The power of a billion

Realizing the Indian dream

FICCI-KPMG
Indian Media and Entertainment Industry Report 2013

kpmg.com/in
We would like to thank all those who have contributed and shared their valuable domain insights in helping us put this report together.

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The power of a billion
Realizing the Indian dream

FICCI-KPMG
Indian Media and Entertainment Industry Report 2013
The Promise of a Billion...

The promise of a billion consumers – this year’s theme for the FICCI Frames, symbolizes the immense potential of India as a Media and Entertainment (M&E) market.

Why is this the relevant year to articulate this theme? While 2012 was a challenging year for the industry as a whole, it was also a year of significant changes; one where value chains were re-arranged and business models re-defined. These changes, while painful in the short run, will position the Indian M&E industry on a stronger footing for the future.

This year, we have included several guest columns in the report. We believe it is important to have multiplicity of perspectives. There is a wide range and breadth in the points of view offered in these columns; but we hope these opinions will enhance the value of the facts and information contained in this report.

In 2012, the economic slowdown hit the industry hard – especially advertising revenue. Advertising budgets were cut and plans had to be modified. Most companies had to revise previously robust projections to reflect a new macro – economic reality.

However, many seeds of positive change were sown this year.

The digital transformation of the industry, which we highlighted last year, has finally entered the implementation phase. Digitisation of cable in India was rolled out. Phase 1, though somewhat delayed, is now largely complete in Mumbai and Delhi and progressing in Kolkata. Phase 2 is now underway. FDI in cable and DTH was also a welcome announcement and we are likely to see significant interest from foreign strategic investors and private equity players in these sectors.

Films saw robust growth of close to 21 percent on the back of content that addressed various consumer segments. The digitisation of theatres is close to 80 percent and projected to be nearly complete in 18-24 months – improving access for audiences and the economics for the business as a whole. Also, macro factors will enable the film industry in India to continue with its robust growth for years to come – rapid urbanization, headroom for multiplex growth and increasing sophistication in production and marketing will continue to drive revenue at near 11 percent for the next several years. We are not far from achieving our next benchmark – the INR 10 billion box-office film!
Radio too, is set for the roll out of new licenses in 294 cities as announced by the Finance Minister in his Union Budget speech of 2013—a positive step that can accelerate the sector’s growth. Print continues to grow in India unlike in most countries. It has become more competitive and vibrant over the last few years. And the industry is finally acknowledging that challenges to its business model, though not immediate, will emerge eventually. English markets will be challenged by the emergence of the digital ecosystem first followed by regional markets. However, for the foreseeable future, growth will continue at 9-10 percent CAGR.

New media also emerged as a growth driver in 2012—we saw the impact of new media revenue for music companies reach critical mass, Youtube became a significant revenue driver, the App economy in India began to take off and OTT models are being experimented for TV.

2013 will be the year in which the promise of wireless broadband starts to find fulfillment. There is a renewed push on 3G and limited launches of 4G services—which are likely to go wider this year. This should provide content companies a whole new platform on which to reach, entertain and engage its audience of a billion.
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01

Indian M&E Industry in 2013

An Introduction
Introduction

Not long ago, the thought of being able to reach and engage with the billion-strong and significantly diverse Indian customer base seemed far fetched. Today, powered by digital technologies, growth in penetration of broadband and digital cinema, increasingly sophisticated mobile devices, and a regulatory framework that is enabling growth and change in several sectors of the industry, the dreams of advertisers, media houses, and telcos are beginning to move towards fulfillment.

Not so surprising then, that the theme for the FICCI Frames 2013 conclave is ‘A Tryst with Destiny: Engaging a Billion Consumers’

At the same time, this comes against the backdrop of a subdued macro environment that has dampened advertising spends. Key sectors still struggle with challenges of sub optimal scale, fragmented audiences, distribution leakages and the need for better industry co-ordination. Along with the opportunities presented by digitization and convergence, to realize the promise of a billion, come key questions for M&E companies and the government.

How can we extend our reach?

How can we formulate multi platform distribution strategies to reach new audience segments and enable better subscription revenues? How do we penetrate emerging and lucrative regional pockets? How can we ensure access to media at realistic price points for the under-served population near the bottom of the pyramid?

How do we create true connect?

How can we effectively segment a diverse audience base and then research and customize content for each segment, to ensure relevance? For example, how do we balance dubbed vs localized content in newly penetrated regional and rural markets? Or international vs locally produced content targeting key cities? Is there a business case for further zoning/ going hyperlocal within penetrated markets for greater localization of offerings? How do we engage the multitasking youth of today? How do we then inculcate processes to measure and monitor audience and reader responses, and then to ensure responsiveness and flexibility?

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01. Central Statistical Organization (CSO) estimates
02. KPMG Analysis based upon Census 2011 and Industry discussions
03. IRS Q3 2012
04. KPMG Analysis based upon TRAI, IAMAI estimates and industry discussions.
Industry size and projections

The overall Indian economy slowed down in 2012 due to both domestic and external factors. Domestically, the monetary and fiscal stimulus provided by the Government of India post financial-crisis led to strong growth in demand and consumption in 2009-10 and 2010-11. However, this resulted in higher inflation and a powerful monetary response that slowed consumption demand. Moreover, corporate and infrastructure investment were also pulled down by the tightened monetary policy as well as the policy bottlenecks. Externally, a slowing global economy weighed down by the continued crisis in the Euro area and uncertainty in the US fiscal policy also increased risks to growth. The Central Statistical Organization’s (CSO’s) estimates indicate a 5 percent growth in real GDP in 2012-13, as compared to a growth of 6.2 percent posted in 2011-12. These factors resulted in a challenging year for the M&E industry, with reductions in advertising budgets across sectors.

The Indian M&E industry grew from INR 728 billion in 2011 to INR 821 billion in 2012, registering an overall growth of 12.6 percent. Recent policy measures taken by the government can pave the way for gradual recovery for the Indian economy. With some improvement also likely in the global economy in 2013, the prognosis for the Indian economy looks somewhat better and real GDP growth is expected to be in the range of 6.1 to 6.7 percent in 2013-14. Given the impetus introduced by digitization, continued growth of regional media, upcoming elections, strength in the film sector and fast increasing new media businesses, the industry is estimated to achieve a growth rate of 11.8 percent to reach INR 1661 billion by 2017.

Television clearly continues to be the dominant segment, however we have seen strong growth posted by new media sectors, animation/VFX and a comeback in the Films (21 percent growth in 2012 over 2011 vis a vis 11 percent per growth in 2011 over 2010) and Music sectors (18 percent growth in 2012 over 2011 vs. 4.7 percent growth in 2011 over 2010) on the back of strong content and the benefits of digitization.

Radio is anticipated to see a spurt in growth post rollout of Phase 3 licensing. The benefits of Phase 1 cable digital access system (DAS) rollout, and continued Phase 2 rollout are expected to contribute significantly to strong continued growth in the TV sector revenues and its ability to invest in and monetize content. The sector is expected to grow at a CAGR of 18 percent over the period 2012-2017.
### Overall industry size and projections

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<tr>
<td>TV</td>
<td>241.0</td>
<td>257.0</td>
<td>297.0</td>
<td>329.0</td>
<td>370.1</td>
<td>12.5%</td>
<td>419.9</td>
<td>501.4</td>
<td>607.4</td>
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<td>224.1</td>
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<td>241.1</td>
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<td>89.3</td>
<td>83.3</td>
<td>92.9</td>
<td>112.4</td>
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<td>122.4</td>
<td>138.3</td>
<td>153.6</td>
<td>171.7</td>
<td>193.3</td>
<td>11.5%</td>
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<td>Radio</td>
<td>8.4</td>
<td>8.3</td>
<td>10.0</td>
<td>11.5</td>
<td>12.7</td>
<td>10.4%</td>
<td>14.0</td>
<td>15.4</td>
<td>18.7</td>
<td>22.7</td>
<td>27.4</td>
<td>16.6%</td>
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<td>Music</td>
<td>7.4</td>
<td>7.8</td>
<td>8.6</td>
<td>9.0</td>
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<td>18.1%</td>
<td>11.6</td>
<td>13.1</td>
<td>15.3</td>
<td>18.3</td>
<td>22.5</td>
<td>16.2%</td>
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<tr>
<td>DDB</td>
<td>16.1</td>
<td>13.7</td>
<td>16.5</td>
<td>17.8</td>
<td>18.2</td>
<td>2.4%</td>
<td>19.3</td>
<td>21.1</td>
<td>23.0</td>
<td>25.0</td>
<td>27.3</td>
<td>8.4%</td>
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<td>Animation and VFX</td>
<td>17.5</td>
<td>20.1</td>
<td>23.7</td>
<td>31.0</td>
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<td>13.9%</td>
<td>40.5</td>
<td>46.8</td>
<td>54.3</td>
<td>63.1</td>
<td>73.4</td>
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<tr>
<td>Gaming</td>
<td>7.0</td>
<td>8.0</td>
<td>10.0</td>
<td>13.0</td>
<td>15.3</td>
<td>17.7%</td>
<td>20.1</td>
<td>23.8</td>
<td>30.9</td>
<td>36.2</td>
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<tr>
<td>Digital Advertising</td>
<td>6.0</td>
<td>8.0</td>
<td>10.0</td>
<td>15.4</td>
<td>21.7</td>
<td>40.9%</td>
<td>28.3</td>
<td>37.1</td>
<td>48.9</td>
<td>65.1</td>
<td>87.2</td>
<td>32.1%</td>
</tr>
<tr>
<td>Total</td>
<td>580</td>
<td>587</td>
<td>652</td>
<td>728</td>
<td>821</td>
<td>12.6%</td>
<td>917</td>
<td>1059</td>
<td>1238</td>
<td>1438</td>
<td>1661</td>
<td>15.2%</td>
</tr>
</tbody>
</table>

**Sources:** KPMG in India analysis and industry discussions.

### Advertising trends and projections

Total advertising spend across media was INR 327.4 billion in 2012, contributing to 40 percent of M&E industry revenues. In the light of continued economic slowdown, advertising revenues saw a growth of 9 percent in 2012 as against 13 percent in 2011 and 17 percent in 2010.\(^7\)

Print continued to be the largest beneficiary, accounting for 46 percent of the advertising pie at INR 150 billion.

Continued growth in Hindi and regional print markets backed by rising literacy levels, growing advertiser engagement through activation solutions to leverage the ‘local’ strengths of the medium, and threat from digital platforms still being held at bay, are all assumed to continue to drive ad spends on the print medium.

### Advertising revenue (INR billion)

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</thead>
<tbody>
<tr>
<td>TV</td>
<td>82.0</td>
<td>88.0</td>
<td>103.0</td>
<td>116.0</td>
<td>124.8</td>
<td>8.0%</td>
<td>138.6</td>
<td>156.6</td>
<td>180.1</td>
<td>207.2</td>
<td>240.3</td>
<td>14.0%</td>
</tr>
<tr>
<td>Print</td>
<td>108.0</td>
<td>110.4</td>
<td>126.0</td>
<td>139.4</td>
<td>150.0</td>
<td>7.6%</td>
<td>162.0</td>
<td>179.0</td>
<td>200.0</td>
<td>222.0</td>
<td>248.0</td>
<td>10.6%</td>
</tr>
<tr>
<td>Radio</td>
<td>8.4</td>
<td>8.3</td>
<td>10.0</td>
<td>11.5</td>
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<td>15.4</td>
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<td>19.3</td>
<td>21.1</td>
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<td>25.0</td>
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<tr>
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<td>6.0</td>
<td>8.0</td>
<td>10.0</td>
<td>15.4</td>
<td>21.7</td>
<td>40.9%</td>
<td>28.3</td>
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<td>48.9</td>
<td>65.1</td>
<td>87.2</td>
<td>32.1%</td>
</tr>
<tr>
<td>Total</td>
<td>221</td>
<td>228</td>
<td>266</td>
<td>300</td>
<td>327</td>
<td>9.1%</td>
<td>362</td>
<td>409</td>
<td>471</td>
<td>542</td>
<td>630</td>
<td>14.0%</td>
</tr>
</tbody>
</table>

**Sources:** KPMG in India analysis and industry discussions.

\(^7\) KPMG in India analysis and industry discussions.
Roundup of the key trends and themes for growth

Over the last couple of months, our team met with over a hundred senior stakeholders across TV, Films, Print, Gaming and Animation/VFX, Radio, OOH, advertising and new media sectors. We present in this report, a consolidated point of view on what shaped these sectors over calendar year 2012, and what could be the game changers going forward...

Digitization of film and TV distribution infrastructure

Digitization of distribution has brought in the promise of more sustainable and profitable business models across media sectors.

