "digital cockpit" includes in-race interaction between fans and drivers.
- ▶ Foxtel's Alert Shirt enables fans to experience the sensations of their favorite athlete during a game (think feeling a player's heart racing, and the force received from a tackle).

Fan engagement parks

To harness the increasing popularity and drive the reach in non-penetrated markets, sports events management companies have started investing in fan parks. Fan parks enable a sport or a team to engage distinct groups of fans inside and outside the game venue, during winning and "rebuilding" seasons, 365 days a year. The live game experience is a focal point for fan interaction and franchisees alike.

eSports is experiencing a meteoric, seemingly exponential rise in worldwide popularity, among both young men and women. With the advent of this emerging segment, front-runners such as UCypher and Nazara Games have invested heavily in the eSports market in India. It is at a very nascent stage right now, but with a massive underlying growth potential for sports events firms. India has had the following eSports tournaments in the recent past:

- ▶ FSOC: Online tournament lasting over a month including 4 games
- ▶ Dew Arena: Prize money of 10 lakh for a 9 week championship
- ▶ ESL India: Indian version of the global Electronic Sports League (ESL) tournament
- ▶ ROG Masters: It is a tournament sponsored and formulated by ASUS

The major stakeholders in the eSports industry - game publishers, distributors such as Twitch, tournament

organizers and teams - are all facing commercial challenges familiar to those faced by organizations in established sports. They will inevitably look to learn and gain best practices from the sports industry.

Collegiate sports

Globally, the university sports or collegiate sports sector is a multi-billion dollar industry, especially in the US, and is usually supported by local communities and led by either private companies or government bodies. India has taken the first step toward exploring the collegiate sports and events with Doordarshan entering the business with not one but three different leagues: Basketball, Tackle Football and Kabaddi. After Khelo India School Games (KISG), the Government would soon be launching the Khelo India College (University) Games on the lines of the KISG by 2019. KISG could see an increase in the number of disciplines from 16 to 18 in its second edition, which has been tentatively planned for December 2018. Catering to the needs of the unpenetrated, non-metro audiences, KISG and Doordarshan together are bridging the gap in tapping potential talent, which will hopefully help improve India's performance in the international arena.

Tech enablement and multi-utility stadiums

The lack of sports infrastructure in India has led to multiple opportunities for developing multi-sports and technology enabled stadiums, coaching academies, rehabilitation centers for players, etc. This is set to improve. The following are some recent developments:

- ▶ Redevelopment of existing infrastructure: L&T has partnered with Gujarat Cricket Association to redevelop the world's largest cricket stadium at Motera, Gujarat, at a cost of INR7 billion. The new facility would have three additional practice grounds and an indoor training academy.
- ▶ Utilization of existing infrastructure: A leading Bollywood and events company, Cineyug, has collaborated with the National Sports Club of India to create various sportstainment IPs. In addition, it offers multiple fan-engagement opportunities in sports such as badminton, chess, table tennis, yoga and karate.
- ▶ Multi-purpose facilities: Bringing together sports, leisure, wellness, entertainment and lifestyle under one umbrella of sportstainment, the Government of Gujarat supported the project of The Arena by TransStadia with an

21. <https://www.forbes.com/sites/steveolenski/2015/02/20/how-pro-sports-teams-are-taking-the-customer-experience-to-the-next-level/#63586fee2712>

investment of INR5.5 billion, built on a PPP model. It is a multi-purpose convertible stadium that houses 14 sports disciplines, excluding cricket.

- ▶ **Smart Stadia:** As 70% of fans bring their mobile device to a stadium and use it during a game, owners will look to control the fan experience and entertainment, directly via smart phones. Levi's Stadium, home of the San Francisco 49ers, Super Bowl 50 (and situated at the center of the tech universe), is now the most high-tech stadium in the world. As 70,000 fans tap into the Wi-Fi and 4G networks, they are able to access (via their app) services such as a virtual guide to seats, watching replays during the live game, ordering food and drinks delivered to seats, and even a guide to the closest bathroom with the shortest lines. However, we think it is too early to determine these technologies' impact on the sports market value chain.

Grassroots development

There is a pressing need for good quality sportsmen for India to progress on a global stage and for Olympic success. Our future champions are in school today. This untapped segment is a potential market for sports companies to build a structured and sustained program. Sports companies have a big role to play in this ecosystem as facilitators between brands are ready to invest in tier II and III to harness the talent and potential of local players linked with schools. Grassroots formats will be implemented, which have the potential to be clubbed with CSR initiatives. Some interesting initiatives in this direction include the following:

- ▶ Reliance has set up multiple initiatives such as the Reliance Foundation Youth Sports (athletics), Reliance Foundation Young Champs (football) and Reliance Foundation Jr. NBA Program (basketball).
- ▶ School-Sports Promotion Foundation is an initiative that caters to the rural market to allow corporates to contribute toward creating a healthy sports pyramid.
- ▶ ACG Worldwide has partnered with the NBA for talent development related to basketball.
- ▶ Olympic Gold Quest is a program founded by Geet Sethi and Prakash Padukone to bridge the gap between Indian and global athletes, thus helping Indian athletes win Olympic gold medals.
- ▶ JSW Sports runs a sports Excellence Program to find top-level athletes across tennis, boxing, wrestling etc.

Feeder tournaments

Creating a hierarchical system of sports participation and corresponding feeder tournaments is critical for growth of

sports. Starting with school leagues, it is key to the long-term growth of sports in India. To ensure the sustenance of the feeder tournaments, it is imperative to start small, focusing on potential cities, perfecting the operations while showing its value and potential to the community, and then slowly transitioning to pan-India tours, which include newer cities. The tours will also serve a vital role in the development of school sports infrastructure and ancillary disciplines as programs will be implemented to develop all areas of the sports through this platform.

The need to include sports as a part of school curriculum cannot be overemphasized. Once this is achieved, the creation of a bottoms-up sports ecosystem would follow. This would require data based discussions between key agencies promoting sports and the respective state and central education boards.

Mobile ticketing²²

The rising smartphone penetration has set the platform for the adoption of mobile ticketing by the sports industry. This technology is a winner for both spectators as well as marketers and event organizers. Smart ticketing technology will use sports fans' social graphs to increase the pull of live events at the stadium by connecting friends before and during games. Marketers can study the consumer trends and behavior, which will help them target the consumers and evolve their offerings accordingly.

Measuring return on investment

Audience measurement is the most important tool used by broadcasters and advertisers for ROI measurement on TV, but lack of large sample size, effectiveness of data and rural inclusion are key challenges in the measurement. Digital consumption will assist in enabling larger data sets, and sports ROI measurement will evolve to include interactivity, social integrations and in-stadia engagement.

Sports governance

Various sports authorities in India have faced criticism due to lack of transparency and political as well as legal issues. There has been a lack of cooperation and issues between the Indian sports authorities and the global authorities.

22. "Top 10 Sports Business Trends to Watch in 2016," Inc. website, <http://www.inc.com/mandy-antoniacci/top-10-Sports-business-trends-to-watch-in-2016.html>, accessed 19 September 2017.

Also, various sports authorities in India have faced direct scrutiny from the Government and legal authorities for their operational mechanisms. Sports governance is the need of the hour, to both define the benchmarks of operations and enable credible functioning across areas such as selection of members, revenues, cost management, player funding and remunerations.

Regulatory environment

Sports Broadcasting Signals Act, 2007

The Government introduced the Sports Broadcasting Signals Act in 2007 to provide access to viewers on free-to-air basis of sports events. The Act puts broadcasters under an obligation to share live broadcasting signals of sports events of national importance with Prasar Bharati without the inclusion of any advertisements. The broadcast needs to be shared regardless of whether it is being aired by the broadcast service provider or by the content rights owner.

The Act authorizes the Central Government to impose penalties, including suspension or revocation of license, permission or registration, for infringement of various terms and conditions as specified under the Act. The amount of penalty shall not exceed INR10 million and no penalty shall be imposed without giving a reasonable opportunity to the service provider.

While the sharing of sports events of national importance applies only to the terrestrial and Free Dish feeds of Doordarshan, these feeds are carried on private cable networks in certain rural districts. Enforcement of the above ruling could become a challenge.

Direct taxes on sports events ²³

The income tax act provides that income arising from any sports event held in India to any person or persons can be fully exempted from income tax. This has been done to encourage sports in India and to promote sports endeavors. The provision is based on approvals by the Central Government using the provisions in section 10(39) of the Income-tax Act 1961.

As per the section, any specific income arising can be exempted provided:

- ▶ Such event is sanctioned/approved by the international body regulating such sports.
- ▶ The event has the participation of more than two countries.
- ▶ The event has been notified by the Central Government in the official gazette for this purpose.

The exemption is extended only to income earned specifically from such events and is not applicable to any other income earned by the organizers of such sports events. Incomes such as gate revenues and sponsorship money are included under this exemption. Almost all international sports events organized in India are exempt from tax due to this provision.

23. "The Sports Broadcasting Law in India," Lexuniverse.com, <http://www.lexuniverse.com/Sports-law/india/The-Sports-Broadcasting-Law-in-India.html>, accessed 18 September 2017.

The earnings of sports persons and the organizers from other revenue sources that are not explicitly covered under the exemption notification follow the general law of taxation.

Taxes on sports events tickets²⁴

The Indian Government has introduced a new tax regime in the form of the Goods and Service tax (GST) from 1 July 2017. Under this new tax policy, club culture in sports including the IPL, PKL and ISL attracts the highest tax slab of 28%. While tickets priced below INR500 are exempted from GST, usually only a limited number of seats are reserved in this price band.

Compliances for leagues/organizers

Professional sports leagues that have emerged in recent years are primarily profit ventures and as a result are not always exempted by the Government. The lack of such recognition from the Government makes such leagues indulge in various complicated structures to avoid taxation. The inclusion of multiple layered entities (offshore and local) increases the cost of compliance. However, it helps decrease the total tax liability.

Other sports bodies such as various sports federations work without profit motives and are therefore organized as non-profit entities in the form of trusts that have exempt status in the form of Section 12A registration under the Income-tax Act, 1961²⁵.

24. "The Business and Taxation of Sports in India," Arkay & Arkay, <http://www.arkayandarkay.com/taxation-of-Sports-india/>, accessed 19 September 2017.

25. <https://timesofindia.indiatimes.com/business/india-business/gst-on-tickets-to-amusement-parks-lowered-to-18-percent/articleshow/62820363.cms>



Sports fan engagement via digital

Many sports leagues have relied on digital to drive fan engagement. Innovative team names, logos, interactive campaigns and focus on developing engaging content over various social media platforms have become the mainstay of successful sports marketing campaigns.

The Indian Super League (ISL) has been a leader on digital media with innovations launched for every season – for example, the #ISLYatra in 2015, when fans were invited to tweet with the hashtag to digitally move the ISL ball across India through the eight venues. The league also introduced live scores on their Facebook cover photo, updating automatically in real-time during their first. More recently, the league launched augmented reality masks on Facebook in 2017 to allow users to express their fandom. From 2015 to 2017, the ISL saw their Facebook fan base grow 141% from 1.7 million to 4.1 million, while their Twitter followers grew by 544%.

The Pro Kabaddi League (PKL) is another example of the use of digital to delight fans – from virtual reality and augmented reality integrated into mobile apps to a virtual kabaddi fan club on social media where fans were rewarded for their activity to gamification linked to broadcast with their unique property Khel Kabaddi. The PKL saw a 226% increase in its fan base from 2015 to 2017, while its Twitter base grew over six times.

Sport is a phenomenon that transcends rational consumer behavior and connects to a deeper sentiment in fans. The need for marketers to connect with this complex sentiment coupled with a constantly evolving landscape makes it critical to have the right digital marketing strategy in place. The following are some ideas that sports-focussed digital marketers have adopted to reach and engage with their fans:

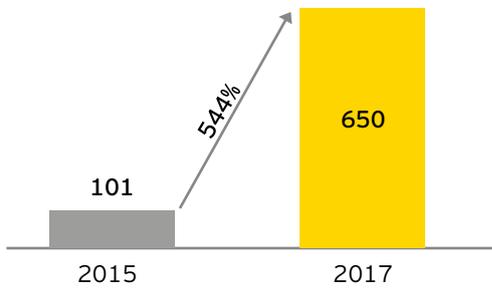
1. **The right voice:** Across digital properties, brands are making sure they have a well-defined voice and consistently stay true to it. It is critical to invest time upfront in determining what a brand's voice on digital is – funny and witty, thoughtful and knowledgeable, or something else? There is no right answer, but there is a right way to go about it. Once the voice has been defined, everyone working on the account is educated on how to communicate and be consistent.
2. **Innovate with technology and content:** Innovations

are key to driving engagement on social media, and using technology can help achieve scale. Take the International Cricket Council (ICC) for instance. Fans were allowed to collect virtual trump cards on Twitter using the hashtag #WorldT20Heroes. Through the use of technology and back-end algorithms to power automated responses at scale, these virtual cards achieved massive reach with over half a million tweets. Star Sports extended their "Mauka" campaign on digital during the 2015 Cricket World Cup, and got really innovative with custom emoticons from the Mauka Man ("Maukaticons") that delighted fans on social media. Digital is a medium that allows you to innovate, and the best brands are constantly experimenting to create magic.

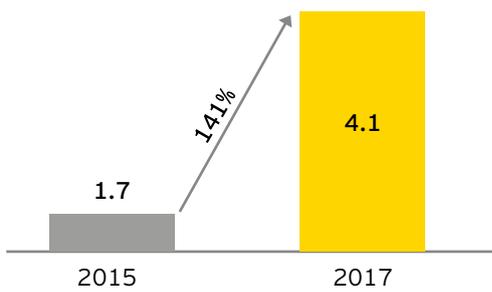
3. **Data-driven campaigns:** Unlike traditional forms of media, digital gives instantaneous data, which needs to be used to help informed decision-making. Whether it is optimizing the creative on a banner or tweaking the UI of your website, the leading digital marketing campaigns change execution elements of a digital campaign based on the insights provided by data, in near real-time. Just as important, evolved marketers focus on the metrics that matter and do not get lost in the vast sea of information they get from digital platforms.
4. **Focus on gamification:** A natural extension for a sports fan is to compete with other like-minded fans in engagements that bring them closer to the sport or enhance their fan experience, through a healthy dose of competition and friendly banter. Fantasy gaming is a prime example where content has been designed to engage the entire spectrum of fans, from the casual follower to the fanatic. Each game is tailored to the fan base – ranging from the classic fantasy game that runs across a season (such as the Premier League and UEFA fantasy games) to daily games (such as Khel Kabaddi launched by the PKL) and even innovative social-media led games (such as Facebook Fantasy run by the Mumbai Indians). Additionally, play-along real-time predictive games can drive massive scale in the order of millions of users to create an engaging second-screen experience.

- 5. **Real-time:** Sport is all about those moments of magic, and to be a part of it brands need to be real-time. Whether that is through the use of sports data like live scores and stats, or responding to fans to drive interactions, the key has been engaging with sports fans in real-time at moments when their interest peaks.

