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ESSEC India Research Center

Media and Entertainment (M&E) Emerging Opportunities in India

Coumar ANANDA

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INDIAN M&E OVERVIEW

INDIA M&E INDUSTRY OUTLOOK

Growth of M&E in India much faster than most other countries,
10.7% CAGR (2009-2013) to reach EUR18.5B by 2013

Global M&E market 2009-2013 CAGR

- India M&E market registered a CAGR of 16.6% between 2004-08 to reach EUR 8.3B in 2008
  - Indian M&E growth expected to lose momentum due to global economic downturn
  - But forecast growth remains high, 4x that of Global CAGR of 2.7%, and the highest compared to other BRIC countries (China : 9.5% / Brazil : 4.6% / Russia : 3.7%)

Sources: PWC, Datamonitor

FACTS & FIGURES

India is among the largest Media consuming and content creating industries but constitute only around 1% of global industry

- **Among the largest media consuming and content creating industry...**
  - Over ~1,000 movies released annually (largest in the world)
  - ~3.2 billion movie tickets sold annually (largest in the world)
  - ~80 million pay -TV homes (third largest in the world)
  - ~119 million television households
  - ~450 television channels
  - ~Over 300 million mobile subscribers (second largest in the world)
  - ~Over 350 radio stations
  - ~ 6,000 newspapers, including the world's largest circulated daily
  - ~10,000 music tracks released annually

- **...But revenues are low :**
  - Avg ticket price in India: <$ 1 compared to $6 in US
  - Avg monthly-spend on pay-TV in India: $ 3.5 compared to $15 in US
  - The media penetration remains low for some key sectors :

    TV penetration : India : 40% , USA : 98%

    Cable and satellite access : 33% in Indian, over 85% in the USA

KEY DRIVERS & TRENDS

The media & entertainment industry is touted to be one of the biggest revenue earners for India over the next five years.

Budget Boosters

extension of the stimulus package for print media

Favorable demographic trends

`youth bulge' lasting until 2050 & growing urbanisation

Rising share of M&E in GDP

share of the sector increased from 4% in 2004 to 5% in 2008

Players increasingly ambitious in scale, size and geographic targeting

Under-penetration and unadvertised market

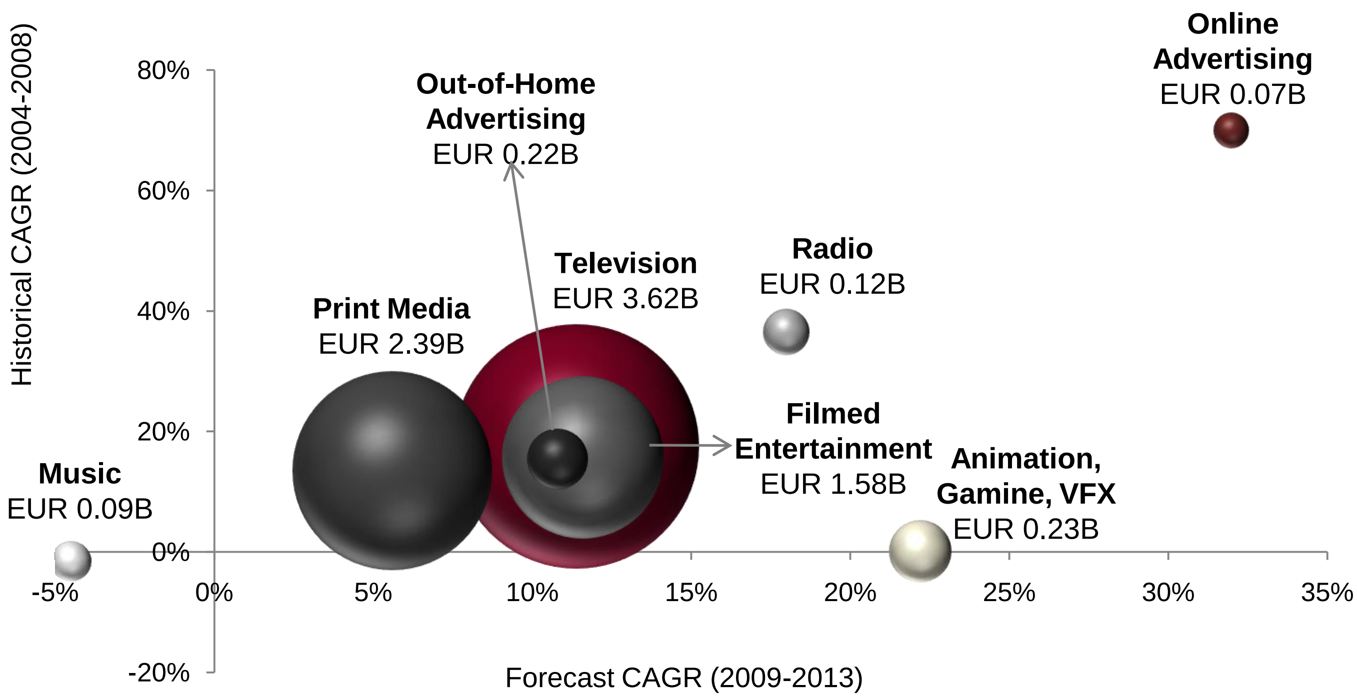
only 1/3 population has access to cable vs 85% in US