The year 2012 heralded the much awaited start to digitization of cable. Despite some hiccups, Phase 1 saw significant progress in implementation of mandatory digital access system (DAS) across the four metros. Industry now hopes to realize benefits over the medium term – including enhanced ability to monetize content, greater transparency and equitable revenue sharing across the value chain, lower burden of carriage fees and hence increased ability to invest in differentiated and sophisticated content. Phase 2 digitization across the next 38 cities is anticipated to move ahead on similar lines, albeit with some delay vis a vis planned timelines.

Digital distribution has also enabled the films sector to make a comeback this year. The industry has achieved 77 percent digitization of screens and expects to close to 100 percent digitized in the next 18 months to 2 years. Today 80-90 percent of films are distributed digitally via a vis 50 percent physical prints in 2010. These developments have resulted in an increased ability to invest in differentiated content, marketing, and widespread releases – all contributing to greater audience engagement and unprecedented box office success across big and small budget movies alike.

Overall - digital technology is expected to drive the M&E sector’s growth in a challenging macro environment, by spurring on end-user spending and transparency.

Growth in new media

The rapid increase in mobile and wireless connections continued to drive the growth of internet penetration in India. With better access, through cheaper and smarter devices, audiences (especially youth) are consuming more content and are getting increasingly engaged.

Key beneficiaries are the emerging new media segments, which include internet advertising, online classifieds, and gaming, all of which are on a rapid growth path.

Going forward, better uptake of 3G connections and the beginnings of the 4G rollout are expected to spur growth further. 4G technology will enable greater uptake in services including Live TV, HD video/ audio streaming, real time online gaming, high speed data downloads and uploads and could enable introduction of new innovative offerings. The industry looks forward with great hope to an aggressive rollout of this technology by the telcos.

With traditional media still going strong

Across the world, technology futurists envisaged that the explosion in new media would drive audiences away from traditional media. However India remains a growth market for ‘traditional’ media evidenced by the growth last year in TV audiences, radio listenership, and footfalls in theatres. India is an outlier country where print is still a growth market. There is growing overseas demand for quality Indian animation/VFX work at affordable pricing.

New media co-exists as an additional and growing distribution platform. The need of the moment is the development of multimedia symbiotic models for reaching and monetizing all audience segments.

Macro economic indicators – rising literacy, continued urbanization, growing consumption, especially among younger sections of population, are expected to continue to drive the penetration of and growth in traditional media.

Greater sophistication of and segmentation in content

The content sector has traditionally been inhibited by challenges of lack of transparency, niche audience measurement, and broadcast economics not supportive of investing in targeted content. Hence we have seen the dominance of GECs in television, a majority of films targeted at a mass market, most radio channels playing similar mainstream film music, and relatively lower production quality. 2012 saw the exit of channels such as BBC English entertainment and BBC CBeebies targeting kids, on account of economic challenges such as carriage fee payouts that were prohibitive for standalone niche channels.

A key outcome of the push in digitization will be the ability to increase production budgets and invest in differentiated genres and multilingual content.

We have already discussed, how digitization in films has supported greater investments in content and marketing in films sector with great results in 2012.

Digitization of distribution infrastructure in TV is also expected to improve broadcast economics, (with lower carriage fees, more equitable distribution of subscription revenues across the value chain and the ability to increase ARPU’s). In turn this could drive more investments in production quality, and niche and targeted genres of content/packaging in the medium term.

Phase 3 licensing, and anticipated provisions for permitting multiple frequencies in a city, would encourage investments in differentiated content for the Radio sector.

Internet and mobile platforms are a cost effective enabler to reach diverse audience segments with tailored content. For example, special genre internet radio stations of players such as Radio Mirchi, Radio City, and multiple genre music libraries available for download online.

The Indian audiences could look forward to more targeted and engaging content in the medium term.

Regional markets remain key centres of growth

Advertisers continue to see higher growth in consumption from key regional markets. Hence regional media continues on a strong growth trajectory especially in the print and television sectors. Key media players are focusing on selectively expanding their presence in regional markets that are seeing higher rates of advertising revenue growth, and better insulation from slowdown than metros, which may be close to saturation in many cases.

06 Industry discussions conducted by KPMG in India
08 Industry discussions, Information shared by UFO
09 Hitting the High Notes, FICCI/KPMG Indian Media and Entertainment Industry Report 2011
For example Bennett Coleman & Co. launched Bengali daily ‘Ei shomoy. Going beyond regional GECs, broadcasters launched several sub-genre channels in regional markets. Zee and Star both launched their Bangla movie channels – Zee Cinema Bangla and Jalsha Movies. Star owned Asianet Communications also launched Asianet Movies, the first satellite movie channel in Malayalam. Gujarati dailies Sandesh and Gujarat Samachar launched their news channels – GSTV News and Sandesh TV.

Film studios are also building a regional films pipeline. Reliance Big Pictures, Disney UTV Motion Pictures and Eros International are increasingly investing in the regional space. Hollywood films are expanding their revenue potential by dubbing across regional languages such as Tamil and Telugu.

Phase 3 licensing in the radio sector is also expected to garner particular interest in key regional markets.

**Coming LIVE to you**

With changing lifestyles, there is an increase in media consumed out of home. Brands are also increasingly keen to connect with consumers via ‘experiences’ to ensure greater recall and amplification of brand values.

Activations/ events are now increasingly a key facet of radio and print media solutions.

Live music events/ festivals have been successful in attracting widespread audiences and engaging youth across key cities.

Increased consumption of music/radio/ video on-the-go via mobile and in cars provides opportunities for real time mobile, location-based advertising.

The Out of Home (OOH) advertising sector has also seen higher rates of growth in transit advertising.

There is hence an increased need to provide 360 degree solutions to advertisers and provide multiple platforms to reach out to consumers wherever they are.

**Revenue models still advertising dependent**

M&E is still an advertising dependent industry in India. Hence it remains sensitive to the impact of business cycles.

While the print sector saw some increases in circulation revenues, and increases in cover price in some areas, cover prices still remain significantly lower than global counterparts. Established practices, competitive pressures from within the sector and from TV, and the threat of digital migration, are likely to keep prices under pressure.

In the TV sector, digitization has the potential to increase ARPs and improve the share of subscription revenues to the broadcasters. Early indicators suggest that carriage costs have already dropped somewhat in Metros after Phase 1 digitization.

Most companies are yet to see significant revenues from digital content. Dampeners include limitations in measurement systems, decline in on deck revenues, and under investments in distribution platforms. There is a need for innovative or hybrid pricing models to cause a shift

Overall, engaging consumers through more targeted offerings, innovative pricing and packaging models, and better quality of production, should enable players to get better realization for content.

**Regulatory and policy support**

Regulatory interventions have been a key enabler of growth for the sector.

Anticipated developments in 2013 such as continued cable DAS rollout, Phase 3 licensing for Radio, and 4G rollout, will spur growth from the medium term.

However, continued and unflinching government support is needed. There is a need for measures to aid curtailing of piracy and encourage investments to support further growth.

Co-production treaties, rationalization of entertainment tax, government support to encourage formal skill development and training and incentives for animation/vfx and gaming are important areas of policy and regulation that need attention.

**Gaps in availability of skilled M&E professionals**

The M&E sector could be a noteworthy employer across creative, technical and business areas. With the growth in TV and Radio broadcast channels, in skill intensive sectors of film, animation, gaming, VFX, the demand for qualified talent is only set to escalate. In the talent driven media sector, companies could potentially differentiate based on ability to attract and retain the right people (for example, in the knowledge intensive content development sector or RJ dependent radio sector).

However the industry is hampered by a talent crunch across sectors. At the same time, changes including digitisation, growth in multilingual markets, new technologies and convergence, require additional skill sets. The industry has successfully experimented with bringing in people from other industry backgrounds. Key stakeholders have expressed a need for investments in credible media institutes, with quality faculty and a relevant and dynamic curriculum.

Under the National Skill Development Policy 2009, National Skill Development Council (NSDC) has constituted a Media and Entertainment Skill Council (MESC), which will focus on the television, print, films, radio, animation, gaming and advertising industries. It plans to set up Institutes focusing on technical, creative and business talent. It will work closely with NSDC to train more than 11.7 million people over the next 10 years in skills such as lighting, scriptwriting, electric work and tailoring. This will hopefully prove a critical step in bridging the skill gap.

In summary, the vision set out for the sector, of engaging communities, entails reaching out and understanding multiple segments, creating greater connect, and leveraging this connect to influence for the greater social good. The industry is undergoing transformation, driven by digital technologies, opportunities for further penetration of the billion strong market, and an enabling regulatory framework. At the same time, it remains sensitive to the economic situation, and a lot will depend on its ability to manage the risks of continued shortage of skilled manpower, and ability to spur end user pricing across segments. It is a time for introspection, and a time for innovation, to see how companies can harness the powers of new technologies and convergence to realize its vision.
Television
The march to digital begins
Introduction

In 2012, the television industry commenced its journey down a game changing path, with the seeds planted for sweeping changes that would significantly change the way business is done. Digitisation of cable is expected to bring in transparency and increase subscription revenues for Multi System Operators (MSOs) and broadcasters. It is also expected to reduce carriage fees, building a case for the launch of niche channels and investment in content for existing channels. Developments and refinements in viewership measurement systems may affect the way advertising is distributed among channels.

In itself, 2012 was a challenging year for the industry, with companies conserving capital and cutting advertisement spends in the face of a soft macro-economic environment. Against this backdrop, leading players and networks stood out as they managed to hold out better than fringe and niche players. The TV sector also witnessed consolidation and exits, paving the way for a more sustainable, profitable future.

Despite the current challenges, the long-term outlook remains positive, and India continues to remain a key strategic market for leading international broadcasters.

Further, in a reflection of India’s growing diaspora, Indian channels have also been aggressively increasing their presence across international markets. GEC channels like Zee TV, SET, Star Plus and Colors are available in approximately 169, 77, 70 and 50 countries respectively. Industry discussions suggest that while the US, UK and Canada markets are close to saturation in terms of penetration, the Middle East and Africa continue to offer significant growth opportunities. In addition to the Indian diaspora, offerings are also targeted at the local population, primarily through dubbed or sub-titled content. ZEEL launched its second Arabic channel, Zee Alwan, in 2012, and industry discussions suggest that the response has been positive. ZEEL has been syndicating Indian dramas dubbed in Mandarin to Chinese television channels since 2006 and became the first Indian channel to receive landing rights in China in 2012.

The television industry in India is estimated at INR 370 billion in 2012, and is expected to grow at a CAGR of 18 percent over 2012-17, to reach INR 848 billion in 2017. Aided by digitisation and the consequent increase in ARPUs (Average Revenue Per User), the share of subscription revenue to the total industry revenue is expected to increase from 66 percent in 2012 to 72 percent in 2017.

“ZEE has reach in 169 countries, entertaining over 670 million viewers across the globe. With a rich bouquet of 32 channels and 29 dedicated international channels, ZEE as a brand has achieved global recognition.”

- Atul Das
Chief Strategy Officer,
Zee Enterprises Entertainment Limited

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01. Boxofficeindia.com; 11 August 2012
02. The Hindu, 14 January 2008
03. The Hindu, 12 April 2012
04. KPMG in India analysis
Strong growth in TV sales continues

Approximately 145 million television sets were sold in India in 2012. A large proportion of these television sales represent replacement of old television sets, institutional TV sales, and a second or third TV set entering a household. As per Information and Broadcasting (I&B) ministry estimates, institutional and multi TVs account for approximately 17 percent of television sets in metro cities. LCD and LED panels are estimated to account for 40 percent of sales in 2012 and this share is expected to rise to close to 100 percent by 2017.

Paid C&S penetration of TV households expected to increase to 91 percent by 2017

The number of C&S households in India increased by 11 million in 2012, to reach 130 million. Excluding DD Direct, the number of paid C&S households is estimated to be 121 million. This paid C&S base is expected to grow to 173 million by 2017, representing 91 percent of TV households.
## Snapshot of the TV industry value chain

The TV industry value chain consists of content production, broadcasting and distribution.