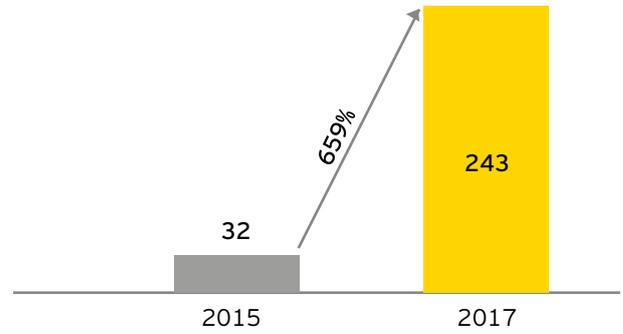
ISL: No. of Twitter followers (in '000)



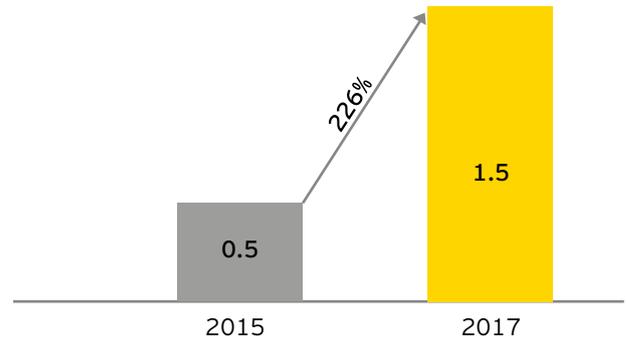
ISL: No. of Facebook followers (in Mn)



PKL: No. of Twitter followers (in '000)



PKL: No. of Facebook followers (in '000)



Arvind Iyengar, CEO, Sportz Interactive

Expert speak



Sundar Raman
CEO, RIL Sports

For India to truly become a successful sporting nation, all stakeholders in sport need to work together with a common goal of building an ecosystem - right from school/college level grassroots programs to aspirational, professional platforms - supported by regulations that incentivize investment in sports infrastructure and talent.

Importantly, considering the pace at which the digital disruption of sport is widening the entire sports consumption landscape and thus creating fresh revenue streams for rights holders, I strongly believe that fan engagement will be instrumental through every step of this journey.



Sheetesh Srivastava
Vice President and General Manager, WWE India

India continues to be a priority market for WWE and we see significant potential in growing our live events business here as we work towards widening our fan base, nurturing local talent including the first-ever Indian woman signed to WWE, and expanding our merchandise offering to cater to the growing demand from Indian fans.



Venky Mysore
CEO, Knight Rider Sports

Cricket is the sport with the second largest audience in the world. With players from around the world coming to play in the IPL and other leagues, the market of the sport is bound to grow. Data Analytics will soon be a competitive advantage in the sports not only in team selection but other aspects like fan engagement as well



Ratnakar Shetty

General Manager, BCCI

The interest which was generated for the IPL media rights for the next five years which ultimately went to Star Sports is an indication of the popularity of IPL as a global event. We expect the spectator attendance, TV viewership and the digital viewership on Hot star and the social media figures to increase further as compared to the last five years. The fan park concept started by BCCI involves close to 60 venues across India this year. The franchisees on their part are taking all efforts to increase the popularity on social media too.

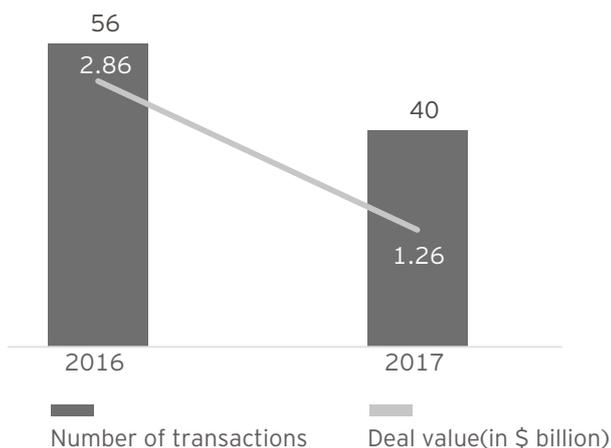
M&A activity



Overview of deal activity in M&E in 2017

The Indian M&E sector witnessed a relatively new trend in deal activity with emerging segments such as gaming and digital gaining momentum, while the deal activity in the traditional media segments was slower. The slowdown can be partially attributed to challenges faced by the advertising segments of the industry due to demonetization and GST.

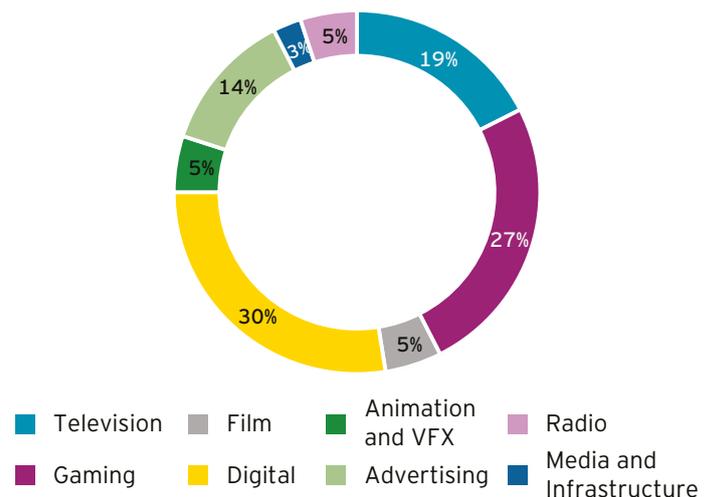
Overall, the number of transactions in the M&E sector decreased from 56 deals in 2016 to 40 deals in 2017.¹ Further, the total deal value was also lower at US\$1,261 million in 2017 compared to US\$2,863 million in 2016.²



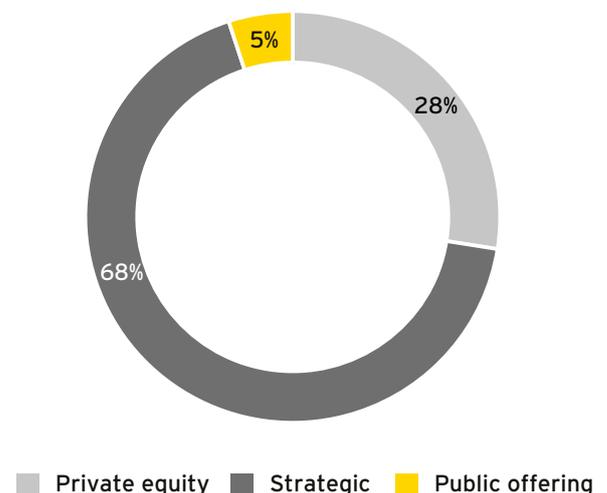
The sharp fall in deal value was due to the absence of megadeals during the year, unlike 2016, which saw transactions such as the Dish TV–Videocon d2h merger worth US\$1.2 billion and the sale of Ten Sports Network by Essel Group to Sony Pictures for US\$385 million.³

The latest advancements in technology/digital are already having a significant impact on the entire media value chain, especially on the way media and content are being consumed and distributed. As a result, consolidation and investments in digital continued to remain the key underlying themes across the various industry segments.

Categorization of deals in M&E in 2017 by segment²



Categorization of deals in M&E in 2017 by type²



1. EY analysis
 2. EY analysis
 3. Merger Market

Television

Television was the largest sub-segment in terms of deal size led by transaction in the TV distribution segment. However, the activity in the TV broadcasting space remained muted. The deal activities witnessed a mix of initial public offerings, private equity and strategic transactions.

Television distribution:

The Indian TV distribution industry has transformed after the cable TV digitization amendment bill was passed in 2011, which mandated an all-India switchover of analog cable TV networks to digital addressable systems in four phases. This has resulted in significant capex requirement for the DTH and cable companies. Despite the deadline for Phase IV cable digitization having passed, the industry continues to seed set-top boxes for fulfilling rural requirements. This continuous requirement of capital has resulted in significant consolidation and investment in the sector over the last few years. We believe the three major transactions this year as provided below are a continued reflection of these trends.

- ▶ Private equity major Warburg Pincus acquired a 20% stake in Bharti Airtel's DTH business Bharti Telemedia, which operates under the brand Airtel Digital TV, for INR22,400 million in December 2017. The PE player will acquire a 15% stake from Bharti Airtel and the balance from another Bharti entity. The proceeds will be used by Bharti Airtel to reduce its debt and strengthen its position in telecommunication.⁴
- ▶ In November 2017, Reliance Communication Ltd., part of Reliance ADA Group, entered into a binding agreement to sell its DTH business, Reliance Big TV Ltd., to Pantel Technologies, an information technology and communication device company, and Veecon Media and Television Ltd.⁵
- ▶ In July 2017, GTPL Hathway underwent its public listing where it raised INR4,848 million, including primary issue of INR2,400 million, the majority of which was to be utilized to repay/pre-pay the borrowing availed by the company.⁶
- ▶ In addition, there were a few smaller transactions where multiple system operators (MSOs) like GTPL and Den Networks consolidated their positions to the last mile by increasing their stake in their respective subsidiaries/JVs.

4. "Press Release," Bharti Airtel Limited, <http://www.bseindia.com/xml-data/corpfiling/AttachHis/641899d9-54e9-41bf-a851-53f0858ade59.pdf>, accessed on 1st February 2018.

5. Merger Market.

6. "IPO Prospectus," GTPL Hathway Limited, https://www.sebi.gov.in/filings/public-issues/jul-2017/gtpl-hathway-limited_35244.html, accessed on 1st February 2018.

The year also saw MIB accepting the recommendation of Inter Ministerial Committee (IMC) to continue with the existing cross-holding restriction in the guidelines for DTH operators. As per the guidelines, a broadcasting or cable TV company cannot hold more than a 20% stake in a DTH company and vice versa. Any relaxation in such cross-holding guideline in the future can result in increased deal activity in the TV distribution segment.⁷

Television broadcast:

The television broadcast segment continued to witness low volumes of deal activity despite the TRAI guidelines on Tariff Order and Interconnect Regulations (currently sub judice). Given the requirement to have subscription packages within the same broadcast network, there was expectation of national players acquiring smaller niche players or regional players to have a wider channel pool to create subscription packages for consumers. However, there was only one deal in the segment with Zee Entertainment Enterprises' acquisition of 9X Media Pvt. Ltd. and its subsidiaries for INR1.6 billion in October 2017.⁸ 9X Media operates a bouquet of six music channels, which have a leading market share in their respective segments.

The other notable transaction in the television broadcasting sector was the consolidation within the TV shopping industry with the merger of HomeShop18 and Shop CJ Network. The merged entity will benefit from a bigger scale and improve its position in the TV home-shopping segment to compete better with the e-commerce players. The merger will be effected by way of share swap, where Shop CJ Network will get a 25% stake in HomeShop18.⁹

The activity in the news genre remains muted on account of the FDI restrictions in this sector. We believe any increase in FDI limit in news and current affairs TV channels will pave way for increased investment in this segment from global strategic players

Film

The Indian multiplex sector has witnessed domestic consolidation over the past 2–3 years by a series of transactions by the larger players. The industry is now largely consolidated with the emergence of four large national players with limited inorganic growth opportunity. Despite no additional consolidation transactions, the film distribution industry witnessed transactions in the digital ticketing and digital cinema distribution sub-segments.

7. "Cross holding restrictions in DTH to continue till a holistic decision on cross-media is taken: Rathore," <http://www.televisionpost.com/cross-holding-restrictions-in-dth-to-continue-till-a-holistic-decision-on-cross-media-is-taken-rathore/>, 19th December 2017.

8. Merger Market.

9. "Homeshop18, Shop CJ agree to merge," <http://www.livemint.com/Industry/8LVZNaYjtB2aPLWwmb3g00/Homeshop18-Shop-CJ-agree-to-merge.html>, 29th September 2017.

The key deals in the film distribution segment in 2017 were as follows:

- ▶ PVR continued to attract interest from private equity funds on the back of its aggressive inorganic growth strategy. Warburg Pincus acquired a 14% stake in PVR for INR8,200 million. Private equity firm Multiples Alternate Asset Management sold a 9% stake and the promoters sold a 5% stake in the transaction. After the transaction, Multiples Alternate Asset Management will continue to hold a 14% stake and the promoters will remain the largest shareholders with more than a 20% stake.¹⁰
- ▶ UFO Moviez India Ltd. and Qube Cinema Technologies Ltd. have decided to merge their business to strengthen their position in India's digital cinema distribution and in-cinema advertising industry. The combined entity, for its in-cinema advertising platform, will have a presence across 7,300 digital screens spread across India with a seating capacity of ~95.5 million per week. The two companies have complementary geographical strengths with Qube having a deeper penetration in South India and UFO having a strong presence in the rest of India.¹¹
- ▶ Chinese internet giant Alibaba Group's flagship entertainment arm, Alibaba Pictures Group Ltd., acquired a majority stake in India's online ticketing platform TicketNew, run by Orbgen Technologies Pvt. Ltd., for INR1,200 million.¹²

After the domestic consolidation, the top four players have acquired considerable scale and are expanding their presence rapidly. We do expect to see this sector witness some inbound interest from large global players looking to expand their presence in the Indian multiplex market.

Print

The traditional print industry did not witness any deal activity in 2017 as the digital consumption of news continued to remain an overhang on the industry. Despite the increase in readership witnessed in the regional print media industry, the overhang of digital kept investors risk averse with limited deal activity potential in the near term. In order to mitigate risks, traditional print players are investing in news and infotainment portals to seamlessly migrate along with the customers and advertisers.

Radio

The Indian radio industry faced a slightly muted year on account of the pressure faced by the industry due to a slowdown in advertising spend on account of demonetization, implementation of GST and implementation of RERA in the real estate sector.

While the industry did not witness any significant deal activity, the year witnessed a successful public listing of Jagran Prakashan-promoted Music Broadcast Limited, which operates a network of 39 FM stations in 39 cities under the brand of Radio City. The company raised approximately INR4,885 million by way of primary issue of INR4,000 million and an offer for sale of INR885 million.¹³ The issue was 40 times oversubscribed on the last day of the offer and saw a strong debut on the public market with a listing of 26%¹⁴ higher than the issue price.

Going ahead, the industry may witness an uptick in M&A activity with large media groups looking to acquire regional/ smaller radio networks, with the lock-in on license migrated under the Phase-III regime expiring on 31 March 2018. Moreover, any relaxation in the FDI limit, from the current 49%¹⁵ will result in further investment by global strategic players in the Indian radio market.

10. "Warburg Pincus picks up 14 per cent in PVR for Rs 820 crore," <https://economictimes.indiatimes.com/industry/media/entertainment/warburg-pincus-picks-up-14-per-cent-in-pvr-for-rs-820-crore/articleshow/56645342.cms>, 19th January 2017.

11. Merger Market and "PE-backed UFO Moviez, Qube Cinema to merge; ICI Venture enters as new investor," <https://www.vccircle.com/pe-backed-ufo-moviez-qube-cinema-to-merge/>, 2nd November 2017.

12. "Alibaba Pictures Group acquires majority stake in TicketNew," <http://www.thehindu.com/business/alibaba-pictures-group-acquires-majority-stake-in-ticketnew/article18723841.ece>, 5th June 2017.

13. "IPO Prospectus," Music Broadcast Limited, https://www.sebi.gov.in/filings/public-issues/mar-2017/music-broadcast-limited_34378.html, accessed on 1st February 2018.

14. "Music Broadcast lists at Rs 420, up 26% over issue price," <https://economictimes.indiatimes.com/markets/stocks/news/music-broadcast-lists-at-rs-420-up-26-over-issue-price/articleshow/57682583.cms>, 17th March 2017.

15. "FDI raised for FM radio and news television channels to 49 per cent," <http://www.radioandmusic.com/biz/regulators/151110-fdi-raised-fm-radio-and-news-television-channels-49-cent>, 10th November 2015.

