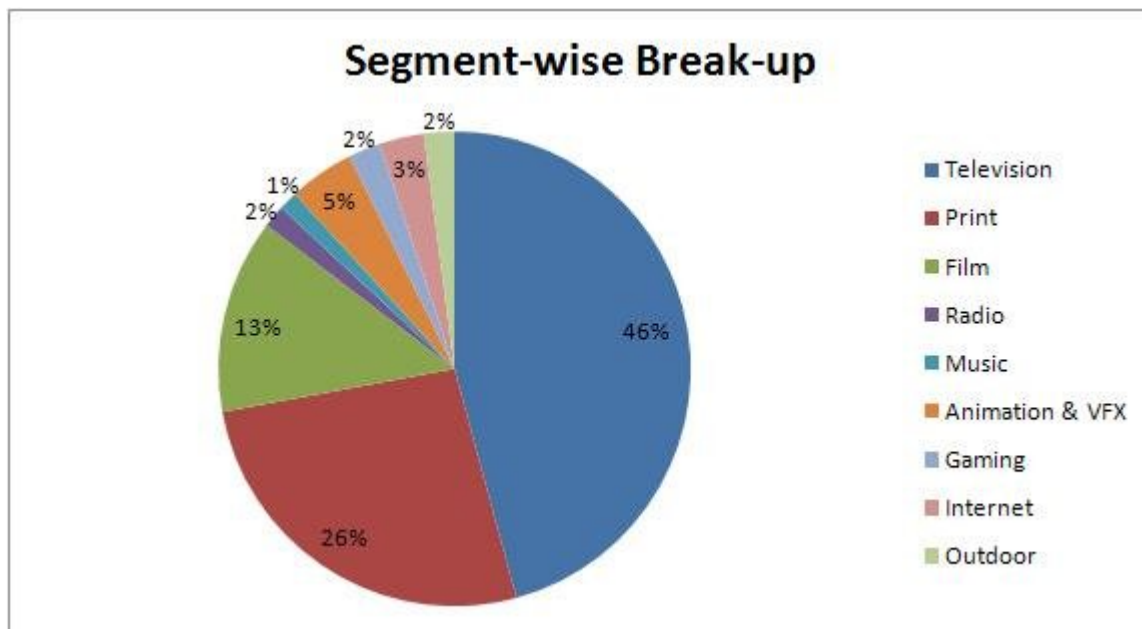


**Digitization growth to be key to success of M&E industry**

The Indian media and entertainment (M&E) industry, one of the most vibrant and exciting industries in the world, has a remarkable impact on the country's economy. India's M&E industry comprises of 161 million TV households; 94,067 newspapers; about 2000 multiplexes; and 214 million internet users, of which 130 million accesses the Internet on their mobile phones.

The industry is growing with each passing day and plays a significant role in creating awareness on many issues that impact the masses. India's population is over 1.2 billion the numbers give the M&E industry in India a tremendous opportunity for growth. A few years ago, the idea of reaching and engaging the county's population seemed improbable. That scenario has completely changed now a days and currently the industry is armed with digital technologies, modern mobile devices, penetration of broadband internet and digital cinema, and considerable backing from the Central Government.

Its various segments like- film, television, advertising, prints media and music among others - have witnessed tremendous growth in the last few years. The entertainment industry continues to be dominated by the television segment, accounting for over 46 per cent of market share in terms of revenues, which is expected to grow further to 51 per cent by 2017.



**Performance of M&E industry**

In calendar year (CY) 2013, the Indian Media & Entertainment (M&E) industry registered a growth of 11.8 per cent to Rs 82,100 crore, over 2012. However, the overall growth rate remained muted, with a slow GDP growth and a weak rupee. Lower GDP meant lower demand from the consumer and this impacted advertising. At the same time, the industry began to see