### Content production
- In general, production costs continue to be linked to inflation; artist costs however, have increased
- Cable digitisation is expected to create significant opportunities for content providers, including:
  - Existing channels investing in content, and upgrading content quality
  - Narrower targeted offerings, to segments which are currently served by ‘one size fits all’ offerings, which will require more localised content
  - Launch of new niche channels, which may see a viable business case on the back of reduced carriage fees
- Broadcasters believe that content is under-invested and with the improving economics on account of digitisation, investment in content is expected to grow

### Broadcasting
- 2012 continued to be a challenging year for the industry, with a lower-than-expected advertising revenue growth. However, the long-term outlook remains positive and the industry expects advertising revenues to grow at a 14 percent CAGR from 2012-17
- Subscription revenues increased in 2012, but this seems to be attributable to better negotiation through consolidated entities (MediaPro, One Alliance, India Cast etc.), rather than to digitisation in Phase 1
- The benefit of phase 1 and phase 2 digitisation in terms of growth in subscription revenues is expected to be seen over 2013 and 2014
- In digitised areas, carriage costs appear to have declined. At the same time, TAM’s increased coverage of Less than Class I (LC1) markets has resulted in some of the carriage savings being redirected to increase reach in LC1 markets
- Growth is expected to be driven by a sharp increase in subscription revenues, while carriage costs are expected to rationalize in metro markets

### Distribution
- Phase 1 of cable digitisation kick-started, and met with varying degrees of success in the four metros. However, the consumer has warmed to the concept of digitisation
- Industry discussions suggest that the digitisation in Phase 1 cities may not all be addressable yet. MSOs are in the process of verifying their customer base, and updating their systems before packages are deployed
- Completion of Phase 2 digitisation is likely to get delayed by 9 to 12 months. Out of the 38 cities identified for phase 2 digitisation, approximately 40 percent of C&S households are already digitised
- It is important to continue the momentum and ensure that digitisation of cable gets completed; else there may be a risk that even Phase 1 cities may regress to a mélange of analogue and digital cable
Distribution

The year 2012 was a year of unprecedented changes for the cable television industry in India, with mandatory Digital Access System (DAS) being implemented in the four metros of Delhi, Mumbai, Kolkata and Chennai.

"The key to usher in digitisation would be the capability of the operators to deliver infrastructure on time for consumers keenly awaiting the big change. Companies that have strong fundamentals such as technology and financial resources, would generally be able to service the consumer in the digital regime. However, the industry has been slow in adopting the new rules."

- Jawahar Goel

MD, Dish TV

"Digitisation has been the biggest development for the Television broadcasting industry in 2012. Whilst Phase 1 of DAS has been rolled out reasonably successfully, it is important to follow through with Phase 2 and complete digitisation in a timely manner."

- Nitin Nadkarni

CFO, Multi Screen Media Private Limited

As per our FICCI KPMG Indian M&E report 2012, most stakeholders had indicated a delay of 6-12 months for complete digitisation across metros, and that DAS is likely to be successful in comparison with the earlier CAS. The digitisation experience has been largely in line with industry expectations.

While there have been implementation challenges in Chennai, DAS roll-out is estimated to be almost complete in Delhi and Mumbai. Kolkata is expected to be largely digitised by the end of March 2013.

Even as digitisation in Phase 1 cities moves towards completion, and as MSOs work to verify and stabilize their customer base, the deadline for Phase 2 is close. Phase 2 is expected to require significantly higher investments by MSOs versus Phase 1. While the investment in Phase 1 was primarily towards Set Top Boxes (STBs), Phase 2 requires investment in other infrastructure as well. Phase 2 is also expected to present challenges in terms of managing logistics.

While industry participants highlighted certain issues in the digitisation process, at an overall level, all industry participants agree that digitisation has been a step in the right direction, and they remain committed to the digitisation effort.

Lastly, the industry believes that it is critical to see the entire digitisation effort through to completion. There is a risk of regression to a state of continued existence of analogue with digital in case the government or any of the stakeholders lose steam along the way.

"The digital ecosystem in India cannot remain where it is. It will either move forward to completion, or regress, like CAS did. If Phase 2 and 3 don’t go through, even the metros will relapse."

- Uday Shankar

CEO, Star India

The Phase 1 experience

The deadline for cable TV digitisation across four metros was originally scheduled for July 1, 2012. However, only 30 percent of cable viewing households were estimated to have acquired STBs by mid-June, and hence the Phase 1 deadline was deferred by I&B Ministry to October 31, 2012. The October 31, 2012 deadline for Phase I cities was upheld by the Ministry, and households in Delhi and Mumbai faced an analogue cable blackout at the stroke of midnight on October 31. While analogue broadcast resumed in a few parts of Mumbai and Delhi, both cities reported a near complete shift to digital cable by the end of December 2012. Kolkata and Chennai continued to receive analogue signals even after the deadline.

Industry discussions indicate that political reasons in the states of West Bengal and Tamil Nadu may have led to delays in implementation of digitisation in Kolkata and Chennai. While digitisation is underway in Kolkata and is estimated to get completed by the end of March 2013, there is a lack of clarity on its progress and estimated completion date in Chennai. Telecom Regulatory Authority of India (TRAI) is yet to award a DAS license to the state-run Arasu cable which dominates the cable TV distribution market in Chennai, even as it issued a recent recommendation to disallow state and central governments from entering television broadcasting and distribution businesses.

There have been varied estimates regarding the extent of digitisation achieved across the four cities. However, our industry discussions indicate that on an overall basis, 80 to 85 percent of C&S households (including DTH households) are estimated to be digitised across the four metros.

Phase I digitisation update

<table>
<thead>
<tr>
<th></th>
<th>As of October 31, 2012</th>
<th>As of Dec 31, 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>I&amp;B</td>
<td>MxM*</td>
<td>TAM</td>
</tr>
<tr>
<td>Delhi</td>
<td>97% 45% 50%</td>
<td>97% 90-95%</td>
</tr>
<tr>
<td>Mumbai</td>
<td>100% 86% 70%</td>
<td>93% 90-95%</td>
</tr>
<tr>
<td>Kolkata</td>
<td>85% 53% 45%</td>
<td>70% 65-70%</td>
</tr>
<tr>
<td>Chennai</td>
<td>86% 49% 30%</td>
<td>26% 25-30%</td>
</tr>
</tbody>
</table>

Source: I&B Ministry Press release 31 October 2012; TAM Universe Update 2013; Industry discussions conducted by KPMG in India

Note: *Refers to MxM TV Street Maps survey data released on 23 October 2012, reported by Medianama, 29 October 2012

# Based on MPA estimates reported by Business Today, 29 October 2013
Cable retains approximately 80 percent of analogue subscribers

Conversion of analogue cable subscribers to digital cable was not expected to take place without some churn to DTH providers. However, MSOs demonstrated strong performance, and the analogue subscriber churn to DTH is estimated at approximately 20% percent during Phase I, which was lower than industry expectations. Industry discussions suggest that metros have traditionally been strongholds of cable providers with a higher presence of large national MSOs, which may have helped cable retain most of its subscriber base. Further, newly digitised subscribers appear to be currently paying analogue-level ARPUs, providing a cost advantage over DTH.

Overall, the DTH industry added approximately 7 million to its subscriber base in 2012, versus 9 million in 2011. The decrease in free viewing period from about 5 months in 2011 to 1 month in 2012 may be one of the reasons for the muted growth.

Digitised, but not addressable

Our discussions with industry participants suggest that while homes in Phase 1 have been seeded with STBs as indicated above, these homes are not necessarily addressable.

Industry discussions suggest that LCOs have acquired boxes in bulk from MSOs, and are holding back the identity of end-customers. Using a combination of penalties to LCOs and incentives to end-customers, MSOs are in the process of collecting Know-Your-Customer (KYC) information, verifying the same, consolidating their subscriber base, and updating their systems. This process may be completed by the second half of 2013, bringing in addressability.

MSOs are, however, aware of the number of boxes seeded, and hence the true subscriber base. While they are billing LCOs for this true base, collection remains a challenge. An identification of the end-customer, and subsequently, movement to the pre-paid model is therefore viewed as a key step in improving collection.
LCOs protest, seeking greater revenue share

TRAI has recommended a revenue share of 55:45 (MSO: LCO) for the basic free to air tier and 65:35 (MSO: LCO) for a combination of free to air and pay channels. There have, however, been instances of LCO protests against the TRAI recommendation with demands for a greater revenue share for LCOs.

LCO cooperation remains crucial for smooth implementation of DAS across Phase 2 cities, and MSOs are expected to avoid tough negotiations at least till the end of Phase 2. This may lead to further delays in monetizing gains from digitisation.

Shift in the power equation towards MSOs – expected, but yet to materialize

With the eventual control of the subscriber moving to MSOs post digitisation, the distribution industry is expected to see a power shift towards MSOs. LCOs are expected to take up the role of collection and servicing agents while MSOs control the infrastructure and generate bills through a subscriber management system.

However, even as MSOs may have control of the subscriber, LCOs will be crucial to customer interactions and day to day management. Therefore LCO relationship management remains crucial for MSOs.

MSOs may attempt to mitigate the risk of over-dependence on LCOs by encouraging consumers to opt for a pre-paid subscription model. The extent of power shift may therefore depend upon successful deployment of channel packages and acceptance of the pre-paid model amongst subscribers.

Broadcasters benefit from increased subscription revenues, but better negotiation may be the driver rather than digitisation

The TV industry has witnessed a trend of broadcasters coming together to consolidate their distribution functions, to improve negotiating power. Mediapro and One Alliance are examples. This trend continued in 2012, with the formation of Indiacast to distribute Viacom18, Sun Network, Disney and Eenadu Group channels.

In 2012, large networks appear to have witnessed 20 to 25 percent growth in their subscription revenue. Our discussions with broadcasters suggest that:

- This growth was driven primarily by better negotiation through consolidated entities such as Mediapro and One Alliance
- Small niche channels may have seen lower growth
- Digitisation upside was not materially felt in 2012

Since MSOs are still in the process of establishing subscriber management systems, except for sports and niche segments, broadcaster-MSO agreements continue to be based on fixed fee arrangements for the most part.

Lower carriage fee becomes a reality

Industry participants across the value chain agree that digitisation has reduced the carriage fee payout. The largely digitised markets of Mumbai and Delhi have witnessed a 15 to 20 percent drop in carriage. In some cases, broadcasters have continued to pay the same carriage, but are able to carry a larger bouquet of channels at the same cost.

Boxes may have been seeded by MSOs but monetization may be difficult immediately as packaging has not been done yet. A lot would depend on how effectively MSOs are able to work the LCOs and how soon they start billing subscribers directly.

- R C Venkatesh
CEO, Dish TV

Early benefits of cable digitisation were seen in the form of some increase in subscription revenue and some decrease in carriage in two major metros. However, real benefits will come in over the next 2-3 years as other towns get digitised.

- N P Singh
COO, Multi Screen Media Private Limited

We have increased our reach substantially in the LC1 markets, and are paying the same absolute amount of carriage fee. Effectively, carriage fee has softened.

- M K Anand
CEO Broadcasting, Disney-UTV

Achieving Phase 1 stability in all its entirety of consumer choice, packages and a-la-carte, billing and collections etc. is important before we plan Phase 2 implementation. We still have learnings from Phase 1.

- Subhashish Mazumdar
Senior Vice President, IndusInd Media & Communications

Lower carriage fee becomes a reality

Industry participants across the value chain agree that digitisation has reduced the carriage fee payout. The largely digitised markets of Mumbai and Delhi have witnessed a 15 to 20 percent drop in carriage. In some cases, broadcasters have continued to pay the same carriage, but are able to carry a larger bouquet of channels at the same cost.
While carriage fee may decline further over the next 2-3 years, part of this may claw back in the form of placement fees, where broadcasters pay for placements in various tiers of channel packages. However, we note that the supply-demand situation to carry channels will improve significantly post digitisation, and therefore on an overall basis, the total payout towards carriage and placement fee is expected to decline.

In the near term, decline in carriage fees in digitised regions may be offset by an increase in carriage fee paid for LC1 markets. TAM has extended its reach to include the LC1 markets and broadcasters may want to ensure visibility in these markets.

Carriage which till now has been a significant revenue stream for MSOs is set to come down in the future, although currently there has not been a significant decline because channels wanted to play it safe in year one. Although in absolute terms as well as a percentage to sales, the carriage in the current year is lower by approximately 10-15 percent. Placement fee shall never be an equal replacement for carriage, it will be a localised and a relatively small revenue stream since digital cable can easily carry 500 channels, and the channels anyway need to be grouped by genre which reduces the value of placement charges.

- Atul Das
Chief Strategy Officer,
Zee Enterprises Entertainment Limited

Capital expenditure as per expectations

Discussions indicate that capital investments during Phase I have been in line with industry expectations. Back-end infrastructure for leading MSOs was estimated to be largely in place for the first phase of digitisation. Unlike successive phases where significant investments may be required for upgrade of back-end infrastructure, funding requirements during Phase I have been mostly on account of set-top-box installation.