Gaming

Gaming as a sector attracted all-round interest from private equity and strategic investors. The increase in internet penetration in India coupled with the reduced cost of access devices has resulted in increased traction in the gaming industry. In August 2017, Smaaash Entertainment acquired PVR bluO entertainment Ltd. from PVR and Major Cineplex Group for INR860 million. After the transaction, the area under Smaaash management will increase to 600,000 sq. ft. from 276,000 sq. ft.¹⁶

- ▶ In September 2017, Smaaash Entertainment acquired SVM Bowling & Gaming, a popular entertainment venue in Southern India. The acquisition added 13 centers to Smaaash's portfolio, expanding its presence further to 700,000 sq. ft. and making it the largest offline gaming player in the country.¹⁷
- ▶ Smaaash Entertainment completed two rounds of fund raise in 2017. It raised INR250 million from Sixth Sense Ventures, a consumer-centric venture capital firm, in November 2017 and INR900 million from a group of HNI investors in December 2017.¹⁸ The capital infusion was primarily done to strengthen its physical presence in domestic as well as international markets. A portion of the financing will also be spent on making its augmented reality technology ready for the booming online gaming market.
- ▶ Nazara technologies and Kae Capital invested in HalaPlay, a daily fantasy sports platform, in November 2017. The platform uses data analytics and machine learning to help gamers draft teams, analyze their playing behavior and enable them to improve their fantasy skills and earn money. It currently has over 2 lakh registered users and 30,000–40,000 active users on a monthly basis. Nazara has been pursuing opportunities in the interactive virtual sports category and has invested in gaming startups such as Mastermind Sports and Moong Labs in the past.¹⁹
- ▶ Nazara Technologies Pvt. Ltd. raised INR3,300 million from IIFL Special Opportunities Fund, a private equity fund, and INR 1,800 million from Rare Enterprises, an asset management firm run by Rakesh Jhunjhunwala in December 2017. The deal was a part of a pre-IPO fund

raise, with the listing planned for the first half of 2018, thereby becoming the first Indian gaming company to tap the public market.²⁰

- ▶ Head InfoTech India Pvt. Ltd., which operates online gaming firm Ace2Three, sold a majority stake for INR4,740 million to Canadian private equity firm Clairvest Group along with a consortium of other investors in April 2017. Clairvest is an investor in multiple gaming ventures globally and will help the company expand across multiple geographies.²¹

With increasing discretionary spends among consumers, we expect the gaming ecosystem in India to develop over the next few years. This will result in investments across the gaming value chain, including investments in gaming content providers, gaming publishers, gaming infrastructure companies and e-sports companies.

Digital

- ▶ The digital segment is witnessing multiple investment themes with increase in internet penetration. As a result, there is higher content consumption on digital platforms, with increasing focus on localized content, increasing ad spends in digital media and increasing consumption of ticketing services online.

16. "Sachin Tendulkar's Smaaash Entertainment buys PVR venture bluO," <http://www.livemint.com/Companies/QWPh6eOxUXY5pqUipDobfK/PVR-sells-bowling-and-entertainment-format-bluO-to-Smaaash.html>, 9th August 2017.

17. "Smaaash buys 13 bowling and gaming assets from SVM," <https://economictimes.indiatimes.com/industry/media/entertainment/smaaash-buys-13-bowling-and-gaming-assets-from-svm/articleshow/60454506.cms>, 11th September 2017.

18. "Smaaash Entertainment Raises Another \$14 Mn Funding From HNIs," <https://inc42.com/buzz/entertainment-startup-smaaash-funding/>, 22nd December 2017.

19. "Gaming startup HalaPlay gets seed funds from Nazara Games, Kae Capital," <http://entrackr.com/2017/11/halaplay-funds-nazara-games-kae-capital/>, 3rd November 2017.

20. "Ace investor Rakesh Jhunjhunwala picks up stake in Nazara in first digital bet," <https://economictimes.indiatimes.com/small-biz/startups/newsbuzz/ace-investor-rakesh-jhunjhunwala-picks-up-stake-in-nazara-in-first-digital-bet/articleshow/62046740.cms>, 13th December 2017.

21. "Gaming portal Ace2three.com raises \$73.7 mn from Clairvest Group, others," <https://www.vccircle.com/gaming-portal-ace2three-com-raises-73-7-mn-from-clairvest-group-others/>, 29th April 2017.

Digital content

- ▶ The following are some of the marquee transactions that happened in the digital content space this year.
- ▶ Balaji Telefilms Limited, a leading content producer on TV, films and digital platforms, announced a fund raise of INR4,133 million by Reliance Industries Ltd. (RIL) for a 25% stake. The proceeds will be used to further speed up content development initiatives, especially for ALTBalaji, thereby providing it strong ability to compete with other OTT service providers. The stake purchase will give RIL access to content generated by Balaji Telefilms for use by its telecom arm, Reliance Jio Infocomm Ltd.²²
- ▶ Beijing Bytedance Technology Co. Ltd., which operates mobile applications that make personalized content recommendations, acquired a stake in Ver Se' Innovation Pvt. Ltd., which operates online news and local language content application Dailyhunt, from Franklin Templeton Private Equity for INR1,300 million. Dailyhunt provides news in 14 languages licensed from over 650 publication partners every day.²³
- ▶ Star India Pvt. Ltd. acquired a minority stake in Zapr Media Labs, a digital media company in March 2017. The investment entails a strategic partnership between Star India's OTT platform Hotstar and Zapr. Zapr's technology allows users to connect their TV screen with their mobile screen for engagement across several mediums. Hotstar will be able to create a personalized advertising service with Zapr.
- ▶ Zee Entertainment Enterprises Ltd. acquired the remaining 49% stake in its subsidiary India Webportal Pvt. Ltd., which publishes content through 13 digital brands, for INR 1,975 million in June 2017. The company also acquired a 12.5% stake in Tagos Design Innovations Pvt. Ltd., which operates an in-video discovery platform that allows users to put a visual benchmark within videos, TV and movies. The acquisitions will help the company grow its revenues from its OTT business.²⁴

22. "RIL buys 25% stake in Balaji Telefilms for Rs413 crore," <http://www.livemint.com/Companies/bKu1z9YYSqfVqo8HT4N1xM/RIL-buys-25-stake-in-Balaji-Telefilms-for-Rs413-crore.html>, 21st July 2017.

23. "Franklin PE arm sells Dailyhunt stake to China's Bytedance for \$19.2 mn," <http://techcircle.vccircle.com/2017/02/01/franklin-pe-arm-sells-dailyhunt-stake-to-chinas-bytedance-for-19-2-mn/>, 1st February 2017.

24. "ZEEL buys balance 49% in India Webportal for Rs 197 crore," <https://economictimes.indiatimes.com/markets/stocks/news/zeel-buys-balance-49-in-india-webportal-for-rs-197-crore/articleshow/59054268.cms>, 8th June 2017.

Digital advertising

Some of the key transactions in the digital advertising space are listed below.²⁵

- ▶ Dentsu Aegis Network Ltd., a UK-based advertising company and a subsidiary of Dentsu Inc., acquired an 89% stake in SVG Media Pvt. Ltd., which operates mobile, digital advertising and in-app video platforms, for INR7.9 billion in April 2017. SVG Media will become part of Dentsu's Asia Pacific digital marketing agency Columbus.
- ▶ Dentsu Aegis Network Ltd. also acquired a 51% stake in Sokrati Technologies Pvt. Ltd., a digital marketing and analytics provider, for INR1 billion in July 2017. As part of the agreement, Dentsu will launch its US-based performance marketing agency Merkle in India. Merkle's backing and Dentsu's reach will help Sokrati expand its offerings with its technology and expertise.
- ▶ Kenscio Digital Marketing Pvt. Ltd., which offers innovative marketing technology solutions to brands and enterprises, announced the acquisition of Innovo Design, a boutique marketing design studio that offers visual business solutions, in February 2017. The acquisition will enable Kenscio to bridge the creative gap by bringing in Innovo's expertise in creatives, content, social media engagement and motion graphics.

Animation and VFX

The Animation and VFX segment witnessed some strategic deal activity in 2017. Some of the key transactions were as follows:

- ▶ Cosmos Entertainment Pte. Ltd., producer of animated videos for kids, acquired a 12% stake in Maya Digital Studios Pvt. Ltd., an operator of animation studios, from Mukta Arts Ltd. in August 2017.²⁶
- ▶ Framestore, a UK-based visual effects company, acquired an undisclosed stake in Anibrain, a VFX and creative studio operator, for INR962 million in September 2017. This transaction is a part of Framestore's expansion plan and marks its entry in India.²⁷

25. Merger Market.

26. "Mukta Arts sells its investment in Maya Digital," http://www.business-standard.com/article/news-cm/mukta-arts-sells-its-investment-in-maya-digital-117082200527_1.html, 23rd August 2017.

27. Merger Market.

Key M&A themes going forward

The Indian M&E sector is expected to witness robust growth on the back of favorable socio-economic indicators and the rapid pace of digital adoption. Going ahead, the M&E value chain will continue to evolve rapidly and traditional and digital media companies will need to innovate and adapt to this dynamic landscape to come out on top. We believe the following will be the key themes that will play out in the Indian M&E market.

Digital disruption

Owing to a strong macro-economic growth trend, favorable demographic dividend, increased smartphone penetration and improving and affordable internet infrastructure, the Indian M&E industry is in the middle of a strong digital revolution. Every segment of the industry is undergoing a rapid digital transformation, both on the consumer side (in terms of media consumption patterns) as well as on the content creation and distribution supply chain. Such technology-led advancement presents a disruptive opportunity to all media companies to re-invent their business models and cement their market position for the next phase of growth. As such, we expect both traditional and new-age players to continue investing in building the digital ecosystem, be it in content, platform, technology or device. M&A activity will pick up once some of these businesses achieve scale and monetization models are identified and established.

Convergence

Going ahead, we expect a convergence across the technology media telecom value chain. B2B media companies (e.g., cable) will turn into B2C companies and interact directly with the end consumers. Similarly, B2C companies will look for opportunities that will create a strong customer differentiation. For example, telecom operators are looking to invest/acquire content production houses (both traditional and digital) to cater to their large subscriber base. On the other hand, TV broadcasters with their own OTT platforms are looking for innovative/disruptive technology companies.

Consolidation

Large media companies will continue to look to further consolidate their operations and plug in gaps in terms of regions or genres via acquisitions. The Dish TV–Videocon d2h merger is the first indication of an imminent consolidation in the Indian TV distribution space, and we expect many more in the near future. We expect consolidation in the TV broadcasting segment with investment by larger companies in smaller regional players. We also believe that the domestic consolidation wave is generally followed by strategic inbound investments by large global players, and we can see some inbound activity as well across the TV distribution and multiplex sectors.

Global media and entertainment sector: Innovation, digital transformation and convergence are accelerating the pace of change

Relentless digital disruption and growing convergence across a variety of industries are generating a global business upheaval of unprecedented proportion. Global media and entertainment (M&E) companies stand at the center of the opportunities and threats being created. Exponential rates of technology innovation are transforming M&E operating models, including anytime-anywhere access, evolving content creation and monetization strategies, and direct-to-consumer (DTC) distribution. Competition is rising everywhere, and new entrants are disrupting traditional media models through disintermediation.

These are tremendously exciting times - and M&E companies that evolve with the new opportunities and challenges will be the game changers. To succeed, they must think seamlessly across content and technology, leverage advanced audience and customer analytics to complement creativity and execute at pace by transforming operations through automation. Furthermore, M&E leaders view inorganic routes as one of the fastest ways to gain scale, quickly add new capabilities, re-set strategic positioning in the industry and future-proof their business models.

Confident M&E sector exercises deal discipline

Deal discipline is the state of play in today's M&E sector, as it consolidates a multi-year run of active dealmaking. EY's 17th M&E Capital Confidence Barometer indicates a moderated - albeit still high - level of dealmaking intentions. Half of M&E executives surveyed expect their company to pursue M&A in the coming year, although that indicator has dropped seven points in six months.

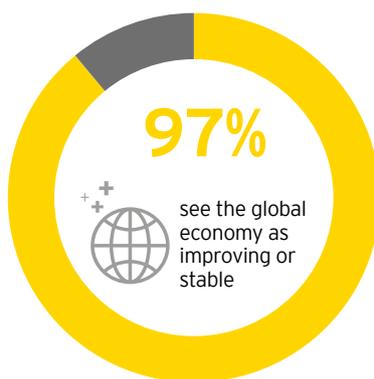
Sentiments registered throughout the latest Barometer provide the backstory. For starters, M&E executives' confidence in the global economy has quadrupled in the past year, with 82% now projecting ongoing economic improvement. That confidence has, in turn, helped produce significant increases in several other M&E indicators - 73% now expect near-term growth from existing operations and products, 75% project corporate earnings growth and 95% see equity valuations as stable or improving.

This favorable backdrop allows for discipline. M&E executives can more readily forgo paying the high valuations required to make acquisitions in today's market. They can "wait and see" what happens in the currently noisy regulatory and tax arenas. And they can focus on leveraging the strategic assets they have already amassed - no longer reacting to digital disruption but using digital disruption to their advantage.

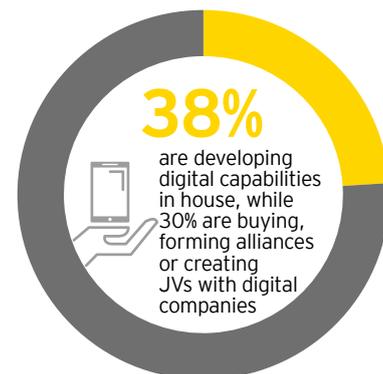
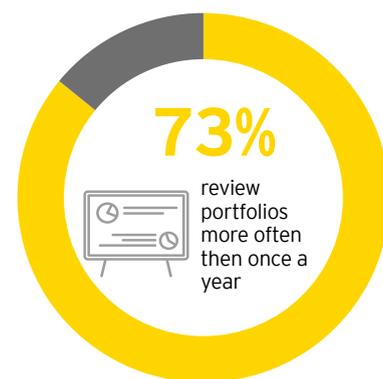
M&A Outlook



Macroeconomic environment



Growth and portfolio strategy





Impact of GST



GST

Goods and Services Tax (GST), the largest tax reform of independent India has been introduced with effect from July 2017.

Subsuming of taxes

With the advent of GST, several taxes levied by the central government (such as excise duty, service tax, central sales tax, countervailing duty, special additional duty, etc.) and by the state governments (such as value added tax, entry tax, luxury tax, entertainment tax) have been subsumed.

While most erstwhile indirect taxes have been subsumed in GST, basic customs duty continues to be levied on import of goods into India. Additionally, the local bodies i.e., panchayat, municipality, regional council, etc. are still empowered to levy an entertainment tax.

Subsuming the state levied and local body levied into GST has benefited the service industry in claiming the credit of taxes paid on procurement of consumables and capital goods. Along with this, GST has also resulted in resolution of the dual taxation issue on various supplies such as intangibles, works contract, cable and DTH subscriptions, etc.

Structure of GST

The service industry was traditionally provided an option to work on a centralized registration model under the service tax legislation. In most of the cases, the rate of service tax was uniform across all the services.

GST has entailed all dealers, including service providers, to identify all its locations in India from where supplies are made and requires the dealers to obtain registration for such locations. Television and radio broadcasters, cable TV operators, DTH operators, ad agencies, etc. have been availing the option of centralized registration. With the introduction of GST, all such suppliers are required to identify the relevant location (i.e., state) from where the supplies are made and shall have to pay taxes from such state GST registrations.

Dual GST

Given the dual GST structure in place in India, each supply shall be subjected to tax which shall have a portion of GST levied by central government and GST levied by state government. Thus, if the supply is made within a particular state, the total GST to be paid on the supply shall be an addition of the GST levied by that state and the GST levied by the central government. With the GST rates intended to

be standard for a particular supply, irrespective of the state, the rate of central GST (CGST) and state GST (SGST) shall be equal. Thus, if a supply liable to an effective tax of 18% is made, the CGST shall be 9% and the SGST shall be 9%.

GST legislation provides for principles to determine whether the supply shall be construed to be made within the state or the supply is an interstate supply i.e., supply made by a supplier from one state is provided in another state. This principle is termed as "place of supply" (POS). In case where the POS state for a particular supply is different from the state in which the supplier is located, an integrated GST needs to be paid which is also termed as IGST.