Technological changes directed at improving quality and increasing the variety of media

Source: PWC, GCF Analysis

SUB-SECTORS OUTLOOK 2009-2013

TOTAL 2008 MARKET VALUE – EUR 8.33B
Sector Market Performance
by Historical and Forecast CAGR



- ❑ Television generated 43% of the overall revenue and registers strong double digit forecast growth
- ❑ Highest growth recorded by one of the smallest segments – Internet Advertising
  - 70% (2004-08) and 32% (2009-2013) albeit due to a low base

Sources: PWC, IBEF, GCF Analysis

INDIAN M&E – SECTOR ANALYSIS
RADIO, TELEVISION, PRINT

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RADIO HISTORY

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Brief History

- 1927 : Broadcasting started in Mumbai and Kolkata with 2 private stations
- 1930 : Government acquired these stations
- 2001 : PHASE I, Gov open auctions for a few dozen licenses
- 2005 : PHASE II - 338 slots up for auction (entry fee and 4% revenue-sharing)

Present

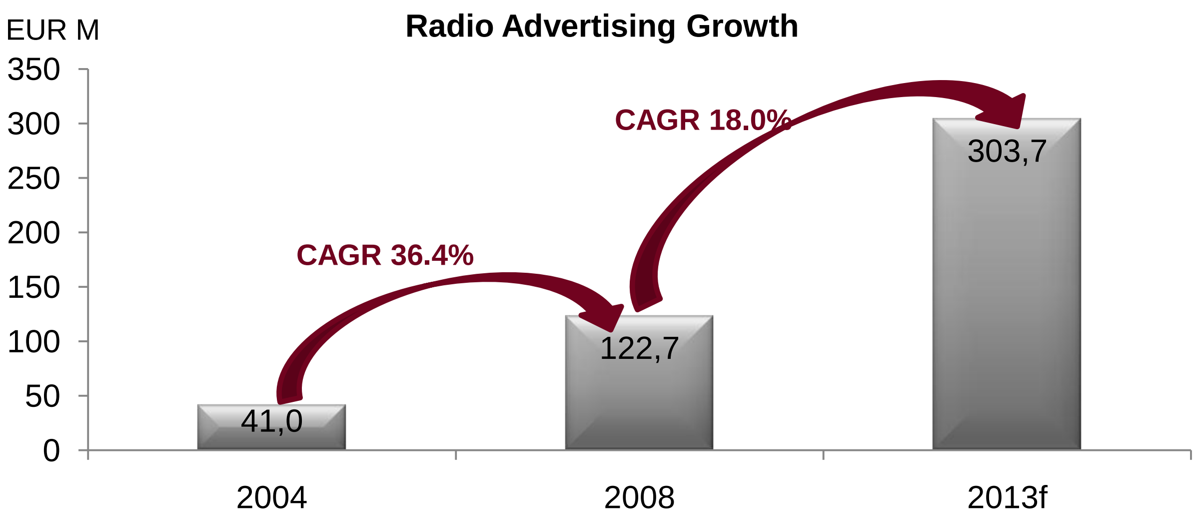
- Today, there are 350 radio stations in 90 cities
- PHASE III expansion : 600 new licenses in over 250 additional towns
- Indians spend >81 min on radio per day : 3x more than that on print
- Sales alliances between stations
- Important regulatory changes are anticipated

Challenges

- FDI: maximum 20% equity stake in private radio companies
- Broadcasting news, weather bulletins and live sports are not allowed
- Multiple licenses in a single city is not allowed
- Royalty fees issue: Stations pay as much as 70% of a small station's revenue

RADIO KEY FIGURES

The cheapest and oldest form of entertainment, reaching 99% of the population, this segment is likely to see many dynamic changes.



- The radio industry is forecast to grow at a CAGR of 18 %, to reach EUR 304M in 2013
  - Double its present size.
- The share of advertising for radio projected to increase from 3.8 % in 2009 to 5.2 % in 2013
- 40% of total advertising spend in the country happens in the top four-five metros : Delhi, Mumbai in top level followed by Chennai, Bangalore, Ahmedabad

TELEVISION HISTORY

Brief History

- 1959 : Television broadcast started from Delhi
- 1976 : Doordarshan, national television network to run 8 TV stations
- 1982 : Own domestic satellite service, covering 28% of the population
- 1991 : Allowed private and foreign broadcasters to engage in limited operations

Present

- 417 private channels and 33 Doordarshan/Parliamentary channels
- Growth in niche/specialized channels
- Additional fund raising by TV companies during the year
- The growth driven by growth in DTH and voluntary cable digitalization.