Learning from Phase 1

**Better consumer education**
- It was felt that consumer messaging appeared to be focussed on analogue cable blackout and the consequences of not digitising, rather than on benefits that a digital delivery platform offered in terms of an enhanced viewer experience
- For Phase 2, the industry may consider a soft and inclusive approach towards messaging, so that the consumer does not feel that digitisation is being forced onto him by the industry

**Addressability in-step with digitisation**
- Phase 1 cities have witnessed digitisation, while addressability is playing catch-up
- In Phase 2, MSOs may place greater emphasis on on-boarding end-consumers in tandem with seeding boxes

**Need for MSOs to work together**
- Phase 1 witnessed MSOs working mostly in silos, and multiple boxes were sold to the same “subscriber” in some instances. For example, industry discussions suggest that the number of boxes seeded in Delhi was 50 percent higher than the total subscriber base
- In Phase 2, MSOs may increase knowledge sharing, and present a more united front to LCDs, thereby improving negotiations
- Several industry participants have suggested that MSOs and broadcasters also need to work together better on packaging of channels and change the existing adversarial relationship between the two stakeholders

- Jagdish Kumar
CEO & MD,
Hathway Cable & Datacom Ltd.
Phase II expectations: Miles to cover

Most stakeholders believe that Phase II of digitisation will be implemented successfully, at least across the key cities. Our discussions indicate that on an overall basis, approximately 40 percent of C&S households in Phase II cities were already digitised by the end of 2012. Select cities like Ludhiana, Ahmedabad and Amritsar have seen nearly complete voluntary digitisation, while others appear to be on track for a timely roll-out. Industry stakeholders have also gained experience around implementation challenges observed during Phase I, and this may help mitigate similar challenges during successive phases. At the same time, Phase II presents some challenges which were not present, or only weakly felt in Phase I.

There may be a delay of approximately 9 to 12 months for complete digitisation across Phase II cities

The deadline for Phase II of digitisation across 38 cities ends on March 31, 2013. With an estimated 16 to 17 million C&S households in Phase II, approximately 104 million subscribers are required to be digitised during Phase II. This phase is expected to be more challenging with respect to logistics requirements and financial commitments required on behalf of the MSOs. This may lead to a delay of 9 to 12 months for successful implementation across cities. Three issues appear to be key:

Logistic preparedness

Phase II, which includes 38 cities spread across 15 states, is expected to be a greater logistical challenge as compared to Phase I across four metros. No large MSO appears to have a geographic presence across all 38 cities. Hathway Cable and Datacom is present across 25\(^{15}\) Phase II cities, and is reported to hold a dominant position in 11 of these. Den networks, Digicable, Siti Cable, and Incable are present in 19\(^{16}\), 13\(^{15}\), 18, and 16\(^{15}\) cities respectively, out of these 38 cities.

Digitisation across Phase II cities is likely to be tackled in a phased manner by large national MSOs. The initial focus area would be in cities where the MSO has a presence, and currently offers digital services (voluntary digitisation) i.e. in cities where the MSO already has a digital head end. The next area of focus is expected to be in cities where the MSO has a presence in analogue cable (i.e. already has an analogue head end), and thus has relationships with distributors and LCOs. The last area of focus would be cities which are attractive from a C&S perspective, and which the MSO may wish to enter.

Our discussions indicate that most large national MSOs are likely to focus on approximately 20 to 25 cities out of a total of 38. The balance cities may need to be digitised by smaller, regional MSOs, which have not had the benefit of learning from Phase 1. Therefore, there remains a risk that these balance cities may not undergo complete digitisation even after a 9 to 12 month delay post the stipulated deadline.

Funding availability

Phase II includes significant investment in digital head-ends and other back-end infrastructure apart from STB costs. Funding may prove to be a challenge because:

- While Phase II consists of 38 cities, large national MSOs are present only in 15-20 Phase 2 cities. They appear to have plans to expand their presence to 20-25 cities, but the balance cities may need to be serviced by small regional MSOs, who may have funding challenges
- Even for large MSOs, revenue benefits from Phase 1 have not started flowing in. At the same time, revenue share to broadcasters has increased, while carriage fee has been lowered. Hence, these MSOs need to raise funds for Phase II. While FDI limit has been raised to 74 percent, the benefits of digitisation are yet to be reflected in the numbers of MSOs, and this may have deterred investors. Hence, even large MSOs may face a challenge in funding

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12. Industry discussions, KPMG in India-Analysts
14. Company reports
Political considerations

Industry stakeholders believe that the government appears to be firm in its resolve to see through DAS implementation in Phase II cities. However, experience from Phase I indicates that concurrence in state and central government policies may be a key driver to successful digitisation.

Phase III and IV

Digitisation is being tackled in a phased manner, with most players continuing to focus on Phase I and Phase II cities. Ground-level challenges have led to inadvertent delays in completion of the process in these cities. However, overall indications remain positive and industry believes that DAS will achieve significant success across all phases, albeit with some delays.

Sunset date for analogue cable

<table>
<thead>
<tr>
<th>Phase</th>
<th>Geographies covered</th>
<th>Parliamentary approval</th>
<th>Industry estimates for achieving significant levels of digitisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Delhi, Mumbai, Kolkata, Chennai</td>
<td>30-Jun-12</td>
<td>Mar-13</td>
</tr>
<tr>
<td>II</td>
<td>All cities with population &gt; 10 L</td>
<td>31-Mar-13</td>
<td>Mar-14</td>
</tr>
<tr>
<td>III</td>
<td>All urban areas (municipal areas)</td>
<td>30-Sep-14</td>
<td>Dec-15</td>
</tr>
<tr>
<td>IV</td>
<td>Rest of India</td>
<td>31-Dec-14</td>
<td>Dec-16</td>
</tr>
</tbody>
</table>

Source: KPMG in India analysis

Discussions indicate that larger MSOs are more likely to focus on consolidating their position in Phase I and II in the near future. Phase III and IV will require significant upgrade of back-end infrastructure apart from STB installation. A large number of Phase III and IV, as well as some phase II cities are characterized by low population density and spread out clusters, which may not justify a business case for rollout for an MSO. On the other hand, penetration of digital platforms in C&S households in Phase III and IV cities is already estimated to be higher than 45% percent on account of penetration of DTH services in these areas.

HITS: Cable’s answer to DTH in Phase III & IV?

Head-end-in-Sky (HITS) is a platform for providing digital signal throughout the country via satellite. LCOs would be required to install a reception dish at their premises with a capital expenditure of under INR 1 million. HITS players then act as service providers for the LCO by providing the back-end infrastructure, while the LCO needs to fund the set top box subsidy provided to the consumer. LCOs may find it unviable to operate independently, and in such a scenario aligning with a HITS provider is expected to be more profitable for the LCOs as they retain a higher share of customer-end net ARPU.

While some players like NSTPL (Noida Software Technology Park Limited) have declared HITS plans, discussions indicate that they are yet to see significant traction, with current industry focus limited to Phase I and II. Essel Group had tested the technology in India in 2008; however there was no digitisation mandate around this period, and therefore, the business did not gain the expected traction.

Now, with DAS implementation imminent across India over the next 3-4 years, HITS may have an opportunity to emerge as cable’s answer to DTH for digitisation in Phase III and IV cities, as well as for Phase II cities where large MSOs may not have a presence.
C&S subscribers by platform

The Indian market is large enough to provide significant growth opportunities for digital cable as well as DTH service providers.

No. of Subscribers

<table>
<thead>
<tr>
<th>Year</th>
<th>Analog cable</th>
<th>Digital cable</th>
<th>DTH</th>
<th>Other digital</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>108</td>
<td>69</td>
<td>6</td>
<td>15</td>
</tr>
<tr>
<td>2011</td>
<td>119</td>
<td>68</td>
<td>6</td>
<td>15</td>
</tr>
<tr>
<td>2012</td>
<td>120</td>
<td>68</td>
<td>6</td>
<td>15</td>
</tr>
<tr>
<td>2013P</td>
<td>122</td>
<td>64</td>
<td>6</td>
<td>15</td>
</tr>
<tr>
<td>2014P</td>
<td>141</td>
<td>51</td>
<td>6</td>
<td>15</td>
</tr>
<tr>
<td>2015P</td>
<td>162</td>
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<td>2016P</td>
<td>172</td>
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</tr>
<tr>
<td>2017P</td>
<td>182</td>
<td>5</td>
<td>3</td>
<td>9</td>
</tr>
</tbody>
</table>

ARPUs gains to materialise, but in the medium term

With the race to acquire subscribers and pending deployment of channel packages, ARPUs continue to be low. This is expected to continue as digitisation progresses across phases. However, deployment of channel packages across cable customers over the next 3 to 4 years is expected to lead to significant increase in ARPU. In addition to ‘value’ packs, MSOs may look at creation of ‘premium packs’ for top paying subscribers leading to increase in ARPU levels. Digitisation will also provide an opportunity for subscription-based niche content which will lead to additional revenue gains. Further, rising penetration of HD services is expected to provide a boost to ARPU.

Core services will continue to drive the DTH growth in India for next few years and HD services will be a key revenue driver. Apart from this, niche subscription driven channels and innovative pay-per-view kind of models will drive ancillary revenue. However we are still further away from bundling of DTH and broadband services.

End customer ARPs have not gone up just yet. It will take up to 1-2 years for ARPs to go up.

- N P Singh
COO, Multi Screen Media Private Limited

Indian consumers need to pay more for television content. ARPs need to go up. Monthly ARPs in developed markets are 5-6 times that of a single multiplex movie ticket, while in India that ratio is close to 1. This proves that television is undervalued as a medium by the consumers.

- Asheesh Chatterjee
Chief Financial Officer, Reliance Broadcast Network Limited

Cable

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
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<th></th>
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<td>166</td>
<td>174</td>
<td>194</td>
<td>227</td>
<td>260</td>
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DTH

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<th></th>
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</thead>
<tbody>
<tr>
<td>DTH</td>
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<td>180</td>
<td>209</td>
<td>236</td>
<td>266</td>
<td>293</td>
</tr>
</tbody>
</table>

Source: KPMG in India analysis, Industry discussions conducted by KPMG in India

Note: (1) DTH figures are net of churn
(2) Figures are rounded to the nearest integer and may not add up exactly to column totals
The size of India’s E&M opportunity was never in doubt. The only factor that marred the attractiveness of this opportunity was policy and its implementation. With distribution primarily in analogue mode, the subscription from the customers, of which only a small percentage was accounted, did not find its way back to the stakeholders who created the content and facilitated its movement, including the government. Hence this prevented the content creators from investing in what they created, the platforms from upgrading their delivery mechanism and the government from rationalizing taxes.

DTH did set the ball of addressable system rolling, however its expansion was stunted due to competition with analogue cable whose cost structure was completely different due to under-declaration. The fact that with a third of pay TV industry’s subscribers, DTH contributes more than cable to the broadcasters as well as to the government is testimony to the differential cost bases between the platform types.

Introduction of DAS (Digital Addressable System), in phases is expected to change this scenario. Successful implementation in Delhi and Mumbai has given the government the confidence that implementation can happen without the possibility of public unrest. It has also given the vested interests, who were hitherto working against its implementation, the clarity that Digitisation is now only a matter of ‘when’ and not ‘whether’.

Implementation of addressable systems will make the entire E&M ecosystem healthy with every component sufficiently profitable and capable of investing to attract, retain and extract more value from its subscribers. Hence the low penetration levels will demonstrate high levels of growth in the short run after adequate infrastructural investments are made. In the long term, with a large revenue base and reduced capex intensity, the sector is likely to give fair returns to the investors.

However, some quick corrections are required to give the potential investors some confidence to invest in the cable businesses. Inter alia, these include:

- Infrastructure, processes and trained people to manage customer interactions for creation and updating of customised packages
- Field service infrastructure to manage installations and repairs within acceptable time frame
- Ability to attract and retain experienced management from relevant industries
- Build a brand of service and value

All of this is possible only if the businesses get to scale and create contiguity versus the current sub scale and fragmented state. I am sure everyone of the large cable platforms are planning their moves to achieve all of the above and more so that we move towards a profitable Entertainment & Media ecosystem which attracts adequate FDI. The laws have been created to support the moves.

Investing in TV distribution – Why India is attractive

By Harit Nagpal
Managing Director & CEO, Tata Sky

Broadcasting and Content production

Introduction

The television advertising industry continued to be under pressure due to the soft global and domestic economic condition. This resulted in muted growth, particularly in the first half of 2012. On an overall basis, the total TV advertisement market is estimated to have grown around 8% percent in 2012, lower than industry expectations. In comparison, growth in the TV advertisement market was estimated to be 12 percent in 2011 and 17 percent in 2010.