Compliances

The GST legislation requires dealers to carry out various compliances including:

- ▶ Issuance of invoices, debit notes, credit notes, etc. having specific details
- ▶ Numbering of such documents
- ▶ Number of returns to be filed on a monthly basis for all its GST registrations
- ▶ Reporting various details in such returns
- ▶ Filing declarations before exporting goods or services
- ▶ E-way bills

A snapshot of the return compliances envisaged in the GST legislation has been reproduced below:

Return name	Purpose	Due date
GSTR-1 (monthly)	Outward supplies	10 th of next month
GSTR-1A (monthly)	Details supplied by recipient	Auto populated
GSTR-2 (monthly)	Inward supplies	15 th of next month
GSTR-2A (monthly)	Details supplied by the supplier	Auto populated
GSTR-3 (monthly)	Monthly return	20 th of next month

However, based on the industry representations and hardship faced by dealers in complying with the procedures, the authorities have relaxed the timelines till the period of March 2018 where the returns GSTR2 and GSTR 3 for the period up to March 2018 have been deferred to a date which shall be announced by the authorities. Instead of such returns, a simplified return i.e., GSTR 3B has to be filed by dealers (currently for the period up to March 2018) on a monthly basis up to 20 of the next month.

Further, certain other relaxations have been provided relating to:

- ▶ GST under reverse charge mechanism on procurement from unregistered dealer, reduction in tax rate on various goods and services
- ▶ Increase in threshold for composition scheme for registration

- ▶ Extending the benefit of letter of undertaking to all the dealers for exports without any threshold limits
- ▶ Extension e-way bill implementation date

Key Impact on M&E segments

a. Television broadcasting

All major revenues generating activities of television broadcasters namely advertisement spot sales, channel distribution and syndication of content were covered under the service tax legislation. Thus, introduction of GST does not impact the taxability of revenues of television broadcasters. However, rate of tax applicable on each revenue stream has undergone a change.

Rate changes: Television broadcasting and distribution

	Service tax rate	VAT rate	Entertainment tax rate	Effective indirect tax rate	GST rate	Increase /Decrease in rate
Revenue						
Advertisement	15%	NA	NA	15%	18%	▲
Channel distribution	15%	NA	NA	15%	18%	▲
Syndication	15%	6%	NA	21%	12%	▼
Event sponsorship	15%*	NA	10%**	25%	18%*	▼
Channel subscription (cable)	15%	NA	10%**	25%	18%	▲
Channel subscription (DTH)	15%	NA	10%**	25%	18%	▼
Expenses						
Commissioned content	15%	NA	NA	15%	18%	▲
Acquired licensed content	15%	6%	NA	21%	12%	▼
Sports content	15%	NA	NA	15%	12%	▼
Technical and uplinking cost	15%	NA	NA	15%	18%	▲
Marketing cost	15%	NA	NA	15%	18%	▲
License fee	15%	6%	NA	15%	12%	▼

*Under reverse charge mechanism

**Rates were dependent on the location of event, cable / DTH connection, the nature of event, etc. It is assumed to be 10%.

Export benefit

The place of supply for all major revenues of television broadcasters is considered to be the location of its customer (barring certain supplies such as advertising to government). This continues to extend the export benefit to the television broadcasters under the GST legislation as well.

Entertainment tax

Distribution of television channels over the cable and DTH platform was liable to service tax and entertainment tax. While the state level entertainment tax has been subsumed, the local bodies continue to have the power to levy entertainment tax. With the numerous local bodies in India, if such entertainment tax is introduced at the local body level, it will be detrimental to the television distribution supply chain. Additionally, if such local tax happens to be levied, GST shall be levied over and above such tax which could result in double taxation even in the GST regime, which was introduced to remove tax cascading.

Tax on content and other goods procurement

Television content procured on licensing / acquisition basis was liable to VAT, generally at 6%. Further, other consumables and goods purchased by broadcasters was liable to excise duty and VAT. There was dispute on whether this VAT should be allowed to broadcasters as input tax credit under the VAT laws. With the introduction of GST, the dispute is likely to be resolved and GST paid on all procurements should be allowed as credit, subject to prescribed restrictions.

Multi state GST presence and tax on IRD movements

Given the wide range of customers served by the broadcasters, such broadcasters are likely to have GST presence in more than one state. GST considers two separate registrations of a same person as separate persons. Thus, any transaction between two locations having different GST registrations, GST is likely leviable.

With the need to distribute and make available IRD boxes to companies / DTH operators, such movement across states could attract GST and also trigger e-way bill compliances.

Intercompany transactions

Intercompany transactions are valued separately under the GST legislation and methods for such valuation have been prescribed. Considering this, all intercompany transactions done by broadcasters shall have to be in compliance with such rules.

b. Media agencies

Under the erstwhile service tax regime, media agencies generally deposited service tax on their commission element. With the introduction of GST legislation, such agencies could be construed to be providing media services to the advertisers and may have to deposit GST on the entire amount collected from the advertisers.

While the agencies shall be entitled to the credit of GST charged by media companies and hence shall be liable to pay only on the net commission earned, it could result in high cash flow impact.

c. Filmed entertainment

Under indirect tax regime before GST, theatrical distribution of films was exempted from service tax and VAT. The major reason for such exemption was that when the movie goer finally watches the film at the theatre, such entry ticket was liable to entertainment tax and not service tax. With such revenue of production house and distributor not liable to tax, proportionate credit of service tax incurred was denied resulting in cost to such producers and distributors.

With GST now being applied on all transactions from the production house to the distributor to exhibitor and to the final consumer, the exemption has been withdrawn. This is likely to save the production house from reversing tax credits on the COP incurred.

Film producers, artists, musicians, etc. were liable to service tax earlier and shall continue to be liable to GST though at a higher rate of GST.

Rate changes: Filmed entertainment

	Service tax rate	VAT rate	Entertainment tax rate	Effective indirect tax rate	GST rate	Increase /Decrease in rate
Revenue						
Grant of theatrical distribution rights	NA	NA	NA	NA	12%	▲
Grant of non-theatrical distribution rights	15%	6%	NA	21%	12%	▼
Film production services	15%	NA	NA	15%	18%	▲
Cinema tickets	NA	NA	20%*	20%	28%**	▲
Expenses						
Commissioned content	15%	NA	NA	15%	18%	▲
Acquired licensed content	15%	6%	NA	21%	12%	▼
Marketing cost	15%	NA	NA	15%	18%	▲
Rent	15%	NA	NA	15%	18%	▲

*Rate was dependent on the location of theatre, language of film, rate of ticket etc. We have assumed the average rate to be 20%.

**Assuming the ticket price is over INR100. Else, the rate shall be 18%.

Non-theatrical distribution

Non-theatrical distribution of films was liable to dual tax where service tax and VAT was levied on the consideration. Such dual taxation has been resolved with the introduction of GST.

Inverted duty structure

Licensing of copyrights, including the theatrical and non-theatrical rights granted by film producers, is liable to GST at 12%. Though most of the expenses incurred are liable to GST at 18% or above, productions houses could end up having more GST credits than GST liability if the revenue is not sufficient to absorb the GST credits. Without a refund being allowed for such inverted duty, excess GST credit is likely to result into blockage of funds for the producer.

GST rate and entertainment tax

Rate of GST on film tickets (above INR100) is 28%. This rate of 28% is detrimental to the growth of the film sector. Additionally, if local body entertainment tax is introduced on film tickets, the effective rate of tax on film tickets could be in the range of 30% to 40% depending on the entertainment tax rate.

d. Events and activations

Entry into events was liable to service tax and entertainment tax earlier. With introduction of GST, such taxes are replaced by GST. Rate of GST for most events is 28%.

Rate changes: Events

	Service tax rate	VAT rate	Entertainment tax rate	Effective indirect tax rate	GST rate	Increase /Decrease in rate
Revenue						
Ticket sales for entertainment event	15%	NA	20%*	35%	28%**	▼
Brand engagement	15%	NA	NA	15%	18%	▲
Event sponsorship	15%***	NA	10%****	25	18%	▼
Expenses						
Marketing cost	15%	NA	NA	15%	18%	▲
License fee	15%	6%	NA	15%	12%	▼
Travel and conveyance	15%	NA	NA	15%	18%	▲
Rent	15%	NA	NA	15%	18%	▲

*Rate was dependent on the location of event, nature of event, rate of ticket etc. We have assumed the average rate to be 20%.

** No tax if the consideration for entry into the entertainment event is up to INR500.

***Under reverse charge mechanism.

****Rate was dependent on the location of event, nature of event etc. We have assumed the average rate to be 10%.

Compliances in each event state

Every supplier shall be required to register under the GST legislation in the state from where the supplies are made. Accordingly, where events are conducted pan-India, event organizers may be required to register in each state where such events are conducted.

Where event organizers do not have presence in the event state, the GST rules prescribe for a temporary registration to be obtained. However, such registration entails prepayment of adequate GST on an estimated basis.

Registration in each state would entail additional compliances, which involve filing of monthly returns and payment of monthly GST liability.

Local body entertainment tax

If local body entertainment tax is introduced on entry into entertainment events, the effective rate of tax on tickets to such events could be in the range of 30% to 40% depending on the ET rate.

GST on sponsorship: Continues under reverse charge mechanism

Sponsorship revenue earned by event companies shall continue to be liable to GST under the reverse charge mechanism. Thus, the sponsor of an event shall be liable to deposit GST, as opposed to the event company. This is likely to be detrimental to the event company since this could result in reversal of GST credits for the event company.

e. Print media

For the first time, an indirect tax has been levied on advertisement in print media from July 2017 onwards. GST at 5% is chargeable on print ads while the circulation revenue remains out of the GST net.

Rate changes: Print

	Service tax rate	VAT rate	Entertainment tax rate	Effective indirect tax rate	GST rate	Increase /Decrease in rate
Revenue						
Advertisement in print media	NA	NA	NA	NA	5%	▲
Circulation revenue	NA	NA	NA	NA	NA	-
Expenses						
Newsprint	NA	6%	NA	6%	5%	▼
Ink	12.5%	6%	NA	19.25%	18%	▼
Marketing cost	15%	NA	NA	15%	18%	▲
Travel and conveyance	15%	NA	NA	15%	18%	▲
Rent	15%	NA	NA	15%	18%	▲

Multi-state GST presence

With number of locations having different facilities, print companies are likely to be required to obtain GST registration in more than one state. Further, it shall become imperative for the print company to decide which is the GST registered location which supplies services to advertisers / agencies especially in case of multi circulation campaign.

Restricted credit

Circulation revenue remains out of the GST applicability. This shall result in the print company reversing GST credits pertaining to the circulation revenue. With almost all expenses now in the GST net, cost of reversal could be significant for a print company.

f. Music industry

Multiplicity of taxes on the music industry has been resolved by the introduction of GST. Further, seamless credit of taxes on procurement is also allowed to music companies on all major procurements. While the temporary transfer of music rights was liable to service tax and VAT both, making the effective tax rate as 21%, with the introduction of GST, such rate is now 12%. Similarly, perpetual sale of music rights was liable to VAT at 6% which is now liable to GST at 12%.

g. Outdoor advertisement

Several outdoor media agencies were required to register under the state VAT laws as well as service tax due to nature of business wherein these agencies were supplying advertisement material along with advertising services.

Display of ads on outdoor media was liable to an effective service tax rate of 15%, which is now liable to 18% GST.

Multi state GST presence and tax on material movements

During the course providing services, goods (such as signage, flex, standees, etc.) are moved from one location to another. Such movement across states could attract GST and also trigger e-way bill compliances.

h. Gaming

Under the old tax regime, gaming industry was liable to pay entertainment tax and service tax where rate of entertainment tax was different from state to state and service tax was payable at 15%. Considering these taxes have been subsumed under GST, gaming industry has been kept in the highest bucket of 28%. However, this increase in rate is also coupled with benefit of GST credit on most procurements by the gaming organization, which was not the case under the erstwhile pre GST era. In relation to online gaming, rate of tax has been increased from 15% to 18%.

i. Digital

Digital subscription and advertising services were liable to service tax at 15% which has now been increased to 18%. However, this increase in rate is also coupled with availability of GST credit on most procurements by the digital organizations, which was not the case under the pre GST era.

Common areas of concern

a. Place of supply for government advertisements

GST law provides that place of supply for advertising services provided to government shall be each state where the ads are disseminated. Further it prescribes that the proportion of amount attributable shall be based on BARC data.

This is likely to result in confusion, litigation and operational challenges where multiple invoices shall have to be issued to a single customer to capture values pertaining to dissemination in various states.

b. Reverse charge services- on-ground sponsorship

Service tax regime had introduced a concept of reverse charge mechanism wherein service recipient was liable to pay tax to government instead of service provider discharging the tax liability. The same concept has been continued in the GST regime as well. The list of services covered under reverse charge of GST includes sponsorship services as one of them. The media and entertainment industry is the industry providing sponsorship services to various sponsors. Since this sponsorship services are covered in reverse charge, the service provider has to reverse the proportionate input tax credit.

c. Local body entertainment tax

As per the Constitution Amendment Bill, local body i.e., municipality and other such bodies can levy and collect entertainment tax in addition to GST levied by central and state governments. This could result into cascading effect of tax which may defeat the concept of GST.

In case such local body entertainment tax is implemented, it would impact most of the media businesses including, but not limited to, television distribution, filmed entertainment, sports and other events.

d. GST Anti-Profiteering

GST legislation provides that any reduction in rate of tax on any supply of goods or services or the benefit of input tax credit shall be passed on to the recipient by way of commensurate reduction in prices. With the limited guidance available around this, each business might have to evaluate and analyze the need to be compliant with the Anti-Profiteering regulation introduced with GST.

GST Impact on M&E segments

+ Positive

~ Neutral

- Negative

Sector	Output	Input	Implication for companies
Ad agencies 	<ul style="list-style-type: none"> ▶ Advertisement (In print media) - 5% (with full ITC) ▶ Advertisement (In other than print media) - 18% (with full ITC) ▶ Supply of signage - 28% (with full ITC) 	<ul style="list-style-type: none"> ▶ Procurement of media space (incase of P2P) ▶ Print media - 5% (with full ITC) ▶ Other media - 18% (with full ITC) ▶ Procurement of flex - 12% (with full ITC) ▶ Procurement of signage - 28% (with full ITC) 	<p>With trading sector being eligible for setoff of GST paid to Ad agencies, there seems to be effective increase in budgets for ad spends. Also, with advertisement in print media being brought to tax ambit under GST, there would be minimal credit reversal for the agencies resulting in slight positive impact on advertising agencies.</p>
Broadcasting 	<ul style="list-style-type: none"> ▶ Ad Sales - 18% (with full ITC) ▶ Distribution revenue - 18% (with full ITC) ▶ Syndication revenue - 12% (with full ITC) 	<ul style="list-style-type: none"> ▶ Content right (IPR) - 12% (with full ITC) ▶ In- house production (services) - 18% (with full ITC) ▶ IRD boxes - 28% (with full ITC) (excluding BCD) 	<p>With increase in rate of tax, the working capital requirement will increase which will be compensated with marginal increase in credit of VAT (which was not available under service tax regime).</p>
Film production 	<ul style="list-style-type: none"> ▶ Production revenue (theatrical rights, satellite rights) - 12% (with full ITC) 	<ul style="list-style-type: none"> ▶ Production cost (line producer) - 18% GST (with ITC)) ▶ Copyrights - 12% (under RCM) 	<p>Credit of taxes will be fully available to film producers. However, inverted duty structure, film producers will face significant blockage of credit and hence is likely to overshadow the position.</p>