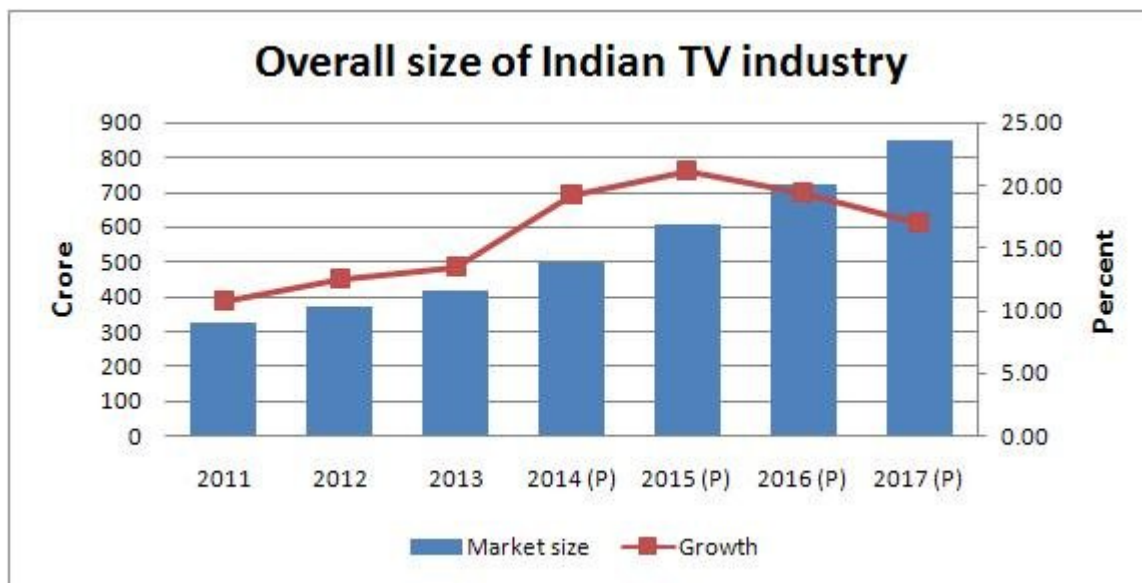
some benefits from the digitization of media products and services, and growth in regional media. Gaming and digital advertising were the two prominent industry sub-sectors which recorded a strong growth in 2013 compared to the previous year, albeit on a smaller base.

In projections till 2017, digital advertising is expected to have the highest CAGR of 15 per cent, while all other sub-sectors are expected to grow at a CAGR in the range of 9 to 18 per cent. Overall, the industry is expected to register a CAGR of 14.2 percent to touch Rs 166100 crore by 2017.



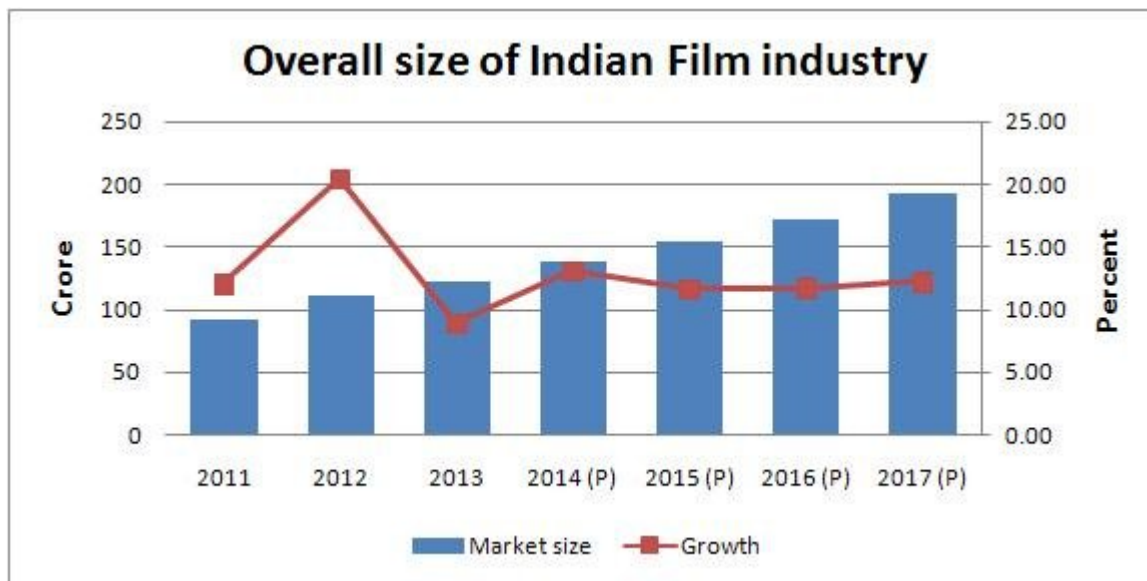
### Segment-wise performance

**Television:** Digitisation of cable saw the television industry still on the path of progress, with the mandatory Digital Access System (DAS) rollout almost complete in Phase II cities. The impact was felt to the extent that carriage fees saw a reduction of 15-20 per cent overall, however the anticipated increase in ARPUs and subscription revenues for broadcasters and MSOs (Multi System Operators) is expected to be realised only over the next 2-3 years as MSOs begin the process of becoming B2C organisations from B2B organisations. The introduction of packaging is key to raise revenue. Other key highlights in 2013 were the inclusion of LC (less than class I) markets in TV ratings, the 12 minute advertising cap ruling and the shift from TRP to TVT ratings. The number of TV households in India increased to 161 million in 2013, implying a TV penetration of 60 per cent. The number of Cable and Satellite (C&S) households in India increased to 139 million in 2013, which was 9 million higher than the previous year. This paid C&S base is expected to grow to 173 million by 2017, representing 91 per cent of TV households.