“Adsales growth has been soft in 2012. 2013 will see better growth, but will not be a blockbuster year.”
- Rohit Jain
Deputy CEO, Videocon D2H

“2012 has been the toughest year in recent times; in many ways, it was even worse than when the subprime crisis hit in 2008. At least then, the sentiment was still bullish coming on the back of a few years of robust growth. This time, the mood is a lot more downbeat. Everyone is going into capital conservation mode. Having said that, in 2008, the perception of things to come was much worse than reality, and ad spends were perhaps cut down a lot more than was warranted.”
- Uday Shankar
CEO, Star India

Unless otherwise noted, all information included in this column/article was provided by Harit Nagpal. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India.
Advertisement spends were affected as private consumption experienced a protracted slowdown. The 2012-13 advance estimates from the Central Statistics Office indicate a sharp fall in the growth of real private final consumption expenditure (PFCE). At constant (2004-05) prices, the PFCE is estimated at INR 34,730 billion in 2012-13, an increase of only 4.1 percent over the previous year. In comparison, the increase in private consumption expenditure was estimated at 6.5 percent in 2011-12 and 8.1 percent in 2010-11.

The absence of a mega sporting event, like a Cricket World Cup in 2011, and a muted advertiser response to season 5 of the IPL contributed to the low television ad spends in 2012. The ten week TAM black-out coincided with the festive season, and the industry is reported to have completed deals during this period on the basis data of the preceding eight to ten weeks. This may have led to niche and fringe broadcasters being unable to achieve the full advantage of the festive season spends.

A study of marketing spends of a sample of advertisers suggests that while select large advertisers increased spending on advertisement and promotion in order to revive demand, on an overall basis, advertising spend remained muted.

Illustrative analysis of key advertisers

<table>
<thead>
<tr>
<th>Key advertisers</th>
<th>Advertisement spend (April to December, INR billion)</th>
<th>A&amp;P expenses as share of revenue (April to December)</th>
<th>Increase in A&amp;P spends over last year</th>
</tr>
</thead>
<tbody>
<tr>
<td>HUL</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Colgate Palmolive</td>
<td>2.7</td>
<td>3.2</td>
<td>2.7</td>
</tr>
<tr>
<td>Bharti Airtel</td>
<td>64.4</td>
<td>52.9</td>
<td>46.0</td>
</tr>
<tr>
<td>Ideal Cellular</td>
<td>18.7</td>
<td>17.3</td>
<td>13.6</td>
</tr>
<tr>
<td>Godrej Consumer Products Ltd.</td>
<td>4.6</td>
<td>3.2</td>
<td>2.5</td>
</tr>
</tbody>
</table>

Source: Company filings on BSE
Note: A&P expenses refer to Advertisement and Promotion expenses for Hindustan Unilever Ltd. and Colgate Palmolive India Ltd., Sales and Marketing spends for Bharti Airtel Ltd., Advertisement and Publicity for Godrej Consumer Products Ltd. and Subscriber acquisition, Service and Business promotion expenditure for Idea Cellular

Advertistion spends are expected to grow at a similar rate in 2013. However, outlook for the Indian television advertising industry remains positive in the medium term with a CAGR of 14 percent over 2012-17.

On the other hand, subscription revenue for broadcasters is estimated to grow at a CAGR of 26 percent from 2012 to 2017. Increase in the declared subscriber base and aggregation of distribution on behalf of broadcasters is expected to drive up the share of subscription to total broadcaster revenue from 36 percent in 2012 to 48 percent in 2016.

"TV is the most undervalued media and continues to get the lowest rates, especially for the kind of reach it delivers, while being an accountable media where brands know exactly how many people watched their commercials."

- Rohit Gupta
President,
Multi Screen Media Private Limited
Increased inventory continued to be the primary growth driver for advertisement revenue growth, while rates remained flat

Continuing the trend observed in the past few years, advertisement revenue growth was largely attributable to volume growth. Rates continued to remain flat or even declined in some cases.

Expansion of volume on the back of expansion of content is acceptable. However, when volume keeps expanding with no additional content coming in, it is an issue.

- Uday Shankar
CEO, Star India

We see our ad to subscription revenue ratio moving from 70:30 to 50:50 over the next 3-4 years. We expect to double our ad revenue over the next 3-4 years (given India’s low ad to GDP ratio, we believe there is significant potential growth in the ad market). Essentially then, we expect our subscription revenue to quadruple in the same period.

- Man Jit Singh
CEO, Multi Screen Media Private Limited

The total number of channels increased from 623 in 2011 to 845 in 2012, leading to an increase in advertising inventory. Most of the volume expansion is estimated to have come from other genres while GEC volumes remained stable. Existing GEC broadcasters may have seen a limited increase in free commercial time. TRAI amended the Cable Act in 2012 to specify a maximum of 12 minutes of advertising time during one hour of programming. Stakeholders believe that while it may take 2-3 years for industry wide enforcement of this amendment, it may have led to some extent of self-regulation amongst the leading broadcasters, resulting in restricted growth of commercial time per hour of programming.

FMCG, personal care and services continued to account for 33 percent of advertising spends

The top 10 sectors continued to account for approximately 60 percent of the overall TV advertising volume share during 2012; similar to the past three years. The FMCG sector continued to dominate the advertising space with 9 out of the Top 10 advertisers being FMCG players. Personal products (care and hygiene, accessories, hair care, healthcare) accounted for 26 percent of advertising volumes in 2012, up from 25 percent in 2011, and 23 percent in 2009. Bulk buying on account of large FMCG companies maintained the pressure on advertising rates. Hindustan Unilever with the largest portfolio of brands continued to maintain its position as the top advertiser on TV by a wide margin.

Top 10 categories advertising on TV

<table>
<thead>
<tr>
<th>Top sectors</th>
<th>2012 (%) share</th>
<th>2011 (%) share</th>
<th>2010 (%) share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food &amp; beverages</td>
<td>14</td>
<td>13</td>
<td>14</td>
</tr>
<tr>
<td>Personal care/Personal hygiene</td>
<td>12</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>Services</td>
<td>7</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>Personal accessories</td>
<td>5</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Hair care</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Auto</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Personal healthcare</td>
<td>4</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Household products</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Building, Industrial &amp; Land materials/Equipments</td>
<td>3</td>
<td>2</td>
<td>4*</td>
</tr>
<tr>
<td>Telecom/Internet service providers</td>
<td>3</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>60</strong></td>
<td><strong>59</strong></td>
<td><strong>59</strong></td>
</tr>
</tbody>
</table>

*Refers to Banking/Financial/Investment in 2009 and hence may not be exactly comparable.

Source: TAM AdEx, Period Year 2011 and 2012. Medium: TV. Based on analysis of Ad volumes in seconds. Copyright reserved with TAM MEDIA RESEARCH PVT LTD. Any use of TAM data (or derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal.
Genres

Hindi and regional General Entertainment Channels (GECs) continued to account for over 50 percent of the total viewership. GECs are the key drivers of television viewership, accounting for 65-75 percent of Hindi and regional markets.

Hindi GEC and Hindi movie genres consolidated their position with a viewership share of 30.0 percent and 11.9 percent respectively in 2011. A large part of this growth may be attributed to TAM’s increased reach in LC1 areas of Hindi Speaking Markets (HSMs). LC1 markets of UP, MP, PHCHP, Rajasthan and Gujarat account for 16.2 percent of the total television viewership. Hindi GEC share of viewership in the above LC1 markets is significantly higher, at 40-50 percent, compared to 39 percent in HSMs without LC1. Similarly Hindi movie share of viewership in the stated LC1 market is higher at 19-24 percent, compared to 17 percent in HSMs without LC1.

In areas that were digitised, increased audience fragmentation was witnessed. Our discussions indicate that viewing patterns of some niche channels have seen a positive movement when comparing their pre-digitisation and post-digitisation share of viewership.

Viewership share by genres – all India

<table>
<thead>
<tr>
<th>Genre</th>
<th>2012 (% share)</th>
</tr>
</thead>
<tbody>
<tr>
<td>English Entertainment</td>
<td>0.14</td>
</tr>
<tr>
<td>English News</td>
<td>0.23</td>
</tr>
<tr>
<td>English Movies</td>
<td>0.88</td>
</tr>
<tr>
<td>Hindi GEC</td>
<td>30.01</td>
</tr>
<tr>
<td>Hindi News</td>
<td>3.18</td>
</tr>
<tr>
<td>Hindi Movies</td>
<td>11.93</td>
</tr>
<tr>
<td>Regional GEC</td>
<td>20.18</td>
</tr>
<tr>
<td>Regional News</td>
<td>2.78</td>
</tr>
<tr>
<td>Regional Movies</td>
<td>3.65</td>
</tr>
<tr>
<td>Kids</td>
<td>6.47</td>
</tr>
<tr>
<td>Music</td>
<td>3.09</td>
</tr>
<tr>
<td>Infotainment</td>
<td>1.08</td>
</tr>
<tr>
<td>Others</td>
<td>16.4%</td>
</tr>
</tbody>
</table>

Source: TAM AdEx, Period: Year 2011 and 2012, Medium: TV. Based on analysis of Ad volumes in seconds. Copyright reserved with TAM MEDIA RESEARCH PVT LTD. Any use of TAM data (or derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal.

Notes:
*Smithkline Beecham, Bharti Airtel Ltd., and L’Oreal India Private Ltd. were amongst the top 10 advertisers in 2011 and 2010 as reported by FICCI KPMG Indian M&E Report 2012 and 2011.

Top 10 advertisers on TV

<table>
<thead>
<tr>
<th>Brand</th>
<th>2012 (% share)</th>
<th>2011 (% share)</th>
<th>2010 (% share)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hindustan Lever Ltd</td>
<td>8</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Cadburys India Ltd</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Reckitt Benckiser (India) Ltd</td>
<td>2</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>ITC Ltd</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Procter &amp; Gamble</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Colgate Palmolive India Ltd</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Ponds India</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Coca Cola India Ltd</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Samsung India Electronics Ltd</td>
<td>1</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Marico Ltd</td>
<td>1</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Total</td>
<td>22</td>
<td>20</td>
<td>21</td>
</tr>
</tbody>
</table>

Source: TAM AdEx, Period: Year 2011 and 2012, Medium: TV. Based on analysis of Ad volumes in seconds. Copyright reserved with TAM MEDIA RESEARCH PVT LTD. Any use of TAM data (or derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal.

Note: *Smithkline Beecham, Bharti Airtel Ltd., and L’Oreal India Private Ltd. were amongst the top 10 advertisers in 2011 and 2010 as reported by FICCI KPMG Indian M&E Report 2012 and 2011.

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Hindi GECs

The Hindi GEC space continued to see sustained competition between the top four channels – Star Plus, Zee TV, Sony and Colors – with extremely dynamic channel rankings.

Advertising continues to be the mainstay for Hindi GECs, and broadcasters are chasing ratings aggressively with a number of relatively non-performing shows getting replaced and several new shows being launched. The table below lists the top 10 fiction and non-fiction programmes in 2012, as measured by Ormax Media which tracks the preference (favourite) share of programmes through its monthly popularity study ‘Characters India Loves’. Preference shares for non-fiction appear higher compared to fiction programming indicating greater audience recall for this segment.

Star Plus continued to focus strongly on the fiction genre with five out of the top 10 popular fiction programmes. On the other hand, Colors appears to have increased focus on non-fiction, with four out of top 10 popular non-fiction programmes.

Top 10 popular fiction programmes in 2012

<table>
<thead>
<tr>
<th>Genre</th>
<th>Channel</th>
<th>2012 (% share)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bade Acche Lagte Hain</td>
<td>Sony</td>
<td>24.7</td>
</tr>
<tr>
<td>Balika Vadhu</td>
<td>Colors</td>
<td>18.1</td>
</tr>
<tr>
<td>Tarak Mehta Ka Ulta Chashma</td>
<td>SAB TV</td>
<td>14.6</td>
</tr>
<tr>
<td>Diya Aur Baati Hum</td>
<td>Star Plus</td>
<td>12.3</td>
</tr>
<tr>
<td>Saath Nibhana Saathiya</td>
<td>Star Plus</td>
<td>10.1</td>
</tr>
<tr>
<td>Is Pyaar Ko Kya Naam Doon</td>
<td>Star Plus</td>
<td>8.7</td>
</tr>
<tr>
<td>Yeh Rishta Kya Kehlata Hai</td>
<td>Star Plus</td>
<td>7.4</td>
</tr>
<tr>
<td>Pavitra Rishta</td>
<td>Zee TV</td>
<td>7.2</td>
</tr>
<tr>
<td>Pratigya</td>
<td>Star Plus</td>
<td>7.0</td>
</tr>
<tr>
<td>CID</td>
<td>Sony</td>
<td>6.9</td>
</tr>
</tbody>
</table>

Source: Front Page 2012 – Ormax Media

Top 10 popular non-fiction programmes in 2012

<table>
<thead>
<tr>
<th>Genre</th>
<th>Channel</th>
<th>2012 (% share)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kaun Banega Crorepati</td>
<td>Sony</td>
<td>42.0</td>
</tr>
<tr>
<td>Big Boss 6</td>
<td>Colors</td>
<td>39.8</td>
</tr>
<tr>
<td>MTV Roadies</td>
<td>MTV</td>
<td>33.1</td>
</tr>
<tr>
<td>Dance India Dance</td>
<td>Zee TV</td>
<td>25.0</td>
</tr>
<tr>
<td>Styamev Jayate</td>
<td>Star Plus</td>
<td>22.7</td>
</tr>
<tr>
<td>Jhalak Dikhlaja</td>
<td>Colors</td>
<td>20.3</td>
</tr>
<tr>
<td>Comedy Circus</td>
<td>Sony</td>
<td>12.3</td>
</tr>
<tr>
<td>Indian Idol 6</td>
<td>Colors</td>
<td>10.4</td>
</tr>
<tr>
<td>India’s Got Talent 4</td>
<td>Colors</td>
<td>7.0</td>
</tr>
<tr>
<td>Sa Re Ga Ma Pa 2012</td>
<td>Zee TV</td>
<td>4.6</td>
</tr>
</tbody>
</table>

Source: Front Page 2012 – Ormax Media
The table below lists the top 10 fiction and non-fiction launches in 2012, as measured by Ormax Media’s ‘Showbuzz’ which tracks the UA (Unaided Awareness) of new shows on television.