ITC: Input tax credit

GST Impact on M&E segments

+ Positive

~ Neutral

- Negative

Sector	Output	Input	Implication for companies
 <p>DTH</p>	<ul style="list-style-type: none"> ▶ Subscription revenue - 18% (with full ITC) ▶ Placement/Carriage revenue - 18% (with full ITC) ▶ Advertisement revenue - 18% (with full ITC) 	<ul style="list-style-type: none"> ▶ Import of set- top box - 18% (with full ITC, excluding BCD) ▶ Content cost - 12% (with full ITC) 	<p>Most of the companies were not availing credit of SAD on import of STBs or VAT/CST which will now be available. However, introduction of local body entertainment tax could be a significant negative for the sector.</p>
 <p>Digital (including OTT platforms and MCNs)</p>	<ul style="list-style-type: none"> ▶ Subscription revenue - 18% (with full ITC) ▶ Advertisement revenue - 18% (with full ITC) 	<ul style="list-style-type: none"> ▶ Content Cost - 12% (with full ITC) 	<p>Digital companies are likely to have neutral negative impact under GST regime. With increase in rate of tax, the working capital requirement will increase.</p>
 <p>Print</p>	<ul style="list-style-type: none"> ▶ Advertisement in print media - 5% (with full ITC) ▶ Circulation revenue (Newspaper) - Nil rate 	<ul style="list-style-type: none"> ▶ Newsprint - 5% (with full ITC) ▶ Printing Job work (Newspaper) - 5% (with full ITC) 	<p>Sale of newspaper is exempted while advertisements in newspapers are taxed at 5%. Proportionate credit of taxes paid on expenses will be available. However, this will be compensated by fall in business from exempted clients.</p>
 <p>Sports</p>	<ul style="list-style-type: none"> ▶ Ticket revenue - Tickets of upto INR 500/- exempt ▶ Sponsorship - 18% (under RCM) ▶ Central rights income - 18% (with full ITC) 	<ul style="list-style-type: none"> ▶ Franchisee fee - 18% (with full ITC) ▶ Advertisement and promotion cost - 18% (with full ITC) ▶ Player fees - 18% (with full ITC) 	<p>With sponsorship income continued to be under reverse charge, sports companies will be required to reverse credit on sponsorship income. In addition, if state charge local body entertainment tax, GST impact will be significantly negative.</p>

GST Impact on M&E segments

+ Positive

~ Neutral

- Negative

Sector	Output	Input	Implication for companies
 <p>Radio</p>	<ul style="list-style-type: none"> ▶ Advertisement revenue - 18% (with full ITC) ▶ Sponsorship - 18% (under RCM) 	<ul style="list-style-type: none"> ▶ Radio license fee - 18% (with full ITC) ▶ Royalty - 12% (with full ITC) ▶ Content Cost - 12%/18% (with full ITC) 	<p>With increase in rate of tax, the working capital requirement will increase which will be compensated with marginal increase in credit of VAT (which was not available under service tax regime). Radio companies will continue to reverse credit on sponsorship income.</p>
 <p>Film exhibitors</p>	<ul style="list-style-type: none"> ▶ Sale of movie tickets - Tickets of upto INR- 100-18% - Tickets of >= 100- 28% ▶ Ad revenue - 18% (with full ITC) ▶ Food & beverage revenue - 5%- 28% +applicable cess (if any) 	<ul style="list-style-type: none"> ▶ Content Cost - 12%/18% (with full ITC) ▶ Leased premises - 18% (with full ITC) ▶ Leased infrastructure - 28% (with full ITC) 	<p>Film exhibitors were not eligible for taking full input credit in pre-GST era which is now fully available. However, the increase in average rate of tax could have a positive impact in some states and negative in other states. On an overall basis, GST is likely to be slightly positive impact on the sector.</p>
 <p>Events and Activations</p>	<ul style="list-style-type: none"> ▶ Organizing of events - 18%(with full ITC) ▶ Sponsorship - 18% (under RCM) ▶ Admission to event - 28% (with full ITC) (Tickets of upto INR 500/- exempt) 	<ul style="list-style-type: none"> ▶ Hotel Accommodation cost - Nil- 28% (with full ITC) ▶ Air Travel cost <ul style="list-style-type: none"> ▶ Economy class - 5% (with ITC on input services only) ▶ Other than economy class - 12% (with full ITC) 	<p>Event managers could suffer blockage of credit on many expenses If the business is planned well in GST, event management companies can have positive impact on the business. Event companies would have to reverse credit on sponsorship income. Overall impact on event managers is negative.</p>

Impact of GST on advertising

Trade Impact	Industry	Reason for impact
Highly Positive	<ul style="list-style-type: none"> ▶ FMCG ▶ Consumer durables ▶ Retailers / traders ▶ Gold jewellery retailers 	Credit of Service Tax, SBC and KKC was not available in the pre-GST regime to such taxpayers. With single levy of tax, full credit of GST (either at 5% on print advertisements or 18% on non-print advertisements) charged on the advertisement spend will be available.
Positive	<ul style="list-style-type: none"> ▶ Auto ▶ Hotels and hospitality ▶ Textile 	Most of these sectors will be eligible to claim higher input tax credit as compared to pre-GST regime (to the extent of SBC and KKC). Thus, effectively increasing their advertising budgets.
Neutral	<ul style="list-style-type: none"> ▶ Real Estate ▶ Airlines ▶ Cigarettes ▶ Insurance ▶ Telecom ▶ Alcohol for human consumption ▶ Ecommerce 	Most of these sectors are not significantly impacted on account of implementation of GST except fundamental changes such as change in rate of tax, de-centralised registrations, etc.
Negative	<ul style="list-style-type: none"> ▶ Banking and Financial Services ▶ Government ▶ Power and utility ▶ Education institution ▶ Tour Operators 	With implementation of GST, effective rate of tax has increased from 15% to 18%. However, these sectors are either eligible to avail input tax credit or it requires to carry out proportionate reversal of credits. Thus, effectively, increase in rate of tax will increase the reversal of input tax credits.
Highly Negative	<ul style="list-style-type: none"> ▶ Petroleum 	Entire tax charged under GST to petroleum companies would be an increased cost. Thus, effective sales budget could reduce to the extent of tax cost.

This table is representative. Actual impact could vary on a case by case basis

Estimated GST contribution by M&E sector (on gross basis)

We have estimated the GST being contributed by the M&E sector on gross basis on the basis of the assumption that such liability is discharged without utilising the Input Tax Credits.

INR In billion

Segment	Estimated Revenue CY 18	General GST rate	Expected Gross GST contribution
TV	734	18%	112
Print	331	5% on Ads and 0% on Subscription	11
Film	166	28% on Tickets above INR 100, 18% on other tickets	27
Digital	151	18%	23
Animation & VFX	80	18%	12
Events	77	28%	12
Gaming	40	18%	6
OOH	37	18%	6
Radio	28	18%	4
Music	14	18%	2
Total INR billion	1,660		215

Assumed that 70% of print revenue is earned from advertisement and balance is subscription

Operating model 2020

In this section, we discuss the sea of changes that are impacting, or will soon impact, the way the Indian M&E sector operates

1. New technologies

Blockchain

Blockchain is one of the most widely debated technologies today. Most industries are apprehensive of how blockchain will impact their industry dynamics, given that business models based on blockchain principles are fast emerging and provide both opportunities and threats for existing businesses.

We believe that blockchain can eventually play a role in some of the below areas of the M&E industry:

► Piracy management

Blockchain-based technologies are promising to resolve some of the current challenges around piracy, by enabling better distribution of content and tracking how content moves digitally.

► Royalty payments

With blockchain technologies, an exact computation of watch time is possible, which can enable on-the-fly allocation of royalty payments to artists and IP owners. For example, a digital content series could be directly linked to the producer so as to enable real-time advertising revenue share. Similarly, IP owners such as lyricists and singers can be paid rightful dues on a near real-time basis. What this will also enable is getting newer producers to display their content as per a pre-decided advertising share.

► Customers as distributors

Peer-to-peer sharing has been possible since the days of Napster. However, there have been many cases of IP infringement because of lack of controls and improper tracking technologies. With blockchain technologies, customers as legal distributors of third-party branded content will become a reality. Moreover, customers will have an incentive to share content as it could result in monetary benefits for them given on-the-fly billing for transactions monitored by blockchain technologies.

► Monetization of content created by individuals

Blockchain allows individual artists and contributors to market their own content securely – or with complete assurance – rather than depend on a platform or aggregator. This is because every bit of content consumed can be tracked across the entire value chain and hence commercial benefits can be directly transferred without an intermediary. This is likely to result in better tracking of advertising and subscription revenue streams.

► Micropayment-based payment models

As micro-payments become commercially viable and digital rights management (DRM) technologies make it harder to copy content illegally, blockchain technologies will enable micropayments to become secure and easy to use. This will result in increased monetization of content that has lower absolute values (podcasts, single songs, book chapters, short videos, etc.).

► Altered advertising models

With blockchain allowing payment tracking based on video content usage, it will enable far improved tracking of advertising spends for big advertisers. While some of these metrics have been available with some of the larger platforms in the past, blockchain technologies promise to efficiently democratize the entire process.

Artificial Intelligence (AI) / Machine Learning (ML)

Top entertainment companies the world over are beginning to invest in AI and ML to improve revenues, reduce costs, enhance efficiencies and create new digital products and services. AI applications are going to have a big impact on the entertainment industry going forward.

From content processing and content recognition to speech recognition and ML, there are myriad ways in which AI and ML are impacting the media and entertainment industry. AI and ML are gaining prominence now because despite the unprecedented growth in digital business, traditional business such as print and broadcast are facing growth pressures. To counter margin pressures, the industry is embracing new technologies such as AI to reduce costs and address margin pressures. Some of the areas where AI is gaining increasing traction are detailed below:

► Individualized content recommendations

Given that content recommendations – based on user activity and behavior – is the new norm for the audience of one, leaders in the OTT and digital content space are leveraging AI to personalize content recommendations for every individual. Platforms using AI have algorithms that learn over time what users want to watch and recommend similar content, including when the recommendations should be made for most effectiveness. Increased personalization results in increased time spent as well as engagement, and hence it is becoming a must-have feature for all platforms of scale.

► Film and TV trailers and promos

Companies are training ML algorithms to help develop film trailers and TV promos. The process begins with researchers feeding the system with multiple film trailers. This is followed by the AI system being trained to conduct content analysis and tagging scenes from similar movies according to different emotions, tone of voice, musical score based on the feelings invoked, and other aspects of a film such as location, lighting and framing. After the ML process, the movie has to be put into the system so that the AI could select which scenes would appeal the most to viewers. Finally, there is manual intervention wherein a company staffer selects the scenes to create the final trailer. In this process, the entire process of making a trailer takes about 24-48 hours compared to the traditional process that could last up to two weeks.

► Sports highlights/data

AI is being developed to enable the creation of immediate and quick highlights of sporting events and capture metrics to enable statistics and scoreboards automatically. This is done by combining a review of on-screen action, historical data, crowd reactions, Twitter posts and players' facial expressions wherein AI systems identify and rank the best shots that made up the day's highlights or best news items to appear on the website.

► Meta-tagging and subtitling

As content gets ingested into the content management system, it needs to be tagged. Tagging algorithms now exist for facial recognition, recognition of objects, tone of voice, brands etc., which can speed up the process of meta-tagging content. Technologies have also been developed to automate sub-titling of content across multiple languages. These technologies can not only enable better content search (critical for news companies) but also enable content to be sweated more efficiently across languages and formats.

► Storytelling/Content evaluation

Algorithms are being created to analyze content and story – a process that measures and interprets emotions on content by mapping characters, plotlines and moments. These are tagged across emotion categories such as “happy,” “sad” or “love.” This exercise becomes useful when content becomes popular or goes viral because it claims to employ sentiment analysis in finding what triggers a specific target market to share content and become potential customers. It is also used to evaluate different story options to determine which would have a higher chance of success.

► Chatbots

Leading IP owners are developing chatbots for their most popular characters for promoting movie or television content. For instance, a chatbot of a movie character can ask users about their preferred visuals and songs from the movie and then create a mixtape based on these preferences. Chatbots are also being used in more mundane spheres such as enabling customer interactions for simple tasks on IVR systems.

► Voice remotes

Voice remotes are being developed using AI that recognizes voice commands. It can be instructed to change channels, search for specific content, provide recommendations, select a favorite channel and control a user's digital video recorder.

► Repairs and maintenance at cable and DTH companies

Companies in developed markets are using predictive ML models to predict customer issues before they occur. Developing the system involves collecting data sets from calls to customer service centers and passing them on to systems automatically. The Machine Learning platform then extracts the content features on the call, assigns a score and uses the figures for data model creation and enhancement. By applying algorithms on the data, the system is said to be capable of performing predictive analysis on the likelihood of customer complaints.

► Ad scheduling

AI can enable OTT and linear media platforms to schedule advertisements based on expected viewership for each brand's specific desired audience by targeting them most efficiently.

2. Process automation

In our changing world, Robotic Process Automation (RPA) is increasingly being utilized in the workplace. RPA leverages virtual software robots (bots) that emulate human interaction with systems to automate existing user actions. RPA delivers repetitive process executions and data handling that humans do across legacy, desktop and web applications, with significantly lower human involvement and at a fraction of the cost.

Why RPA?

Traditional process transformation and cost-reduction measures are no longer sufficient to deliver efficiency gains and cost competitiveness. Applying intelligent automation technologies such as RPA can help deliver business value in a short period of time and make this journey potentially a “self-funded” one. Some benefits of RPA are as follows:

- ▶ A robot requires a fraction of the existing cost to deliver business processes
- ▶ RPA works with the existing IT landscape
- ▶ It is an unattended automated solution that works 24/7
- ▶ It can lead to double-digit reduction in error rates – robots never forget their training
- ▶ The speed of process execution improves significantly
- ▶ Processes are executed with a full audit log, in a centrally monitored secure environment
- ▶ Processes can be automated by business users with very little IT knowledge; it requires minimal investments on IT infrastructure

RPA in the M&E sector

RPA has several use cases in M&E, some of which are detailed below:

Area	Use cases	Area	Use cases	
Advertising	▶ Creation of traffic orders	Finance	▶ Invoicing	
	▶ Scheduling of ads		▶ Reconciliations	
	▶ Reconciliation of scheduled to as-run		▶ Commission adjustments	
	▶ Reconciliation of printed ads to invoiced ads		▶ Payments processing	
	▶ Deal management		▶ Tax reporting	
Programming/ content	▶ Scheduling of films		▶ Regulatory reporting	
	▶ Updating rights acquired in the rights management system		▶ MIS analysis	
	▶ Rate benchmarking		▶ Contract management	
	▶ Subtitling		Customer interaction	▶ Email and SMS segregation and forwarding
	▶ Meta-tagging and library functions			▶ Chatbots
Circulation	▶ Creation of fixed point charts			
	▶ Indenting			
	▶ Invoicing			
	▶ Reconciliations			
Distribution	▶ Subscription management			
	▶ Contract management			
	▶ Invoicing			
	▶ Collection management			
HR	▶ Activation / deactivation			
	▶ Onboarding			
	▶ Employee master data			
	▶ Learning and development administration			
	▶ Position management			
	▶ Payroll batch import and validation			
	▶ Creation of user accounts across various IT systems			

RPA for M&E industry is the start of a broader automation journey and is going to be a big part of our lives at work in the near future. It is certainly a question of "when" and not "if." RPA deployments can be fast, inexpensive and straightforward to integrate with legacy platforms and hence they will quickly go from being a differentiator to a standard practice that every organization will need simply to survive.

3. Cyber security

Security of IP and data

M&E companies have valuable IP and data

M&E companies are lucrative targets due to their high-valued IP content, end-customer information and the wide scale public visibility that they tend to offer if affected. Further, most sub-sectors in M&E are dependent on several external stakeholders with access to IP content such as freelance creative talent, post-processing units, censor board and distribution media channels, which creates a long chain of access points that can be potentially exploited by hackers beyond the boundaries of the enterprise.

In August 2017, a premium global media company faced an apparently massive breach of its servers, in which hackers pilfered everything from full episodes of unreleased shows to sensitive internal documents. Not long after, in separate and distinct incidents, two episodes of one of their flagship show leaked out early. And later in the same month, a hacker group hijacked their main account on one of the social media sites, along with those of several of the media company's shows. This incident clearly indicates that the insider threat extends far beyond the boundaries of the enterprise and to the partner/vendor ecosystem as well.