Challenges

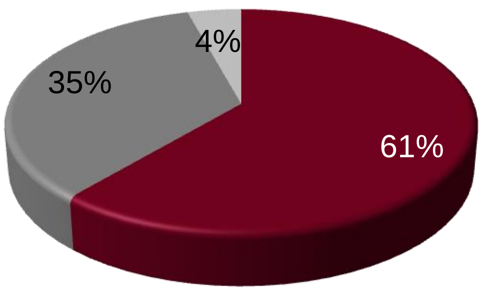
- FDI: maximum 49% equity stake
- Competition among broadcasters is expected to drive profitability downwards
- Speed at which the industry grows is dependent on funding for start-up losses

Sources: Asia Media, www.indiantelevision.com, www.indiainbusiness.nic.in

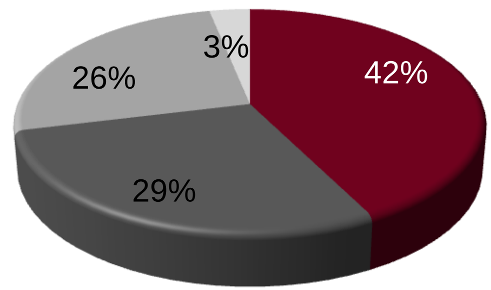
TELEVISION OUTLOOK BY SEGMENTS

Television industry projected to be the major contributor to the overall industry revenue and is estimated to grow at CAGR 11.4% over next 5 years

	CAGR 09-13
Television Distribution	10.8%
Television Advertising	**13.8%**
Television Content	12.2%



	CAGR 09-13
TV Households	2.7%
Pay TV Households	7.5%
Cable TV Households	2.4%
DTH Households	**31.2%**



- ❑ Television advertising high growth rate due to surging growth in the Indian economy
- ❑ Television content industry growth placing greater emphasis on the production quality
- ❑ Digital distribution such as direct-to-home (DTH) and Mobile TV are transforming the industry
  - Mobile TV—streaming on mobile phones—is poised to grow big with the advent of 3G
  - Leading DTH firms such as Sun Direct, Bharti Airtel DTH and Big TV have increased their marketing budget by 20-25% in the fiscal year 2010

Source: Industry estimates and PWC analysis

PRINT MEDIA HISTORY

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Brief History

- 2002: allowed FDI in print media
- 2003: First major FDI - Financial Time's investment in a local business daily
- 2005: Allowed non-domestic magazines to be reproduced
- 2007: Indian print media netted USD 90.8M in foreign investment in the last 3 yr

Present

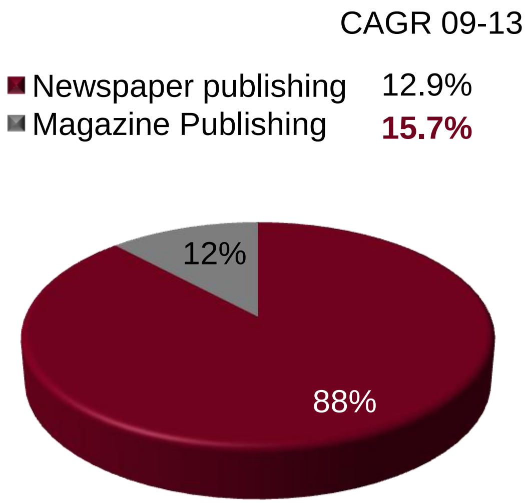
- Print media penetration still fairly low, averaging 60-70 per 1000 people
- New publications launched several niche titles
- Companies diversifying their revenue streams to offset the lower margins.
- Magazine publishers have responded to the digital revolution through M&A, new launches, or strategic alliances to get access to skills

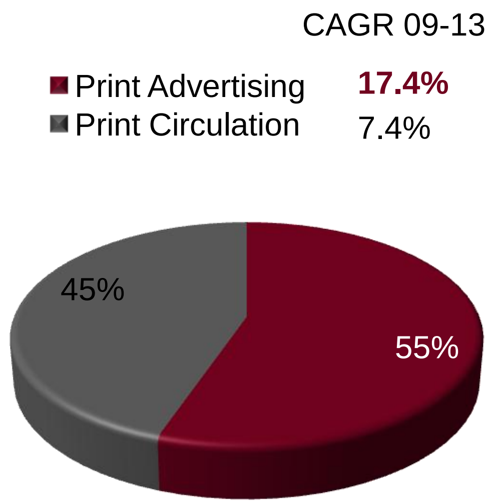
Challenges

- FDI: maximum 74% for scientific/technical and speciality magazines/ journals
- FDI: maximum 26% in Indian entities dealing with news and current afffairs
- The slowdown impacted print media more than other segments
- Rising newsprint costs