### Top 10 fiction and non-fiction launches in 2012

#### Fiction

<table>
<thead>
<tr>
<th>Show</th>
<th>Channel</th>
<th>UA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Love Marriage ya Arranged Marriage</td>
<td>Sony</td>
<td>37</td>
</tr>
<tr>
<td>Veera</td>
<td>Star Plus</td>
<td>30</td>
</tr>
<tr>
<td>Anamika</td>
<td>Sony</td>
<td>29</td>
</tr>
<tr>
<td>Madhubala</td>
<td>Colors</td>
<td>27</td>
</tr>
<tr>
<td>Kairee</td>
<td>Colors</td>
<td>26</td>
</tr>
<tr>
<td>Chhal – Sheh Aur Maat</td>
<td>Colors</td>
<td>24</td>
</tr>
<tr>
<td>Qubool Hai</td>
<td>Zee TV</td>
<td>24</td>
</tr>
<tr>
<td>Byah Hamari Bahu Ka</td>
<td>Sony</td>
<td>23</td>
</tr>
<tr>
<td>Punar Vivah</td>
<td>Zee TV</td>
<td>22</td>
</tr>
<tr>
<td>Khamoshiyam</td>
<td>Star Plus</td>
<td>21</td>
</tr>
</tbody>
</table>

#### Non-Fiction

<table>
<thead>
<tr>
<th>Show</th>
<th>Channel</th>
<th>UA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Big Boss</td>
<td>Colors</td>
<td>39</td>
</tr>
<tr>
<td>Satyamev Jayate</td>
<td>Star Plus</td>
<td>37</td>
</tr>
<tr>
<td>Kaun Banega Crorepati 6</td>
<td>Sony</td>
<td>34</td>
</tr>
<tr>
<td>Jhalak Dikhkhla Jaa</td>
<td>Colors</td>
<td>23</td>
</tr>
<tr>
<td>Indian Idol 6</td>
<td>Sony</td>
<td>18</td>
</tr>
<tr>
<td>Nach Baliye 5</td>
<td>Star Plus</td>
<td>18</td>
</tr>
<tr>
<td>Movers and Shakers</td>
<td>SAB TV</td>
<td>17</td>
</tr>
<tr>
<td>India’s Got Talent 4</td>
<td>Colors</td>
<td>14</td>
</tr>
<tr>
<td>Sa Re Ga Ma Pa 2012</td>
<td>Zee TV</td>
<td>13</td>
</tr>
<tr>
<td>DID L’il Masters 2</td>
<td>Zee TV</td>
<td>12</td>
</tr>
</tbody>
</table>

Source: Front Page 2012 – Ormax Media

Broadcasters continue to invest in movies

Movie acquisition costs continued to soar as broadcasters retained their strategy in using block-buster movies to sustain viewer interest and buzz. Star Network is reported to have invested approximately INR 3 billion on movie acquisitions in the past year. Zee Entertainment on the other hand is reported to have invested INR 24 billion to acquire 10 movies during the year. After syndicating its library of over 500 films to Star India earlier this year, Viacom 18 entered into an exclusive licensing agreement with Eros International Media for forthcoming releases and is reported to have acquired 9 movies for satellite broadcast.

Star continued the trend of premiering its big movie acquisitions on its movie channel Star Gold, rather than on its flagship GEC. Star Gold premiered blockbusters like ‘Ra. One’, ‘Bol Bachchan’, ‘Kahaani’ and ‘Housefull 2’ during 2012. Zee also premiered ‘Agneepath’ on its movie channel Zee Cinema. However, our industry discussions indicate that it may be more challenging to monetize blockbuster premieres on movie channels than on the flagship GEC, as effective rates may not be as high.

The level of TRPs generated by blockbuster premieres in 2012 appears to have declined vis-à-vis the level in 2010 and 2011. In a bid to control movie costs, networks had started to acquire movies before its theatrical release, sometimes even at the concept stage. However, many channels are reported to have suffered losses from such investments, as some high profile movies did not perform as well as expected on the box-office.

TV networks have indicated that they may be less aggressive than earlier in paying for movie acquisitions, and wait for the box-office response of the film before acquiring satellite rights at high prices. For example, in a recent press interview, Colors indicated that with the cost of movie acquisition having gone up five times, the channel will continue to buy movies, albeit less aggressively and at the right price.

Our discussions suggest that blockbuster movies and movies catering to a family audience may continue to witness price rises, while prices of non-family movies (particularly those not rated for “Universal” viewing) may not see such aggressive bidding.

24. Afaqs, 4 April, 2012
25. Indiantelevision.com, 6 July 2012
Hindi movies

Hindi movies is the second biggest genre in the Hindi speaking markets, with a viewership share of close to 12 percent in 2012. In 2012, the genre increased its viewership share by 13 percent. A part of this growth may be attributed to inclusion of LC1 markets in TAM ratings measurement, where Hindi movies account for a larger share of the market compared to the HSM average. The competition in this genre continues to remain intense, with most movie channels of the large broadcasters delivering 50-60 GRPs per week. Two new launches in the category in 2012 were Movies OK from Star India and Cinema TV.

The Hindi movies genre is a fragmented market with 12 players competing for a 4 percent share of the television advertisement pie. The advertisement market for Hindi movies has stabilised at around INR 12 billion, and is expected to grow at a steady rate going forward. The genre continues to be under-valued vis-à-vis viewership share, while channels struggle to keep rising movie acquisition costs in check. Movie channels belonging to large broadcasters have the advantage of being able to access libraries of their parent networks. Newer channels like Cinema TV are looking to reduce costs and differentiate content with a library of older movies from the 70s and 80s.

Regional channels

Regional channels accounted for approximately 26.6 percent of total television viewership in 2012. Of this, the Tamil and Telugu markets account for approximately 50 percent of total regional viewership (marginal decline from 52 percent in 2011). In comparison, Marathi and Bengali markets account for close to 29 percent of total regional viewership.

TRPs of films

<table>
<thead>
<tr>
<th>Film</th>
<th>2012 TRP</th>
<th>2011 TRP</th>
<th>2010 TRP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ra.One</td>
<td>6.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bol Bachchan</td>
<td>4.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agneepath</td>
<td>4.7</td>
<td>4.1</td>
<td>7.5</td>
</tr>
<tr>
<td>Ek Tha Tiger</td>
<td>4.6</td>
<td>2.5</td>
<td>4.8</td>
</tr>
</tbody>
</table>

Source: TAM (for 2012); Press articles (other years); Copyright reserved with TAM MEDIA RESEARCH Pvt. Ltd. Any use of TAM data (or derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal.

If there is a phenomenon waiting to happen, it's regional.

-M K Anand
CEO Broadcasting, Disney-UTV

Regional genres are showing phenomenal growth in terms of viewership. Advertisers are yet to tap into the large potential of retail consumers in these markets and local advertisers would be willing to pay a premium for this audience.

-Punit Goenka
MD & CEO, Zee Enterprises Entertainment Limited

SCAN THE QR CODE TO HEAR MORE FROM PUNIT

Regional GEC is the most dominant genre within regional channels in terms of viewership share, accounting for 76 to 78 percent of audiences in the Bengal and Marathi markets, and 65 to 70 percent in the southern markets. Broadcasters are looking to strengthen their portfolio of regional channels with new launches; Zee and Star both launched their Bangali movie channels – Zee Cinema Bangla and Jalsha Movies. Star owned Asianet Communications also launched Asianet Movies, the first satellite movie channel in Malayalam. Gujarati Dailies Sandesh and Gujarat Samachar launched their news channels – GSTV News and Sandesh TV. A new Bhojpuri entertainment channel Anjan TV was launched by AAP Media.
Regional markets have emerged as a key revenue driver for national broadcasters. Regional channels are estimated to account for approximately 30\textsuperscript{2} percent of total revenues of Star and Zee networks. MSM entered the Telugu market in 2012 with the acquisition of Maa TV and is reported\textsuperscript{23} to be looking at expansion in at least three regional markets. Last year, Network 18 group had acquired Eenadu TV which has its presence across 6 key regional markets.

Regional channels command an advertising market share of 27\textsuperscript{24} percent, which is proportionate to their viewership share. Advertising interest in regional markets is strong and broadcasters see immense potential for revenues from local advertisers who may be willing to pay a premium to reach their targeted audience. With the exception of the Bengal ad market which de-grew and the Marathi ad market which grew by 4-5 percent, most other regional ad markets, led by the South, grew between 12 percent and 15 percent\textsuperscript{35}.

**Viewership share of regional channels**

![Viewership share of regional channels](image)

**Market size**

<table>
<thead>
<tr>
<th>Language</th>
<th>Households (million in home state)</th>
<th>Television households (million, percent of total households)</th>
<th>C&amp;S households (million, percent of total households)</th>
<th>Advertisement market size (INR million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tamil</td>
<td>17.7</td>
<td>16.4 (93%)</td>
<td>15.9 (97%)</td>
<td>13,500</td>
</tr>
<tr>
<td>Telugu</td>
<td>20.9</td>
<td>15.1 (72%)</td>
<td>14.8 (98%)</td>
<td>9,000</td>
</tr>
<tr>
<td>Bangla</td>
<td>20.3</td>
<td>9.5 (47%)</td>
<td>8.6 (90%)</td>
<td>7,000</td>
</tr>
<tr>
<td>Kannada</td>
<td>13.5</td>
<td>10.0 (75%)</td>
<td>9.9 (98%)</td>
<td>6,200</td>
</tr>
<tr>
<td>Malayalam</td>
<td>8.1</td>
<td>7.6 (93%)</td>
<td>7.1 (94%)</td>
<td>6,600</td>
</tr>
<tr>
<td>Marathi</td>
<td>24.9</td>
<td>16.8 (67%)</td>
<td>14.9 (89%)</td>
<td>4,100</td>
</tr>
<tr>
<td>Bhojpuri*</td>
<td>56.4</td>
<td>16.6 (29%)</td>
<td>11.3 (68%)</td>
<td>1,000</td>
</tr>
<tr>
<td>Punjab</td>
<td>5.5</td>
<td>4.8 (87%)</td>
<td>4.3 (91%)</td>
<td>1,500</td>
</tr>
<tr>
<td>Oriya</td>
<td>10.0</td>
<td>4.2 (42%)</td>
<td>3.5 (84%)</td>
<td>800</td>
</tr>
<tr>
<td>Gujarati</td>
<td>12.7</td>
<td>8.1 (64%)</td>
<td>7.0 (87%)</td>
<td>450</td>
</tr>
</tbody>
</table>

**Source:** TAM; All India 4+ Week 1 to 52, 2012; TAM; All India CS4+ market. Copyright reserved with TAM MEDIA RESEARCH PVT LTD. Any use of TAM data (or derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal.

Fiction, the main domain of GECs, has always dominated viewership. GECs cater to almost 80-85 percent of viewership in regional markets, and 50 percent+ in national. Ad revenues are proportional to viewership, and a large chunk of the advertisement pie continues to be garnered by GECs. Audiences have not moved out from GECs, but few niche channels have gained due to availability post digitisation.