**Print:** The print industry continued to buck the global slowdown trend. The industry grew at a CAGR of 8.5 per cent in 2013 CY to touch Rs 24300 crore. Regional markets performed exceedingly well on the back of steady advertiser spends, the state election impact and new launches. However, with the validity of IRS data called into question by the industry majors, the segment in the short term suffers from the lack of a robust measurement system, critical for decisions on media planning and allocations.

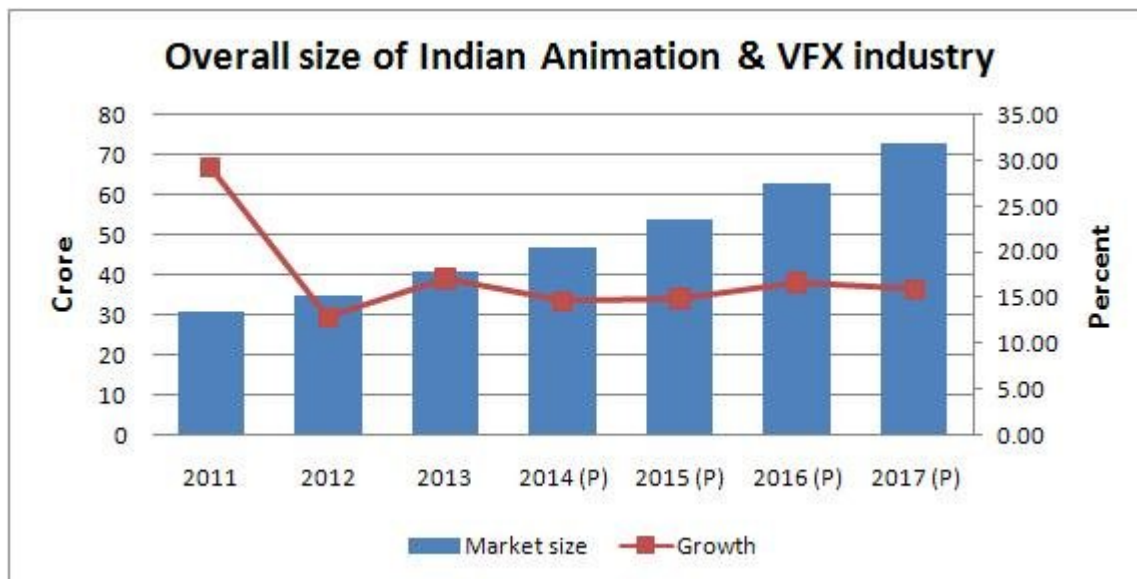
**Film:** After several years of muted growth, 2012 was an exciting year for the Indian film industry with the audience returning to the theaters. India's domestic theatrical revenues grew by 23.8 per cent Y-o-Y, contributing 76 per cent to the Rs 11240 crore film industry. Digital distribution played a significant role in increasing the reach of the industry. The industry began penetrating tier II and III markets and entertaining the un-served population which sits near the bottom of the pyramid. Indian cinema has continued to enchant the Indian audience for almost a century now and it is expected to continue on its growth trajectory and will be worth Rs 19330 crore by 2017.



**Radio:** The radio industry outperformed all other traditional media segments by clocking a growth of 15 percent. Currently clients are being forced to reevaluate their media mix, as their advertising budgets are constantly under pressure. There has been a tendency to shift focus from nationwide pure brand-building to more tactical, local, focused promotional targeting. This has played in radio's favour as it enables local reach to advertisers increasingly looking to target specific audiences and at affordable pricing. Although phase III of radio frequencies auctioning remained elusive in 2013, implementation of the same in 2014, industry players could establish their presence in over 290 tier II and tier III cities.

**Music:** Streaming and download services continued to see growth, with the growth in mobiles, in particular smart phones, contributing significantly to increased consumption of music 'on-the-go' but monetization of this reach is still a challenge. However, with the continued decline in physical sales, compounded by the significant fall in ring back tone revenues (following the backlash of TRAI guidelines issues in 2012), the sector saw an overall fall in size by 10 per cent in 2013. Going forward, digital revenues are expected to drive growth in the sector, backed by increased collaborations across devices and platforms, and gradual uptake in subscription services. Further, the vibrant live events sector is expected to continue its role as a catalyst for driving growth in artists' fan-base, and public performance royalties.

**Animation & VFX:** CY 2013 was an important year for the Animation and VFX industry. The most expensive Indian animated movie 'Mahabharat' costing around Rs 50 crore received global kudos. The production work was done in India and the industry woke up to the promise of VFX. VFX is now being used in most films, whether to add characters, landscape, background or to simply correct the skin tone of an actor. 2013 also saw the introduction of policies by a few state governments to boost the sector. VFX also began to get used in TV. The impetus of visual effects was not restricted to films, but also extended to big budget serials and television commercials. However, the underlying struggle in the industry came to the forefront with the fall of big names like Rhythm and Hues and Digital Domain and retrenchment by some big players.