Earlier, a leading music portal was hacked, exposing details of over 10 million users, which resulted in the company undertaking massive media campaigns to undo the negative publicity and impact to its reputation. The breach was a result of a vulnerability on the website that was an easy target for the hacker.

In the recent spate of ransomware attacks, the world's largest advertising company was affected by the Petya ransomware. This curtailed the operations of the company and put advertising and marketing agencies clearly in the spotlight as potential targets for this growing cybercrime phenomenon.

A severe breach, in addition to severe consequences such as revenue loss, shareholder value erosion and loss of jobs, could also create a public perception of a firm as an unsafe enterprise to deal with – a negative branding that could take years to recover from.

The greatest sources of attack

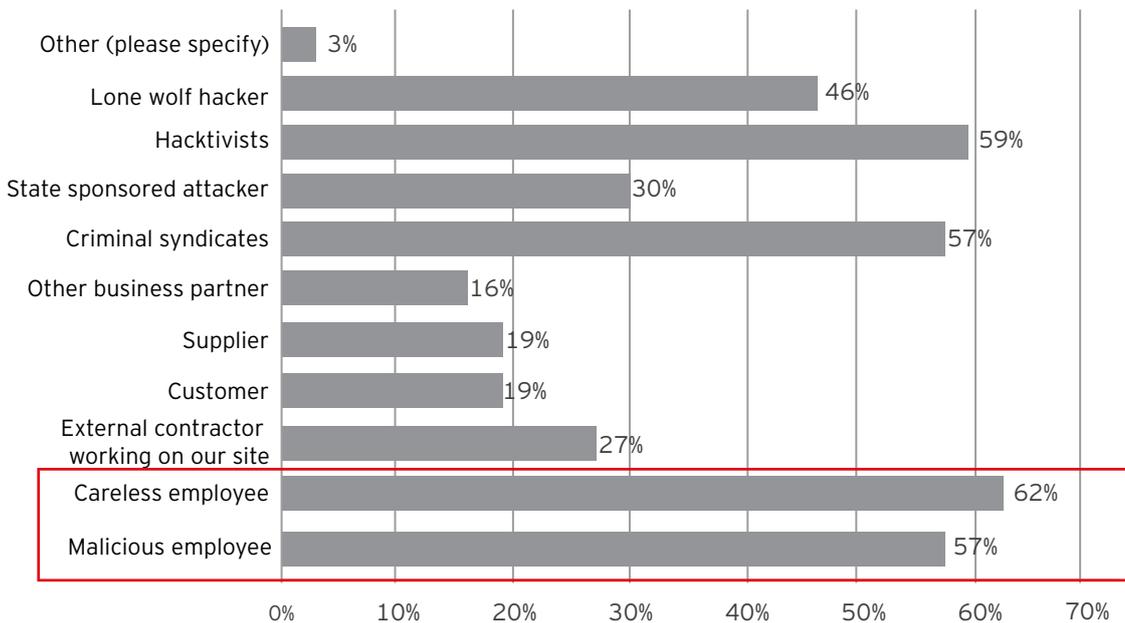
As part of EY's Global Information Security Survey (2017), we asked M&E executives to assess their companies' cyber vulnerabilities and identify the most likely sources of attacks on their firms. In both cases, the most serious vulnerabilities were linked to employee behavior.

M&E respondents believe that employees – either through lack of awareness or via malicious acts – are the greatest source of an attack.

Given the risks associated with employees, M&E companies need to place high priority on the security awareness and training agenda.

Many cybersecurity programs focus on the highly technical solutions of a cyber defense. Firms must recognize that their vulnerabilities may already be inside the perimeter – with their employees. Cybersecurity training, supervision and accountability – in short, **building an employee culture of cybersecurity** – are important defenses that a firm can maintain.

Most likely sources of an attack



Source: EY's Global Information Security Survey 2017, M&E respondents

Need for a continuous program

In GISS 2017, 47%¹ of the M&E companies indicated that it is unlikely that they will be able to detect breaches of their systems and determine whether customer and other confidential data has in fact been compromised. Nearly 30% of the M&E companies indicated that they have none or ad hoc breach detection mechanisms in place. Most companies realize that facing breaches is a reality in today's time but not being able to detect and then contain the impact causes the real brand erosion.

Based on EY's research, the top threats and vulnerabilities highlighted by M&E companies are as indicated in the table below:

Top vulnerabilities	Top threats
1. Careless or unaware employees	1. Malware (e.g., viruses, worms and Trojan horses)
2. Outdated information security controls or architecture	2. Zero-day attacks
3. Unauthorized access (e.g., due to location of data)	3. Phishing

This clearly indicates that with the evolving technology landscape, changing access scenarios and zero-day attacks, security needs to be a continuous process. Organizations need to have an ongoing program to identify internal/external threats and their own weaknesses, assess risks and then have a continual improvement plan. Organizations need to create a robust monitoring program to identify indicators of compromise early on. Further, given that the response is as important as the defense, companies should have in place a proactive response plan to contain the impact and a recovery plan – including a communications plan, governance and technical procedures – that can minimize damage and accelerate the process of building trust with the customers.

Increasing trend of adopting security-as-a-service

Some M&E companies in India are planning to or have already embarked on a security-as-a-service program, which is a yearlong/multi-year program with a specialist security firm to outsource the monitoring, testing, review and improvement plan agenda. Such programs are holistic in nature, covering the critical aspects of security that organizations need to focus on, on an ongoing basis. It may be difficult for an M&E company to attract the right skilled security resources, but outsourcing provides them with an advantage of maintaining a continuous vigil and access to the specialized security skills as and when required without

the overhead of hiring and retention. It also provides companies access to global knowledge bases and learnings from other similar organizations.

Moving from B2B to B2C businesses

There is an increasing trend where M&E companies are moving from traditional B2B businesses to more digital and interactive businesses storing profile, payment and consumption details of their customers. With the increasing adoption of digitization and the vast access to information, M&E companies are susceptible to a large number of attack vectors for cyber intruders, and this leaves no part of the firm – from the supply chain to customer data – immune to attack. Traditional industries such as manufacturing and transportation can involve significant switching costs to customers but not so for many companies in the M&E sector – in which competitors are just a click away for the dissatisfied customer.

1. As per EY's Global Information security survey 2017 - M&E sector respondents

Indian content is getting exported

As businesses mature, more and more M&E companies are making their content available to international markets. With the global consumer spending on subscription-based video on demand (S-VoD) services expected to grow, Indian OTT players are foraying into the international market with their library of regional content that has a huge demand among the Indian diaspora, to grab a piece of the S-VoD spending pie. The players are capturing personal information of their subscribers across the various countries of operation. Stringent privacy laws across most developed nations and enforcement of newer regulations such as General Data Protection Regulation (GDPR) starting 25 May 2018 could impact organizations severely, with penalties going as high as EUR20 million or 4% of the global annual turnover, whichever is higher. M&E companies need to assess the impact of the privacy regulations on their operations and take necessary action to safeguard themselves from any penalties or lawsuits that could hamper their operations and brand.

Are we investing right?

Given the dangers, one might assume that M&E companies are making cybersecurity a high corporate priority. But the numbers show otherwise – while increasing its absolute cybersecurity spend, the sector is not spending anywhere near what it believes is necessary to safeguard customer data and their brand. 49%² of the M&E companies indicated that the security spend has almost remained constant or reduced over the last 12 months. Further, 44%² indicated that they do not foresee a higher budget to be allocated over the next 12 months as well.

M&E executives believe that their firms are spending less than what is necessary to reach the acceptable levels of security – creating consequences for their reputation and brand.

4. Analytics

To effectively align their organizations for geographic and multi-media growth, M&E companies are placing significant emphasis on data analytics. M&E companies are largely focusing on four components:

Simplified single-version of rear-view reporting

Companies are now using modern tools and data analytics techniques to simplify the collection, storage and analysis of data. In doing this, they eliminate manual, spread sheet-based reporting, automate performance metrics collection and distribution, reduce complexity and volume of internal reporting and standardize content information across business units.

A single version of truth across the enterprise enables better performance management, focus on business KPIs, translation of CXO KPIs to business, channel, edition, regional and department levels, and standardization of exception reporting and visualization.

KPI libraries are used now available across advertising, subscription, content/programming, distribution, marketing, business technology, editorial, events, non-FCT sales, subscriber billing, activation/deactivation and other front of house functions, apart from support functions such as HR, finance and payables.

Develop predictive techniques

Predictive modelling enables organizations to shift gears on data from collection and reporting to taking a forward-looking view of the issues and challenges that may impact the business in the future. It involves identifying vital levers that drive the business by sorting through the big data “noise,” creating models that predict performance and variance before they happen and enabling data-driven, real-time decision-making.

A leading Indian M&E company with presence across genres, languages and media has gained significant benefits by leveraging a big data platform, which enables it to ingest large volumes and variety of data from both internal and external sources and gain valuable insights about its audience and content performance on a real/near real-time basis. This initiative provided the company with a 360-degree view of audience and content performance, which assisted it in increased content and programming forecast accuracy, identifying higher value audience micro-segments for advertisers, market effectively to obtain new customers, retain existing audiences, etc.

2. As per EY's Global Information Security Survey 2017 - M&E company results

Democratized access to data

By leveraging mobile and cloud-based technologies, organizations can provide easy access to business data for stakeholders at the time and place where it is relevant. For the M&E sector, this largely involves mobile-ready analytics solutions, visualization techniques that make it easy to consume information and enabling stakeholders to develop their own custom insights from common standards.

A leading Indian M&E company implemented self-service BI/analytics that allowed employees across the organization to extract, process, analyze and consume data and easily share insights. Most M&E companies are moving toward enabling their ad sales and subscription/circulation teams with real-time customer data and news to strengthen their sales techniques.

One view of the customer

Consolidation enables organizations to develop a single view of the customer. It also simplifies data outputs, enabling both standardization of data across the enterprise and customization to better target customers. A single view enables cross-targeting of customers, effective marketing, increased customization of offers and ownership of more robust data.

An Indian multinational designed and implemented an organization-wide digital analytics platform. This allowed the company to:

- ▶ Understand the consumer's viewing behaviors
- ▶ Create audience profiles based on demographics, behavior and brand affinity
- ▶ Understand audience preferences and dynamic advertising opportunities
- ▶ Design audience engagement campaigns
- ▶ Predict program viewership and recommend program and ad placements
- ▶ Create fan profiles based on demographics, purchasing history and online behavior
- ▶ Use a recommendation engine to cross-sell/up-sell
- ▶ Improve user experience
- ▶ Optimize ticketing, retail and concession sales

The key to success in analytics for media companies is to link each persona/role in the organization to their business KPIs, which are in-turn linked to specific goals, and the goals define tactical sales and marketing campaigns.

Global M&E Trends



M&E global trends

As a new year begins, there is no shortage of prognostication around the most important trends for any industry. But in 2018, a focus on the changing dynamics of media and entertainment is more critical than ever, given how rapidly content creation, distribution and monetization are being disrupted. Disruption is now so universal and palpable that it demands serious focus and commitment to transformation. Inertia is no longer an option as companies contemplate what will drive customer and brand relevance, strategic growth and operational excellence.

So, we need to ask ourselves the question: Are we transforming quickly enough?

Regardless of which trend resonates most with a company's business reality, there is no question that a keen focus on transformation is imperative, given how quickly the dynamics are changing in media and entertainment. It is a moment to focus purposefully on customer needs and experience, challenge the silos of the organization and commit to strategic and operational transformation at scale to drive growth. The landscape does not offer easy answers and certainty – rather, it requires confident, fact-based leadership with a decisive commitment to invest in the future and an ability to fail fast and pivot, if needed.

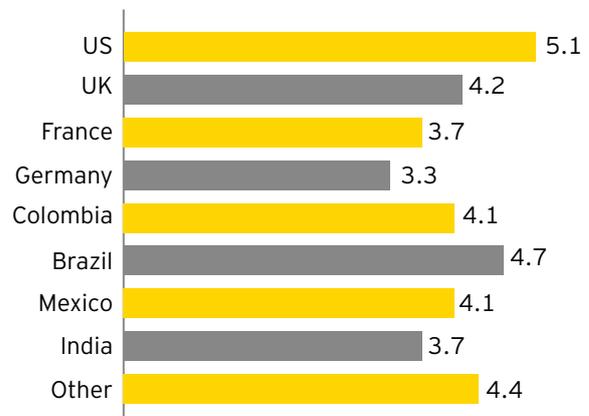
Content mega trends

Demand remains high for film and television content

While fragmenting audiences are changing the overall media consumption mix, total time spent with media is growing in most countries.

Falling TV ratings often make the headlines – since 2012, ratings in the US have dropped on average 4% for broadcast and 6% for cable nets¹. This is just half of the story. The other half reflects the new viewership normal: audience fragmentation. Consumers now have unprecedented control over content access, time-shifting, duration, screens as well as generational differences. They are the editors of their own media experiences. Once binge watching is taken into account, it becomes clear that even if linear TV viewership numbers are on the decline, overall viewing not only remains steady but is growing. In 2017, the average global viewer spent 4.4 hours daily watching video – that translates to 20% of daily life globally being devoted to video on any accessible platform.

Average daily viewing hours²



1. Media and Entertainment, Jefferies, Analyst Report, January 12, 2017, accessed via ThomsonOne. For cable nets primetime ratings only, news networks excluded
2. 2017 TIVO Global Study: Addicted to video: the global obsession, January 2018; TV set viewing trends, Enders Analysis, November 2017

The best response to the attention economy challenge - improved (quality) viewer experiences

The TV universe might be exponentially expanding, but viewers' attention remains a scarce media resource, thus further fueling competition and the need to push the envelope around marketing and promotion of programming and platforms. Viewers are presented with a rich choice of platforms and services all touting convenience, choice, personalization, flexibility and promotional rates. As a result, audiences are getting used to contract-free, cancellable at any time and steadily priced (US\$6–US\$15/month) internet-delivered services, many available globally - quite a departure from the limited options of the not so distant past. As revenue from online TV episodes and movies is expected to double to US\$83 billion globally in 2022³, it comes to no surprise that traditional media companies aggressively vie for a share. All players are coming to terms with the fact that no one screen, service or device will command exclusivity and total viewer attention and that a supreme experience could "rule them all." In an attempt to grab a level of viewers' attention, media companies are finally leveraging the digital potential and shifting their focus to the pressing need to improve viewers' experience as a differentiating factor. Traditional TV players could start with "borrowing"/ emulating algorithms from their OTT rivals and launching recommendation engines and discovery tools. That approach not only will improve viewers' experiences but could also mitigate rising promotional costs.

The number of distribution platforms continues to grow, but all of these platforms have one thing in common – they need content. Indeed, premium, high quality content is in more demand than ever, setting off a competitive intensity never seen before in the industry. It should also be noted that while consumers have shifted some of their attention to new digital entrants such as social media companies and subscription OTT services, the incumbents remain powerful. These incumbents continue to be significant buyers of programming, many with an appetite for exclusive programming. Production is also dramatically impacted by these new entrants as specifications for production now meet different standards for each platform.

The internet was not good for the music business due to piracy, but it does drive strength for the broader video entertainment business around the world. Netflix has grown from zero to more than 117 million streaming customers globally over the last decade, while Hulu has grown from 12 million subscribers in mid-2016 to 17 million by the end of 2017, and other pay TV and subscription video on demand (SVOD) services continue to grow⁴. The largely exclusive nature of each service's content means that SVOD companies are not direct substitutes for each other, but complements. In this way, new services are not cannibalizing the video market but expanding it.

In 2017, scripted original series reached a new peak at 487⁵, registering a steady growth across all categories of content players.