- **Subramanyam K**
  - Vice President, National Head – Ad sales and Marketing, ETV Network

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Regional markets continue to outpace the national market in terms of growth. Despite a slower growth in 2012, some regional markets have shown an impressive upward trend. This is on account of FMCG clients which account for 60 percent of total spending. On the other hand, consumer durables, auto, telecom and real estate continued to stay low on GECs even during the festive season.

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The Rise of Tier II with a Regional Perspective on Television in India

Regional /Tier II is the next buzz word in the Indian economy. The reasons are many, primary being the fact that India’s smaller cities have delivered robust economic growth over the last 15 years, comparable with the largest. It is estimated these will add 160 million to the overall urban population and contribute to 49 percent of the urban GDP. Provision of basic services here will reduce the migration to larger cities. Fast saturation and increased competition are impacting margins and market share for players in metros / tier-1 markets. Given such a scenario, tier-2 cities will witness growth and drive spending. The prospect of less competition, large unexplored territories and a sitting audience make these markets extremely attractive.

Metros are still big markets but growth is slowing with smaller markets growing faster for most categories – so emphasis on regional media is expected and will continue to gather momentum. Marketers are investing heavily to strengthen their channel presence here - FMCG, Auto, BSFI, Consumer Durables are some major sectors. As advertisers shift their focus to regional markets to tap rising consumption, television broadcasters are chasing regional channels which are growing faster at approximately 12-15 percent than non-Hindi television markets with a higher viewership at almost 35 percent. The economic downturn of 2008 got national broadcasters interested by acquisition or stake purchase in regional channels as advertisers were drawn towards consumption interest.

Digitisation of distribution infrastructure, demand for regional and niche content will drive growth in this segment. Numerous channels continue to appear across genres including general entertainment, news and movies, lifestyle, kids and infotainment; the increasing audience fragmentation contributes to the trend. Intense channel competition is leading to investments in differentiated content and diversification into niche and regional channels.

The majority of India’s urban consumption comes from non-metro cities / Tier 2 and Tier 3 towns - regional markets with distinct cultures, languages and content preferences. These markets offer a variety of opportunities to deliver localised content. Many global film studios and television broadcasters have already entered and are producing regional-language content. Language feeds and localisation will make regional channels all the more attractive with the overall cost of reaching the audience increasing over time.

The top regional markets namely Tamil Nadu, Kerala, Andhra Pradesh, Karnataka and the rest of West Bengal have strong regional players. Though these do not command advertising spends in terms of value as HSM / metros, their volume share is steadily growing at a faster pace.

Tamil Nadu has clear demarcation of language and monopoly of media making it very media attractive. Maharashtra is an overlap of the HSM and regional markets with fragmented media but it is a more politically stable market having many Tier 2 cities and a brand-cum-media inclined audience making it promising.

Star launched Pravah in Marathi, Jalsa in Bengali and did a JV with Kerala’s Asianet for Asianet Plus in Malayalam, Suvarna in Kannada and Sitara in Telugu. Discovery India launched a Tamil Channel as also multiple language feeds. True value can be seen in national players and pan India networks taking a stake in regional’s to give weight to their network (Star India, SunTV, Zee Entertainment, Multi Screen Media and Network 18 Group, the top 5, control a bulk of total TV-ad revenue). This allows greater eyeballs for their shows and offers a better business proposition for their marketers.

With digitisation targeted to be completed for Rest of India by 31 December 2014, regionalization and localization setting in, we will see significant additions in mass media offerings for the rural customer also.

Greater accountability of channel viewership which is, currently lacking, will make these markets even more interesting to marketers with digitisation.

Smaller independent channels will sprout offerings with customised unique value propositions driving in niche loyal audiences; rife for a national buyout!

Regional will create leverage for itself and value proposition for its stakeholders. Regional may just be set to rule.

- Anita Nayyar
CEO,
Havas Media Group, India & South Asia

Unless otherwise noted, all information included in this column/article was provided by Anita Nayyar. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India.
Kids

The Kids genre delivers 500-600 GRPs per week, and is the largest genre after the Hindi and regional GECs.

Since the target segment served by the Kids genre is a sub-set of that served by the GECs, one may expect any tightening of advertisement budgets to have an adverse impact on the genre. However, the genre has historically been undervalued by advertisers, vis-à-vis viewership share. Advertisers are increasingly recognising the power of reaching kids who are emerging as key influencers in several household purchasing decisions. The genre witnessed a growth of 20 percent in its advertisement revenue share in 2012, as compared to 5 percent in 2011. Total advertisement market for the Kids genre is estimated at INR 2.6 billion in 2012.

Carriage fee is a challenge for the Kids genre, and this may be easier absorbed if these channels are part of a large network. BBC exited the Kids genre by closing down CBeebies in 2012 citing unviable carriage fee payouts as one of the reasons for the exit.

The Kids genre will continue to see increasing localisation of content, as broadcasters create offerings suited to Indian culture and tastes. Local content creation will also serve to reduce content cost. Brand extensions to monetise popular shows through digital/live media and consumer products are expected to emerge as a key revenue driver in the medium to long term.

English entertainment

Compared to its viewership share of approximately 1 percent, English entertainment including GECs and Movies, commands a high advertisement share of approximately 5 percent. This is on account of its premium SEC A viewership, which is an important target segment for advertisers. Viewership for English entertainment is present in Metros and select large cities which results in high carriage payouts. BBC withdrew from the English Entertainment genre this year citing unsustainable carriage costs. However, digitisation of key cities during Phase 1 and 2 is expected to reduce carriage and improve channel economics leading to higher profitability. English GECs are also reported to have seen a significant increase in viewership across three metros of Mumbai, Delhi and Kolkata post digitisation.

Programming strategy on English GECs has seen a change in order to better suit the Indian television viewer. Channels have introduced more shows focusing on drama and crime, and are airing more than one season of sitcoms on all weekdays to improve consumer stickiness. Broadcasters are also looking at airing more movies in order to increase channel sampling and audience stickiness.

The viewership share for the Kids genre increased by 17 percent in 2012, on the back of several new launches. These new launches targeted viewers based on age, leading to sub-segmentation in the genre. Two new channels targeted towards pre-school kids were launched in 2012– ‘Disney Junior’ and ‘Nick Junior’. Two new channels targeted towards kids between 4 and 11 years were launched with an ‘edutainment’ positioning – Zee Q and Discovery Kids. Discussions with industry players indicate that digitisation will allow broadcasters to charge premium advertisement rates on account of targeted viewership. With the exception of ‘Discovery Kids’, the other three new channels launched in 2012 are available only on digital platform.

Kids is a genre which lends itself naturally to sub-segmentation. A 4 year old is very different from a 9 year old who is very different from a 10 year old. The same genre can thus carry very different content based on the target segment (pre-school to teens) and gender (boys or girls). Digitisation will boost viewership for the Kids genre as navigation through various offerings on kids channels becomes easier for the child.

- Nina Elavia Jaipuria
EVP & GM Sonic & Nickelodeon India, Viacom 18 Media Pvt. Ltd.

Viewership share of English entertainment channels has increased post DAS and would continue to further increase as DAS rolls out further.

- Anuj Poddar
Head – Strategy & Business Development, Viacom 18 Media Private Limited
Music

While the music genre continues to be a very competitive space, viewership share increased from 2.7 percent in 2011 to 3.1\(^{th}\) percent in 2012. However, 2012 saw the genre approach a ‘hyper-competitive’ scenario with a large number of channels competing for the viewer mind-share and time-share. With Hindi film music dominating the content on music channels, content differentiation has always been a challenge. Broadcasters are now looking at specialized music channels to engage viewers. 9XM launched two new niche music channels – 9XO which runs international music content and 9X Jalwa which features timeless ‘Bollywood’ hit songs.

No other genre has so many number of channels. This clearly demonstrates that music is a liked genre across various target group of people and their geographies. Like it happens in all genres, people/viewers bookmark their favorite and preferred channels. Digitisation will lead to more offerings to consumers/viewers. So there will be an overall increase in the consumption of favourite/preferred/niche channels. It’s a fact that music, across languages and English language channels, is the driving category of preferred/niche channels. Music consumption would continue to grow with regional viewership growing. Markets like Punjab, Haryana, Maharashtra, and Bengal have responded very well. Also, digital ENGAGEMENT, and not just presence, would be one of the key differentiators for broadcasters.

- Shailesh Kapoor
  CEO, Omax Media

Hindi music accounts for close to 75\(^{th}\) percent of the advertisement market. However, growing advertiser interest in regional markets has led to music channels looking at further expansion in the regional markets. 9X Media Pvt. Ltd. launched two new regional music channels in Punjabi and Marathi market - 9X Tashan and 9X Jhakaas, respectively. CNEB launched a new Bhojpuri music channel, ‘Humra M’. However, with TAM now reporting on LC1 markets, the music channels will be impacted and may need to consider investing more in carriage payouts to be able to increase reach in these regions.

Channel [V] effectively exited the music genre, replacing music with youth focused fiction and non-fiction programming and may be looking for higher advertisement rates with its new positioning as a youth GEC channel.

Our discussions with industry players indicated that consumption of music is across various platforms, and therefore a standalone TV strategy for music channels may not be sustainable. Digital extensions of music channel brands onto online platforms, including pads and phones will drive revenue growth and will need to be considered in the medium term.

News

The news genre consists of general and business news in Hindi, English and regional languages. Hindi and regional news account for 50 percent and 5\(^{th}\) percent of total news viewership, respectively. In 2012, news viewership declined by 15-20\(^{th}\) percent, with English News channels impacted more than Hindi channels. Several news channels appear to have witnessed a decline in advertisement revenue in 2012 as rates continued to be under pressure.

A decrease in carriage fees is critical for news channels, as carriage payouts are significantly higher than subscription revenue. English news channels are reported to spend approximately 70\(^{th}\) percent of their distribution costs on carriage fee in metros. However, discussions indicate that the news genre is yet to achieve significant benefits from digitisation of metros, which account for a significant share of their viewership. While subscription revenue benefits are yet to flow in, overall decline in carriage fee payments for news channels has been below industry expectations.

Earlier this year, Star group exited its 26 percent stake in MCCS which runs Hindi, Bengali and Marathi news channels due to its inability to invest more than the FDI limit. The upcoming national elections that may be held in 2013 or 2014 are expected to help improve advertisement revenues for news channels.

41. TAM; Week 1 to 52, 2012, All India CS4+ market. Copyright reserved with TAM MEDIA RESEARCH PVT. LTD. Any use of TAM data (or derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal.
42. Indian television, 12 February 2013
43. TAM; Week 1 to 52, 2012, All India CS4+ market. Copyright reserved with TAM MEDIA RESEARCH PVT. LTD. Any use of TAM data (or derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal.
44. Pitch Madison
45. Indiantelevision.com, 24 July 2012
46. Business Standard, 2 April 2012
Sports

After an increase in 2011, the sports genre saw a 26\% increase in viewership and a proportionate decline in its advertisement share in 2012. This is attributed to the absence of a mega sporting event like the Cricket World Cup in 2011 and a muted advertiser response to season 5 of IPL.

Despite intense competition, the sports genre has emerged as one of the most attractive opportunities for broadcasters in India. After airing IPL on its entertainment channel SET Max, MSM India launched its exclusive sports channel, Sony Six which currently holds the broadcast rights for IPL till 2017. News Corp strengthened its presence in the genre with the acquisition of ESPN’s 50 percent stake in ESPN Star Sports at approximately INR 18.4\% billion and a two year non-compete clause. In a keenly contested bidding process last year, ESPN-Star acquired the BCCI cricketing media rights till 2018 for INR 39.9\% billion. The company also acquired the rights for Bangladesh Premier League and Sri Lanka Premier League.

Broadcasters continue to target committed audiences for other sports as well. ESPN-Star committed approximately INR 8\% billion to retain the exclusive rights to broadcast football English Premier League for an additional three years. In addition the company also acquired the global rights for Hockey India League while Ten Sports acquired the rights for Elite Football League of India. Niche sporting channels like Ten golf can command customer subscription revenues in the range of INR 200\% per month and help deliver targeted high-income viewership.

Going forward, broadcasters expect to focus on cricket ‘beyond international cricket’ i.e. club and university cricket, as well as on non-cricket sports.

Lifestyle and Infotainment

The Lifestyle and Infotainment genre saw a viewership growth of 12\% in 2012, with players expanding their offerings for Indian viewers through new channel launches, localization of content and audio feeds in multiple languages. The Lifestyle and Infotainment genre, like the English GEC genre, commands an advertisement share disproportionate to its viewership share. Increasing competition in the genre indicates that more broadcasters are eyeing the INR 3.4\% billion infotainment market.