### Digitisation stepping stone for M&E sector's growth

The step-wise growth in digitization is stepping stone for the industry's growth and success, thereby bringing about a paradigm shift in key indicators, particularly within the domains of TV and film sectors. The Ministry of Information and Broadcasting (MIB) introduced several initiatives with a view to harness the power of technology and create a framework to drive growth in the existing broadcasting landscape in India. With phases one (top four cities in the country) and two (the next 38 cities) nearly complete, the industry is now committed to complete phase three (all remaining urban areas) of digitisation of TV signals' transmission by the end of this year. Successful completion of the digitisation process will result in the complete closure of analogue transmission and could act as an enabler to add value and to increase profits at each level in the value chain. It is estimated to bring about a further drop in the carriage fees, and drive growth in ARPUs, thereby increasing profitability and allowing content producers to focus on better content.

In the film sector as well, digitisation has enabled better monetisation for the industry, as a single film can be distributed across thousands of screens and locations in a short period of time. India is moving quickly to an all digital world where most films are shot on digital format, distributed across various geographies in digital format, marketed through various social media platforms, and film tickets are sold through online booking platforms and also made available on websites providing 'Video-on-Demand (VOD)' services. While monetization of content on digital platforms remains a concern in the short term, the industry is buoyant about its long term potential. In addition, the growth of multiplexes helped drive box office collections. In India, approximately 95 per cent of commercially viable screens have been digitised till date.



### **Persistent growth in Regional Media**

Regional media in India has demonstrated strong growth over last few years, and continues to have a positive outlook. Given the size and diversity of the Indian market, media owners and advertisers are increasingly adding a regional element to their strategies. As a result, regional markets have grown in size and importance. The key drivers of growth in the regional media space continue to be a better cultural fit for regional content, focus on socio political issues related to particular regions and stronger engagement with customers in contrast to national Hindi programming. Apart from films in South Indian languages, films in Marathi, Punjabi, Bengali, Gujarati as well, had performed well where films like 'Duniyadari' (Marathi, Rs 28 cor) 'Jatt' and 'Juliet 2' (Punjabi, Rs 20 crore plus) were declared commercial blockbusters. The Marathi industry, in particular, grew almost by 50 per cent over the last year and continues to grow stronger. 'Timepass', a Marathi film released in January 2014 overtook 'Duniyadari' and has collected over Rs 30 crore on box office making it the biggest grossing Marathi film ever.

### **Requirement of regulatory support**

In a view to reach its vast potential, the Indian M&E industry needs a well thought, consistent and long term policy from the Government. In last few years, Indian M&E players have modified their business models, business strategies and content strategies according to consumers spending, ever changing competitive landscape and rules and regulations of the Ministry of Information and Broadcasting (MIB), TRAI and other related bodies. In many cases, the regulatory agencies have had a positive impact on the industry - the biggest example being the digitisation of cable TV in the country which was mandated by the government to be rolled out in a phased manner. The media industry agrees that it could not have achieved this nationwide change without the support of the government.

However, in other cases, inaction and delays have significantly impacted the growth of the industry - an example is the delay in auction of phase III of radio. The auction of Phase-III of radio licenses is expected to benefit the radio industry with an additional 839 frequencies across 294 tier II and tier III cities. With this expansion, FM radio is likely to be heard by around 90 per cent of the Indian population, making it truly a common man's medium. Phase-III offers exciting opportunities for companies to expand - both into new cities and as well as within existing cities with a 2nd and even 3rd frequency. Additionally, networking of radio channels is expected to be used very effectively by operators for providing local as well as networked content to cut both capital and operational costs for enabling more profitable operations.

## Outlook

Indian M&E sector will continue depending on the digital area in future. With a growing internet user base of over 200 million, the industry's potential to generate revenue is enormous. In 2013, telecom companies started focusing on data as a way to generate revenue. Also, advertising agencies competed with each other to acquire in the social media and digital domains. These developments suggest a bright future for the M&E industry in the country. It is also time for the M&E sector to start looking at opportunities outside India. Africa and the Middle East are two of the fastest growing M&E markets, and Indian M&E companies would do well to explore these regions. Meanwhile, increasing digitisation across sub-sectors of M&E industry, rate increases in TV, channel packaging by MSOs, innovative strategies to monetise digital content, and rapid growth of new media powered by increasing smartphone penetration are likely to be the key levers of growth for the Indian M&E industry in coming years. Source- Ace Equity.

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