Sources: Asia Media, www.indiainbusiness.nic.i

The print media industry is projected to grow by 5.6% over the period 2009-13. Shares of newspaper and magazine are not expected to change significantly





- The growth in circulation was contributed more by an increase in the number of units circulated
  - Marginal growth in the circulation price in 2008 from 2007.
- Newspaper sales in India, China and Japan which stand at 60% in terms of circulation, are the highest in the world
- A survey spanning 237 consultants, publishers and service providers reveals that India continues to be a favored destination for publishing outsourcing.

Sources: World Association of Newspapers and News Publishers (WAN-IFRA) , Valuenotes Database,

BUSINESS OPPORTUNITIES

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CROSS BORDER OPPORTUNITIES

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Seasoned M&E players in Europe and increasingly ambitious M&E players in India presents profitable cross border collaboration opportunities

- Tap on the high growth rates of Indian M&E; still at its development stage, low penetration
- Provide the technologies/ innovations to improve quality and increase variety, esp as digitization accelerates in India
- Bring in management experience from a more developed M&E industry

Collaboration to tap on Growth Opportunities

Exchange of competitive advantage

Management experience & know-how

- Indian players increasingly ambitious, seeking strategic collaborations to expand portfolio and reach
- Advantages similar to that of the software industry, producing world-class work at a competitive price
- Increasing demand but falling revenue, need to think up and create models to monetize the increasing demand for M&E

FDI & GOVERNMENT INITIATIVES

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Over recent years, to keep pace with the M&E industry growth, the Indian government has eased FDI limits to encourage further investments and growth

- **The Government has initiated major reform measures:**
  - Permitting 100% FDI through the automatic route for the film industry and advertising
  - Allowing 49% foreign holding in cable TV and direct to home DTH
  - Allowing 100% FDI in non-news publications and 26% FDI in news publications
  - Allowed 100% FDI in fax editions of magazines and newspapers
  - Allowed companies with core business in news segment but hived off non-news business, to raise funds from overseas beyond the stipulated FDI limit of 26%
  - The FM radio sector was opened to FDI with a 20% cap
  - Permitting the set up of uplinking hubs for satellite uplinking by private TV broadcasters
  - Allotted US$ 50.13 million in the current Five-Year-Plan for the film industry
  - Approved the policy for headend-in-the-sky (HITS) operators (digitised cable content)

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2009 saw the continued FDI inflow in the Entertainment and Media segment in India, Government looking and further increase in FDI limits

- Some of the major FDI inflows in Entertainment and Media in 2008 were into Nimbus Communication, Zee Telefilms, Balaji Telefilms Ltd and Times Broadband Services, mainly routed via Mauritius.
- Filmed Entertainment, Broadcasting and Print generated the most interest from Foreign investors.
- The Government is seeking the recommendation of Telecom Regulatory Authority of India for revising the FDI limits in order to rationalize/ liberalize the sector:

Proposal for increasing FDI limits

Segment	Existing Limit	Proposed Limit
Teleport (Hub)	49% (FDI + FII)	74% (FDI + FII)
DTH	49% (FDI + FII) FDI component not to exceed 20%	74% (FDI + FII)
Cable Network	49% (FDI + FII)	49% (FDI + FII)
FM radio	20% (FDI + FII)	24% (FDI + FII)

M&A INVESTMENTS

- In such times cash and liquidity provide significant advantages in the E&M world
- Over-leveraged media companies disposing off media properties
- Consolidation is expected to occur in some strong media sectors
- Most deals will be small, primarily for geographic expansion or critical new capabilities

Walt Disney's acquisition of 60% of UTV and Star Group picking up 45% in Jupiter Ventures.

1. The Reliance-Spielberg $ 825M film coproduction deal was one of the biggest
2. PVR Pictures signed equity partnership agreements with ICICI Venture Funds and JP Morgan Global Special Opportunities Group

BCCL acquired Virgin Radio UK for Rs. 448 crore.

Virgin Enterprises however retained the brand for its own global radio strategy

Bennett Coleman acquired a 12% stake in Sandesh, a Gujarati daily.

1. R-ADAG's Big Music acquiring Kolkata-based Prime Music
2. JMD Telefilms Industries acquiring two Rajasthan based music companies.

Investments were made in companies such as Burrp (Infomedia 18), Ozone Media (IDG Ventures India), Examville.com (Rediff.com), Komli (Nexus India, Draper Fisher Jurvetson and Helion Ventures) among others.

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