Online services contributed 117 originals. That came with a staggering production price tag - certain original OTT dramas cost up to US\$13 million per episode⁶. The massive content investment by social media and OTT players (expected ~US\$14 billion in 2017 for the top three US services⁷) is raising the competition for on-screen and off-screen talent and the production costs in the ecosystem. Globally, investment in programming is expected to surpass US\$130 billion⁸. The decision of some traditional players to reclaim their licensed digital rights is likely to push OTT services into even more aggressive investment in original content - global, local and customizable for regional tastes. Meanwhile, in preparation, the two major US OTT services are poaching established talent, such as Shonda Rhimes (Scandal) and Robert Kirkman (The Walking Dead), from traditional TV networks.

3. OTT TV episode & movie revenues to reach US\$83 billion, Digital TV Research, Press Release, accessed online at <https://www.digitaltvresearch.com/ugc/press/221.pdf>
4. "Netflix raises prices and still adds 8 million subs in Q4'17," SNL Kagan, 26 January 2018; "'Handmaid's Tale' effect? Hulu grows to 17 million subscribers," CNN Wire, 9 January 2018, via Factiva.
5. There's No Stopping Peak TV, as 487 Scripted Series Aired in 2017, Adweek, January 5, 2018, accessed online at <http://www.adweek.com/tv-video/theres-no-stopping-peak-tv-as-487-scripted-series-aired-in-2017/>

6. TV Series Budgets Hit the Breaking Point as Costs Skyrocket in Peak TV Era, Variety, September 2017, accessed online at <http://variety.com/2017/tv/news/tv-series-budgets-costs-rising-peak-tv-1202570158/>; The 10 Most Expensive Netflix Original TV Shows, TV Cheatsheet, January 2018, accessed online at <https://www.cheatsheet.com/entertainment/expensive-netflix-original-tv-shows.html?a=viewall>
7. Hulu to Spend US\$2.5 Billion on Content in 2017, Variety, September 2017, accessed online at <http://variety.com/2017/digital/news/hulu-2017-content-spending-2-5-billion-1202558912/>
8. Netflix and Amazon Outspend CBS, HBO and Turner on TV Programming, IHS Markitt Says, IHS Markitt, October 2016, accessed online at <http://news.ihsmarket.com/press-release/technology/netflix-and-amazon-outspend-cbs-hbo-and-turner-tv-programming-ihs-market-sa>

New entrants are disrupting the content creation ecosystem

Until fairly recently, the content creation ecosystem was fairly stable: A relatively few number of large studios controlled content production and had long-established distribution channels and relationships.

However, the past few years has seen considerable disruption in the content creation ecosystem. Disrupters include:

- ▶ **“Traditional” disrupters.** These digitally native companies have pioneered new business models and are spending increasing sums on movie and television content. These companies are known for effectively utilizing big data to drive strategic decisions. They also have a dramatically different business model than legacy players, focusing on e-commerce or subscription-based models, over traditionally ad-supported media models.
- ▶ **“New” disrupters.** In 2018, Apple and Facebook plan to spend US\$1 billion each to become major content providers. Twitter now also competes for premium live content.

However, disruption has created a new paradigm of supply and demand. Studios have benefitted enormously from the big budgets of Netflix, Amazon, Hulu and incumbents given that demand is on the rise. This new licensing stream has helped offset shrinking home entertainment revenues. Netflix alone plans to spend more than US\$8 billion on content in 2018.

Yet frictions exist between OTT providers and incumbents. For instance, there are rising tensions between Netflix and Hollywood as the streaming company moves from being an upstart dabbling in original planning to a big spending film and TV powerhouse that will produce more than 70 shows this year. SVOD competition for exclusives and original programming has become fierce. This, along with the growth in the number of players, is bidding up the prices for content and has created a bidding war for management talent.

D2C relationships are accelerating

One noteworthy recent change in film and television distribution is the desire for film and television companies to interact more directly with their customers. Several are moving from relying predominantly on B2B relationships to a mixed model that includes a direct-to-consumer (D2C) element. D2C relationships give these companies first-hand access to audience data, allowing them to “follow their customers,” develop direct business relationships with them and diversify revenue sources. However, given that most companies in the space have largely been B2B marketers, most will need to develop far more robust approaches to customer data and acquisition across marketing strategy, operations and technology.

For those film and television companies that have not yet made D2C announcements, it surely is high on the C-suite agenda. Analysts expect a steady stream of D2C announcements in 2018⁹.

Increasing hacking and piracy are a wake-up call for content entities to the new digital reality

TV's digital transformation, spanning content production, storage and distribution, has exposed IP to even more intense piracy threats. The proliferation of announcements related to sophisticated hacking attacks and tech glitches reveal the vulnerability of the new connected multiplayer (including consumers) ecosystems. A few major content companies have seen their intellectual property held hostage for ransom or released for piracy consumption. At the same time low-cost.VPN-powered cross-border access continues to plague OTT players and to impact geographic subscriber growth, rights negotiations and revenues.

Online piracy of TV episodes and movies is estimated to have cost the global content industry US\$32 billion in 2017, an already significant number that will grow to US\$52 billion in lost revenue by 2022¹⁰. The flourishing piracy trade reinforces the must for heightened enterprise accountability and cybersecurity management (tokenization, encryption, contingency plans) that come with digital data and IP ownership. It also highlights the importance of the new role media companies have been cast to play - trusted custodians, fiercely guarding enterprise and viewers' data.

9. “Netflix streams ahead,” C21 Media, 8 January 2018, via Factiva.

10. Online TV & movie piracy losses to soar to US\$52 billion, Digital TV Research, Press Release, October 2017, accessed online at <https://www.digitaltvresearch.com/ugc/press/219.pdf>

Distribution mega trends

Film distribution windows are shifting as on-demand becomes the norm

Roughly 50% of film revenue still comes from the theatrical window, and cinematic success determines the value of films in ancillary markets. However, as younger consumers gravitate toward stream-able content that is accessible on a mobile device, the windowing strategy that studios have employed for the last 100 years is under threat. Studios are considering several ideas featuring different windows, prices, exhibitor economics and film content. They are considering windows from simultaneous with theatrical debut (known as day-and-date) through 4–7 weeks after the theatrical release. This compares to the ~3 months consumers wait today to purchase (physical or digital copies) through VOD.

A recent concept to emerge is so-called “premium VOD”, which proposes to shrink the current theatrical window to create a new digital window – with cinemas sharing in the digital profits. This could boost sagging home entertainment revenues. It would also allow studios to better leverage the period of peak awareness of a particular film generated by the heavy marketing of the theatrical release.

Contributing to these shifts is the fact that many of the studios’ parent companies profit more from subscriptions and transmission fees than from the box office. As a result, they are exploring new ways to push content to their subscribers. However, while new platforms offer revenue potential, business models are still evolving.

New players are reshaping distribution

As linear video distribution gives way to on-demand consumption, entire new industries have been born, and old ones are being remade. Among the new (or remade) ecosystem players are “traditional” OTT companies and virtual MVPD. A virtual MVPD can offer a broad range of premium video content over the Internet without having to own any network infrastructure. Industry watcher The Diffusion Group estimates that virtual MVPDs will control 14% of the US pay TV market by 2030¹¹. At the same time, many cable and satellite distributors are revamping and disrupting their own business by creating so-called skinny bundles that have fewer channels, but cost considerably less than traditional bundles.

Content discoverability is an issue

As audiences fragment to a growing number of platforms, it is becoming increasingly harder for consumers to find the content they are looking for. Most consumers supplement their traditional television service (if they have not cut the cord!) with one or more streaming service.

Many in the industry are searching for a solution to the “findability” issue. One idea is to create an industry-wide consortium to build and operate a content aggregation platform. Such a platform could search for titles and/or themes across subscriptions to surface the content that consumers want.

There will be a growing imperative for content distributors to utilize AI and machine learning to radically enhance their recommendation engines. They will move to the traditional “greenlighting” practice of using screenings and guesswork to a method that utilizes predictive analytics to inform the creative process (storylines, characters, locations, etc).

“All the world’s a stage” - digital transformation casts TV entities in a global superfluid reality

The upside of TV digital transformation is a superfluid reality. Powered by technology - cloud storage, IPA, potentially blockchain - content syndication and access are now frictionless, borderless and multiplatform. Today TV content distribution spans online and mobile sites, apps, TV everywhere, OTT services and standalone D2C services. It is global, simultaneous and it challenges the traditional windowing formats, geographic patterns and rights negotiations. Granted structural, regulatory and cultural differences, TV content is still going strong, further bolstered by superfluid marketplaces where the competition for content, distribution and access to viewers is accelerating and getting more aggressive on a global level.

The strategy of TV groups exhibits a strong focus on international expansion to extend reach and monetization opportunities - from launching international divisions, international content licensing and distribution agreements to brand licensing for consumer products. This leads to an increasingly complex and dynamic rights ownership and distribution models where exclusivity is becoming a very expensive proposition.

11. “Virtual MVPDs will control 14% of U.S. pay TV market by 2030, research firm TDG predicts,” FierceCable, <https://www.fiercecable.com/cable/virtual-mvpds-will-control-14-u-s-pay-tv-market-by-2030-research-firm-tdg-predicts>, accessed January 2018.

Monetization mega trends

The global revenue mix is changing

There is a geographic shift in where revenue comes from. There is much in the press about China's rise as a film powerhouse: Indeed, China is expected to overtake the US box office in the next few years¹². However, consumers around the world are consuming more media. This is especially true in emerging markets, where rising disposable income is driving greater media spending. For instance, eMarketer reports that the time adults in India spend consuming major media continues to rise¹³. Digital media consumption in India is growing quickly.

Illustrating that trend is the fact that a growing share of global box office revenue comes from distribution outside North America, and success at the international box office is necessary for most films to be profitable. Likewise, the international television market has grown immensely thanks to the growing number of OTT services, which give studios many more places to sell their content.

Box office: domestic vs. international (US\$ billion)



Source: Theatrical Market Statistics, 2016, MPAA.

Content creation is being globalized

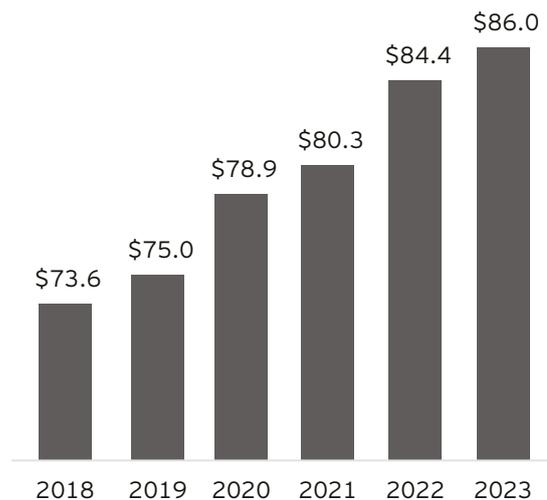
The importance of China and other large global markets is changing the way films are made. For instance, China's large market and regulatory requirements impact how and where film projects are financed and shot. Co-productions and movies produced exclusively in China face fewer regulatory restrictions. Major film studios are forming new partnerships with Chinese companies and building production studios there to gain better access to the market.

However, this is not limited to China. Film and television producers around the world are engaging in M&A and/or forming strategic partnerships to gain access to local content/expertise. Across the globe, film and television studios are acquiring or partnering with local production companies. Several companies provide significant cost benefits.

New platforms drive new licensing strategies

As local and global OTT platforms scale and incumbent broadcasters ramp up their on-demand offerings, film and television producers have more places than ever to sell their content. In September 2017, CBS Studios – the studio arm of US broadcaster CBS – reported that it had 66 shows in production compared to just 30 in 2012¹⁴. However, distributing on a growing number of platforms and geographies increases licensing complexity significantly.

Global demand for US television programming (US\$ billion)



Source: "Worldwide TV outlet market for US-produced programming," SNL Kagan.

12. "China Box Office Returns to Robust Growth in 2017, Hitting US\$8.6B," Hollywood Reporter, 1 January 2018, via Factiva.
 13. "Time spent with media and ad spending in India," eMarketer, December 2017.
 14. "CBS Corp. at Goldman Sachs Communacopia Conference," 14 September, 2017, via Thomson.

Changing viewing patterns also have studios adjusting their licensing strategies. Some are strategically licensing in-season “stacking rights” to networks and OTT services. Stacking rights allow a distributor to air an entire full season of episodes, instead of the previous “rolling 5” rule that made only the trailing five in-seasons available. Television networks are increasingly seeking such deals from content providers as they compete with SVOD companies.

This goes hand in hand with networks’ efforts to ramp up the development of original programming, and to steer more of their programming toward outlets that they control. Indeed, many are looking to create ad-free Netflix-like versions of their networks.

Innovation: moving to new distribution paradigms

As they look for new outlets for their creative output, movie and TV production companies will need to understand how new technology innovations such as AR/VR, voice recognition and AI are changing the way consumers experience content and how they can be monetized. All of the major Hollywood studios will need to hone their VR storytelling techniques and the technologies that make those stories come alive. Industry-watcher IDC predicts that spending on AR/VR will reach US\$17.8 billion in 2018, an increase of nearly 95% over US\$9.1 billion in 2017¹⁵. Another area of potential opportunity is driverless cars, which are set to become a new avenue for content consumption, as consumers – freed from the task of driving – will have time to engage in new activities, much of which is expected to be media consumption. Personal digital assistants like Amazon’s Alexa are appearing in more and more homes. These devices will quickly morph from answering queries to providing more sophisticated entertainment, including video.

Currently, a number of media companies are investing in tech start-ups, hardware and content via financing deals and via partnerships for content development. Offerings powered by VR, AR and AI (voice, interactions) are finally becoming more realistic as the technologies steadily build relevance for content production and distribution. Traditional players are already experimenting with content offerings for voice-activated devices and AR / VR storytelling to offer “participation TV” and transformative experiences. VR and AR raise the bar for next phase immersive and empathetic journalism, create potential for companion content, add-on background and back-stage context and super fan experiences. Mobile VR/360 video is the most accessible VR experience and the most prominent platform in the immediate future with various TV players using it to livestream experiences or create companion content journeys and fan activities. AR is shaping up to be most advantageous for integrating branded experiences with favorite content but first trials of unifying AR with linear TV broadcasts have emerged.

Industry shifts spur a wave of M&A activity – more is likely

M&E companies are reviewing their portfolios more frequently to optimize positioning in an environment of shifting consumer preferences and emerging competition. M&E executives are looking at a range of options to support their digital strategies – increasing organic investment, bolstering talent with outside hires, forming alliances and joint ventures, and pursuing M&A.

Many recent deals are across sectors that give access to new content formats, technology, consumers and talent. For instance, telecom players are acquiring content, while content entities expand into distribution. At the same time, horizontal expansion delivers scale efficiencies, negotiating power and international presence.

Film and television companies are also entering into co-production and/or co-financing deals to spread the financial risks of projects.

15. “Worldwide Spending on Augmented and Virtual Reality Forecast to reach US\$17.8 billion in 2018, According to IDC,” IDC, November 2017.

Consumer behaviors and evolving revenue mix pose an ongoing threat to advertising revenues

► **M&E businesses are forced to rethink ad loads**

Evolving consumer behaviors that span ad skipping and shift to commercial-free content services constantly threaten ad revenues. M&E businesses are forced to take into account viewers' displeasure with annoying ads, a trend that is also being manifested by ad blocking and expectations for ad-free OTT services. 86% of the surveyed TV viewers skip ads; 27% expect TV everywhere apps to be ad-free¹⁶. Viewers' disappointment with ad experiences is pressuring media players to review and reinvent the standard ad loads. As a result, a number of TV entities have launched various ad-focused undertakings to improve the experience: lower ad loads in programs, new and shorter ad formats, branded and ad tech initiatives. Others are acquiring digital and tech-based assets to enrich, customize, personalize and infuse interactivity in their in-house ad offerings.

Still, a silver lining is that the traditional advertising revenue stream shows resilience in the face of disruption and ongoing ad spend shift to digital. TV ad revenue globally is forecasted to reach US\$188 billion in 2021 but the expected growth is less than 1% on average per year. Slow TV ad growth is expected to impact mainly North America and Western Europe, with Latin America and Asia-Pacific forecasted to register ~3% average annual growth. Over the same time period, digital video ad spend is expected to grow at double-digit rate (20%+) across all regions to reach US\$52 billion globally in 2021¹⁷.

► **Consumers are not shy to show their preference for commercial-free distributors**

To avoid the annoying and disruptive ad experience, consumers are shifting to commercial-free options. SVOD platforms are gaining viewing share as TV shows are increasingly being watched on demand and on a delayed schedule. Digital TV research expects that around 70% of US TV households will subscribe to at least one SVOD platform by 2022, with the average household paying for 1.9 SVOD platforms¹⁸. With a touch of irony, subscription is increasingly becoming an important catalyst to advertising challenges. In 2022, sub revenue from pay TV and paid OTT is expected to reach US\$254 billion globally¹⁹ – contributing 35% more towards total TV revenue compared to ad revenue. However, since consumers are paying for the services, their expectations are for a true consumer-centric TV experience – they expect nothing short of frictionless services, rich content libraries, seamless cross-platform delivery, user-friendly interfaces, improved recommendations and discovery and optimal experience across devices.

Data and advanced audience segments step up to the monetization challenge

TV players are going for "smart" – investing in data to gain profound insights in viewer preferences, and in technology to build solid tech capabilities that can revamp viewer experiences. TV ad-supported models are shifting to incorporate digital-native advanced advertising features – performance-based and audience-segments buying, targeting, audience guarantees, programmatic and addressable TV ads are becoming normal offerings. Initial trials are on the go for the use of blockchain technology as a means to increase ad efficiency and enable secure exchange of non-personal audience data for addressable ads.

16. SVOD Viewing Still Surging: Study, Multichannel News, September 2017, accessed online at <http://www.multichannel.com/news/content/svod-viewing-still-surging-study/415137>

17. Magna Global advertising forecast, June 2017. [All advertising spend data in the paragraph is from Magna Global.]

18. North America to add 59 million SVOD subs, Digital TV Research, Press Release, October 2017, accessed online at <https://www.digitaltvresearch.com/ugc/press/214.pdf>

19. EY analysis and OTT and Pay TV Revenue Forecast, Digital TV Research, Press Release, January 2018, accessed online at <https://www.digitaltvresearch.com/ugc/press/221.pdf>

Still no panacea for a universal currency across linear and digital

Without the right metrics, advertising revenues will remain under pressure and below potential. The accelerating convergence between linear and digital TV/video is highlighting the urgency for a currency that can provide better understanding and targeting of consumers. The industry still operates on two fundamental currencies: linear on programming ratings and digital on impressions. Without a concerted cross-industry effort, the bridge will not be built between these two worlds regardless of measurement advancing. There is no shortage of metrics initiatives periodically announced by both traditional and new metrics players - each aiming to capture integrated viewership across various platforms. The creative efforts span unique audience personas and collaborative efforts to pool TV inventory across networks. Yet, a comprehensive and standard measurement solution is proving elusive at a time when ad fraud and lack of transparency are rampant in the digital ad supply chain. Still, a perceivable change is taking place in the industry - a focused shift away from demo-based C3 ratings as a standard currency and toward a multi-metrics TV universe where participants are embracing a set of metrics, such as impressions and post-C3 periods. For a universal currency solution to emerge, a true collaboration will be required among all players, be it sell-side, buy-side or ad tech.

Building strong sales organizations

Ad sales were traditionally built to focus on program franchises, day parts and individual networks. Increasingly, operation efficiency and the need to deliver holistic solutions to advertisers requires deeper horizontal organization across media sales teams. Most organizations are contemplating wholesale sales organization transformations. While cost reduction is often a motivation, the more important needs are to invest in new skills sets around data and audience solutions, enable cross-platform selling, and support more solution-oriented go-to-market strategies. Media sales transformation requires deep consideration of the organization in concert with systems and workflows. Most ad sales operations are still highly fragmented by platform and difficult to manage. Adopting intelligent automation, yield management, artificial intelligence, and modern order management systems, enables better revenue productivity and more efficient ways to deliver clients' needs. Acknowledging the gravity of the new advertising reality, a number of M&E players have recently taken the transformation challenge to upgrade their salesforce skills for the tech-operated multiplatform future.

Cost management

Embracing intelligent automation in operations and back office

The rise of technology, and especially AI, holds the promise to infuse the TV business model with intelligent tech-driven processes and automated operations that can reimagine the entire value chain - from integrated planning and reporting to content recommendation and seamless viewer experience. Ad sales operations are primed for transformation as basic trafficking and reconciliation tasks present major risks and inefficiency in the business. Media players are already focusing on transitioning to the cloud for analytics, storage and database services, metadata tagging, RPA, computer vision and exploring smart contracts. Other technologies - from cognitive machine learning, bots, and intelligent data processing, to drones and blockchain - also have an integral role to play in achieving operational efficiency. The real value - scale and efficiency - will be realized in their deployment alongside legacy systems. Such an approach will shine a light on the new potential for IT divisions - efficiently power the full value chain (front and back office): from content creation, distribution and management, to strategic revenue optimization, enterprise protection, improved content recommendations, customer service and effective viewer engagement. IPA rings a new era of human-machine collaboration that can deliver a different level of operational excellence in the TV ecosystem.



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About this report

Glossary

20XXE	Estimated value for the year 20XX	CPM	Cost per mille (thousand)
ABC	Audit Bureau of Circulation	CPT	Cost per thousand
ABP	Ananda Bazar Patrika	CSO	Chief security officer
Ad	Advertising	CSR	Corporate social responsibility
ADB	Asian Development Bank	CTL	Champions Tennis League
AGR	Adjusted gross revenue	CTO	Chief technical officer
AI	Artificial intelligence	CXO	C-level executives
AIGF	All India Gaming Federation	CY	Calendar year
AKFC	Anil Kapoor Film Comapny Pvt Ltd	DAS	Digital addressable system
AR	Augmented reality	DD	Doordarshan
ARPU	Average revenue per user	DOOH	Digital out of home
ATL	Above the line, or media spends	DOT	Department of Telecom
ATP	Average ticket price	DRHP	Draft red herring prospectus
AVGC	Animation, visual effects, gaming and comics	DRM	Digital rights management
AVOD	Advertising VOD	DTC/D2C	Direct-to-consumer
BARC	Broadcast Audience Research Council	DTH	Direct to home
BCCI	Board of Control for Cricket in India	DVD	Digital video disc
BCD	Basic customs duty	DVR	Digital video recorder
BI	Business intelligence	EBITDA	Earnings before interest, tax, depreciation and amortization
BSNL	Bharat Sanchar Nigam Limited	EDM	Electronic dance music
BTL	Below the line, or event spends	EEMA	Events & Entertainment Management Association
CAGR	Compounded annual growth rate	ER	Effective rate
CD	Compact disc	ESL	Electronic Sports League
CEO	Chief executive officer	ET	Entertainment tax
CGI	Computer-generated imagery	EVC	Enchanted Valley Carnival
CGST	Central goods and service tax	EY	Ernst & Young LLP, India
CID	Criminal Investigation Department	FCT	Free commercial time
CIO	Chief information officer	FDI	Foreign direct investment
CIPAM	Cell for IPR Promotions & Management	FEC	Family Entertainment Centre
CMIE	Centre for Monitoring Indian Economy	FIFA	Fédération Internationale de Football Association
COP	Cost of production	FM	Frequency modulation

FMCG	Fast moving consumer goods	IT	Information technology
FTA	Free to air	ITC	Input tax credit
FY	Fiscal year	ITPL	Indian Tennis Premier league
GB	Gigabyte	IVR	Interactive voice response
GBO	Gross box office	JV	Joint venture
GDP	Gross domestic product	KISG	Khelo India School Games
GDPR	General data protection regulation	KPI	Key performance indicator
GEC	General entertainment channel	LBT	Local body tax
GSMA	Global System for Mobile Communications, originally Groupe Spécial Mobile	LCO	Local cable operator
GST	Goods and Services Tax	LED	Light emitting diode
GSTR	Goods and service tax returns	LMRC	Lucknow Metro Rail Corporation
HD	High definition	LTV	Life time value
HIL	Hockey India League	M&E	Media and entertainment
HITS	Headend in the sky	MESC	Media & Entertainment Skills Council
HNI	High network individual	MIB	Ministry of Information & Broadcasting
HR	Human resources	MICE	Meetings, incentives, conferences and exhibitions
HSM	Hindi speaking markets	MIS	Management information system
IAGR	International Association of Gaming Regulators	ML	Machine learning
ICC	International Cricket Council	MoU	Memorandum of understanding
IFPI	International Federation of the Phonographic Industry	MPAA	Motion Picture Association of America
IIFL	India Infoline Finance Limited	MR	Mixed reality
IIPA	Indian Institute of Public Administration	MRP	Maximum retail price
IMC	Inter Ministerial Committee	MRTS	Mass rapid transport system
IMF	International Monetary Fund	MSO	Multi system operator
IMI	Indian Music Industry	MVPD	Multichannel video programming distributor
INR	Indian Rupees	NA	Not applicable
IOAA	Indian Outdoor Advertising Association	NASCAR	National Association for Stock Car Auto Racing
iOS	iPhone operating system	NASSCOM	National Association of Software and Services Companies
IPL	Indian Premier League	NBA	National Basketball Association
IPR	Intellectual property rights (also, IP)	NBOC	Net box-office collection
IPRS	Indian Performing Rights Society	NCCS	New consumer classification system
IPTV	Internet protocol television	NFL	National Football League
IRD	Integrated receiver/decoder	NOCC	Network Operations Control Center
IRS	Indian Readership Survey	NRI	Non resident Indian
ISL	Indian Super League	NSDC	National Skill Development Corporation
ISP	Internet service provider	NTP	National Telecom Policy
ISRO	Indian Space Research Organisation	OEM	Original equipment manufacturer

Glossary

OOH	Out of home	TVC	Television commercial
OS	Operating system	UAE	United Arab Emirates
OTT	Over the top	UBA	United Basketball Alliance
P2P	Principal to principal	UEFA	Union of European Football Associations
PAT	Profit after tax	UI	User interface
PBL	Premier Badminton League	UK	United Kingdom
PC	Personal computer	UPI	Unified Payment Interface
PGL	Premier Golf League	US	United States of America
PII	Personally identifiable information	US\$	United States Dollar (US\$1 = INR65)
POS	Place of supply	VAT	Value added tax
PPL	Phonographic Performance Limited	VFX	Visual effects
PPP	Public private partnership	VOD	Video on demand
PSU	Public sector undertaking	VPN	Virtual private network
PWL	Pro Wrestling League	VR	Virtual reality
RAM	Radio audience measurement	WPC	Wireless Planning & Coordination Authority
RCM	Reverse charge method		
RBI	Reserve Bank of India		
RERA	Real Estate Regulatory Authority		
ROI	Return on investment		
RPA	Robotic process automation		
SD	Standard definition		
SGST	State goods and service tax		
SLP	Special leave petition		
SMS	Short message service		
SVOD	Subscription video on demand		
TDSAT	Telecom Disputes Settlement Appellate Tribunal		
TRAI	Telecom Regulatory Authority of India		
TV	Television		



Acknowledgements

Vijay Subramaniam
Amazon Prime

Donny Kristianto
App Annie

Amir Ghodrati
App Annie

Hormuzd Masani
Audit Bureau of Circulations

Rajnish Khanuja
Box Office India

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How do you find oppo

Sector is the cornerstone of EY's approach to professional services. M&E is one such significant focus area. EY's M&E practice has more than 300 professionals in India across 13 key segments who focus on various issues and challenges the industry faces. We provide services to many of the country's leading M&E companies as well as to global media giants operating in the country. We have developed a wide range of services, such as entry strategy, private equity placement, due diligence, IT security review, organization structure, performance improvement and tax structuring, to name a few. This has enabled us to establish a strong presence in each segment of the industry.

As your advisors, we can help you respond quickly and effectively to the challenges the entertainment industry faces today.

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Key assumptions used to size the segments of this report.

1. Sizing of various segments has been arrived at using various sources of data, primary research and proprietary EY research. We have tried to then validate the sizing through industry discussions.
2. All INR amounts are gross of taxes. Given the change in rates from July 2017 we have considered half year's impact when grossing up revenues for media companies. The full impact of the revised tax rates has been factored into 2018's gross revenue estimates.
3. Sales between any two segments of the M&E sector are included as revenues for the segment providing the service.
4. Filmed entertainment segment does not include any revenues from food and beverage operations, parking revenues, retail revenues or any ticketing charges billed by the online booking portals. Film gross box office is considered at end customer price, for both domestic and international theatrical.
5. Gaming captures only online gaming and no other forms of gaming.
6. OOH does not consider the opportunities for transit medium which may appear in the future. It also does not consider the large unorganised wall-painting and retail point of sale markets.
7. The events segment does not consider value of broadcast rights, the large unorganized sector and pure MICE and travel companies.
8. Digital subscription, TV distribution and print circulation revenues are considered at end customer prices.
9. Animation, VFX and post production revenues include those earned from export services by companies in India, and are correlated to averages across to the content value chain.
10. Where alternate sources of sizing exist, we have considered the most conservative, unless there is adequate justification not to.
11. There are several statements in this report which refer to certain media companies. Where sources for these statements have not been specifically mentioned, these statements have been sourced from news articles available in the public domain.

Note: This is an abbreviated list of all assumptions used.

Opportunities and threats 2018

Media & Entertainment



EY's Media & Entertainment Sector has identified and assessed the top ten areas of upside and risk for the industry. We asked two questions; What are the most significant growth opportunities for media and entertainment companies today? What are the most significant risks or threats that they face? In this paper we discuss our finding and strategies and tactics for management teams to deploy in response to, or anticipation of, the shifting environment.



Evolving the business model

As the pace of disruption accelerates, Media & Entertainment companies must rapidly revamp product and service offerings, distribution frameworks and pricing/monetization strategies to meet shifting customer expectations.



Adapting the enterprise to new realities

Media & Entertainment companies require a new level of operational excellence – the type of performance improvement and strategic expense reduction that delivers short term results and long term efficiencies.



Enabling new advertising currencies

As advertisers gain a keener understanding of their target consumers, new currencies, which blur the lines between linear and digital media are emerging, even as audience measurement across platforms continues to challenge the industry.



Engaging customers in new experiences

Just a few years ago, consumers were delighted to be able to stream a movie or TV show on multiple devices. Now, consumers expect personalized experiences across their daily lives.



Mitigating against cyber risks

Every click, view and download results in massive amounts of data being created every day. This data offers Media & Entertainment companies a real competitive advantage, however, the same data is a magnet for cyber-criminals.



Battling for the best content

Ever-rising investment in content is tipping the scales of corporate performance both ways – translating into either strong growth or painful margin pressures.



Building scale, both horizontal and vertical

Media & Entertainment executives see inorganic routes as the fastest way to fill gaps in their portfolios, re-set their strategic positioning in the industry and future proof their business models.



Accelerating the marketplace

As new technologies accelerate how supply and demand intersect, the dynamics of media marketplaces – for both consumers and advertisers – are becoming super fluid, placing new pressures on all parts of the ecosystem to move more quickly.



Reinventing the tax model

GST in India and tax reforms in the US represent the biggest changes in taxation for over thirty years and yet it is really an inflection point in what has become a much wider conversation about the future of the tax function.



Making multi-national matter

Finding the optimal business model, strategy and ownership structure to achieve success in international markets requires nuance and flexibility.

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EYIN1802-014
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FICCI provides a platform for networking and consensus building within and across sectors and is the first port of call for Indian industry, policy makers and the international business community.

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