Players in the genre are looking at localisation of content to appeal to Indian viewership and reach out to hitherto untapped audiences. Indian content accounts for 35 percent of programming on Fox Traveler and 20 percent of programming on NGC\%. Other channels are also looking at mix of international and local content. Discovery channel aired tailor-made Indian content like ‘Feast India’ and ‘Rhodes across India’, while Animal Planet broadcast a 52-week run of ‘India: Wild encounters’.

Sub-genres within niche genres is a growing trend, and the infotainment genre has seen several channels over the last 2-3 years focused on interests as diverse as history, adventure, travel, cooking and lifestyle. While spends from traditional advertisers have been under pressure, varied programming is bringing in more international advertisers like tourism boards promoting international destinations, and ready-to-eat food companies, as infotainment channels focused on sub-genres help them reach a targeted audience.

Other Themes in 2012, and going forward

BARC

The broadcasting and advertising industries have long been vocal about the need for more competition in the television ratings measurement service in India. With this objective, Broadcaster Audience Research Council (BARC) was initially registered in July 2010, after being in plans for six years and was launched in March 2012. BARC is a joint body of advertisers and broadcasters with three shareholders – Indian Broadcasting Foundation (IBF), Advertising Agencies Association of India (AAAI) and Indian Society of Advertisers (ISA). IBF holds 60 percent in the JV, with the balance 40 percent equity being shared by AAAI and ISA. BARC is reported to be formed on similar lines as BARB (Broadcast Audience Research Board) that compiles audience measurement and television ratings in the UK.

BARC is reported to be targeting a sample size of 3,000 households. The broadcasting industry has indicated that transparency is a key pillar for BARC, which has decided to segregate the functions of data collection, analysis and reporting between three independent agencies.

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50. Indian television, 2 February, 2013
51. Industry discussions conducted by KPMG in India
52. PitchMadison, KPMG in India analysis
53. Indian television B January, 2013
54. Indian Express, 4 September, 2012

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The power of a billion: Realizing the Indian dream

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The Sports genre is seeing strong growth with non-Cricket sports being following and watched by young India. With strong partnerships with some of the largest leagues in the world – UFC and the NBA, Sony SIX is in a strong position to provide Sports and Entertainment to the youth of India.

\- Nitesh Kripalani
Senior Vice-President: Business Development and New Media, Multi Screen Media

HD viewership in the country received a boost over the last 1-2 years with the introduction of several HD sports channels. However, 2012 also saw difficult subscription revenue negotiations between DTH service providers and HD sports broadcasters. Three DTH service providers i.e. Airtel Digital TV, Sun Direct and Dish TV had suspended certain HD sports channels from their channel packages.

47. TAM (Week 1 to 52, 2012, All India CS4+ market, Copyright reserved with TAM MEDIA RESEARCH PVT LTD; Any use of TAM data (or derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal
49. Hindu Business Line, 2 April, 2012
50. Indian television, 2 February, 2013
51. Industry discussions conducted by KPMG in India
52. PitchMadison, KPMG in India analysis
53. Indian television B January, 2013
54. Indian Express, 4 September, 2012
Early this year, BARC issued a global Request for Information to conduct an establishment study. The exercise seeks to understand the requirements that will help define the architecture for the audience measurement system. While the body has taken some steps towards commencement of operations, BARC has historically faced operational and technical delays since its inception. Discussions indicate that progress has been slower than anticipated and BARC may be at least 1.5-2 years away from coming into force as a competitive alternate currency for the television industry.

In the current viewership measurement system, only one entity controls the system end-to-end, making it opaque. In BARC, one agency will conduct an establishment survey, a second agency will design the metering system and conduct quality checks, while a third agency will actually install the meters.

- Punit Goenka
  MD & CEO,
  Zee Enterprises Entertainment Limited and Chairman, BARC

The TV broadcasting industry will see better growth if we address two key issues that we are currently facing:
(a) The distribution system which has been plagued by a lack of addressability, low subscription revenue and high carriage fees. Hopefully digitisation will lead to a major change in this regard; and
(b) Viewership rating system – we need to overhaul the system of measuring viewership rating and also increase the sample size of viewers.

- Vikram Chandra
  Executive Director & CEO,
  NDTV Group

If the boxes that are being seeded during digitisation can be equipped with data retrievable technology whereby one can know the channels watched, time spent etc., it will perhaps be the ideal system for viewership measurement. Technically this is possible. Increase in sample size shall give better accuracy. BARC would be transparent due to the participation of various stake holders.

- Subramanyam K
  Vice President, National Head – Ad sales and Marketing,
  ETV Network

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- Punit Goenka
  MD & CEO,
  Zee Enterprises Entertainment Limited and Chairman, BARC

The power of a billion: Realizing the Indian dream
Consolidation

2012 was a year of consolidation with significant deal activity across the television value chain. The broadcasting industry witnessed action as players took the M&A route to enter new markets, expand presence in regional markets, consolidate presence in focus markets and exit non-core businesses.

Television M&A activity in 2012

<table>
<thead>
<tr>
<th>Language</th>
<th>Target</th>
<th>Stake</th>
<th>Acquirer</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broadcast</td>
<td>UTV Global Broadcasting55</td>
<td>20%</td>
<td>The Walt Disney Company India</td>
<td>Expansion into multiple genres</td>
</tr>
<tr>
<td></td>
<td>Living Media India Limited 56</td>
<td>27.5%</td>
<td>Aditya Birla Group</td>
<td>Strategic</td>
</tr>
<tr>
<td></td>
<td>MCCS 57</td>
<td>26%</td>
<td>ABP Group</td>
<td>Exit from non-core genres</td>
</tr>
<tr>
<td></td>
<td>ESPN Star Sports 58</td>
<td>50%</td>
<td>News Corp</td>
<td>Consolidation of presence in existing genres; Disney exit from non-core genre</td>
</tr>
<tr>
<td></td>
<td>MSM 59</td>
<td>32%</td>
<td>Sony Pictures Television</td>
<td>Buy out of minority share holders</td>
</tr>
<tr>
<td></td>
<td>MAA TV 60</td>
<td>30%</td>
<td>Sony Pictures Television</td>
<td>Regional expansion</td>
</tr>
<tr>
<td></td>
<td>Eenadu TV 61</td>
<td>50% (5 channels) 25.4% (2 channels)</td>
<td>Network 18 Media</td>
<td>Regional expansion</td>
</tr>
<tr>
<td>Distribution</td>
<td>DEN Networks 62</td>
<td>1.14%</td>
<td>Reliance Strategic Investments</td>
<td>Strategic</td>
</tr>
<tr>
<td></td>
<td>Digicable 63</td>
<td>90%</td>
<td>Sahara Group</td>
<td>Strategic</td>
</tr>
<tr>
<td></td>
<td>Hathway Cable &amp; Datacom 64</td>
<td>17.3%</td>
<td>Providence Equity Partners</td>
<td>News Corp’s exit from non-core business</td>
</tr>
<tr>
<td>Content production</td>
<td>Endemol India 65</td>
<td>49%</td>
<td>CA Media</td>
<td>Strategic</td>
</tr>
</tbody>
</table>

Going forward, significant fund raising activity is expected in the distribution sector as MSOs make heavy capital investments for digitisation, and DTH providers look for funds needed for expansion and customer acquisition. For instance, Videocon D2H has filed for an IPO, Tata Sky is reported to have plans to raise INR 20 billion through an IPO, Dish TV is reported to have plans to raise INR 5.5 billion through listings abroad66. The broadcasting industry may also witness consolidation, as channels enter more regional markets and make significant investments in content and distribution to attract viewers who would have a larger number of offerings to choose from.

"The M&E industry is undergoing consolidation across sub-sectors as well as select exits (including in TV broadcasting). While exits indicate that there are issues and challenges, they also indicate that rationality is back in the system. That will lead to stronger economics and industry health going forward."

- Anuj Poddar
Head – Strategy & Business Development, Viacom 18 Media Private Limited

Note: (*) Announced in 2011; completed in 2012 with a public offer for the 20 percent of shares owned by public shareholders

55. Financial Times, 1 February, 2012
56. Mergermarket, Bloomberg
57. Business Standard, 2 April, 2012
58. Medianama, 20 December 2012
59. Timesofindia.com, 15 June, 2012
60. WSJ, 13 March, 2012
61. Livemint, 27 April, 2012
The rise of digital media

Online video viewership has witnessed significant traction in India, growing 45 percent between Dec 2011 and Dec 2012. Online television content consumption is expected to mirror this trend, and broadcasters are catching up to expand presence across digital platforms like online portals, video platforms, and mobile applications.

Availability of robust networks today has enabled secure delivery of live and on-demand content on multiple platforms. Several leading broadcasters have launched or partnered with mobile video delivery platforms, such as Apalya, Geodesic, Zenga, DigiVive and iStream. Google is also reported to be licensing entertainment and sports content for its Youtube website.

“Consolidation is the need of the day because many players are burning too much cash and are trying to hold on to their market share, albeit on low profitability.”

- Atul Das
Chief Strategy Officer,
Zee Enterprises Entertainment Limited

“New media has finally arrived and growing even faster than anticipated. Premium content from broadcasters and film studios is fueling high streaming consumption through web platforms and smartphones and tablets.”

- Anuj Poddar
Head – Strategy & Business Development,
Viacom 18 Media Private Limited

“As consumption of television content across platforms rises further, a key concern for broadcasters and advertisers alike would be the availability of a measurement platform that integrates viewership across multiple media.”

- Preet Dhupar
Chief Operating Officer - India,
BBC Global News

Multi-screen platforms launched by major networks

<table>
<thead>
<tr>
<th>Network</th>
<th>Online Platform</th>
<th>Availability</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSM India</td>
<td>Sony LIVE</td>
<td>Online on sonyLIV.com, Free mobile applications</td>
<td>Live and VOD service, episodes of current and previous shows</td>
</tr>
<tr>
<td>Zee Network</td>
<td>Ditto TV</td>
<td>Online on dittoTV.com, Free mobile application</td>
<td>More than 50 channels across broadcasters; more than 100,000 downloads since launch in February 2012</td>
</tr>
<tr>
<td>Star Network</td>
<td>Star Player</td>
<td>Online on Startv.in, Paid mobile applications</td>
<td>Live and VOD content in short form (4-5 minutes) and long form (22 minutes) for current and previous shows; Viewership increase of 80 percent over last 6 months; with 70 percent of return viewers</td>
</tr>
<tr>
<td>Viacom 18</td>
<td>Brand specific online platforms</td>
<td>Online platforms: Colors, MTV, Nickindia, Sonicgang</td>
<td>Live and VOD service</td>
</tr>
</tbody>
</table>

Source: Websites and Industry discussions conducted by KPMG in India

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Riding the HD growth curve

After a relatively slow start for the first 2-3 years, adoption of HD connections saw an upswing in 2012. HD subscribers account for approximately 3.5-4.64 percent of existing DTH subscribers. However, the percentage of new DTH subscribers opting for HD packages has doubled, from 7-8 percent last year to approximately 15.64 percent during 2012. Growing HD adoption is expected to boost DTH ARPU. An analogy to appreciate the importance of the HD C&S subscriber base may be drawn from the Indian telecom industry, where postpaid subscribers account for 5 percent of the subscriber base, while contributing 30 percent to revenue.

Two factors have enabled an accelerated adoption of HD television in India. Flat panel sales including LCD, LED and Plasma television sets has seen significant traction, and is expected to increase at a CAGR of 27.64 percent over 2012-16.

Sensing a market opportunity, broadcasters have made large numbers of channels available in HD format. Approximately 36 channels across genres like GEC, Infotainment, Sports and Movies are available on the HD platform, and this number is expected to rise to close to 50 by next year.

Genre segmentation and specialty channels

Emergence of specialty channels and sub-segments within hitherto niche genres is expected to be a key theme going forward once digitisation achieves maturity. Channels across varied genres like Kids, Music, Infotainment, Sports and Movies are expected to start offering differentiated content appealing to sub-segments within their target audiences.

Impending digitisation has encouraged a few broadcasters to take a leap of faith in launching specialty, advertisement free and niche channels, particularly in the Kids genre. Many of these channels are available only on digital platforms in order to develop a subscription driven business model. Discussions indicate that by the time digitisation approaches completion, broadcasters want their offerings to achieve significant maturity amongst their target audiences so as to benefit from increase in subscription revenue and achieve premium advertisement rates. For instance, HBO Asia and Eros launched HBO Hits and HBO Defined – two new advertisement free premium priced movie channels.

Despite the launch of a few specialty channels, overall industry movement towards the international model of subscription driven niche channels remains slow. Discussions indicate that broadcasters are yet to align themselves to a digital world with limited investment in content creation and reach generation.

Panel sales

<table>
<thead>
<tr>
<th>Year</th>
<th>Standard Definition</th>
<th>High Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>2011</td>
<td>3</td>
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<td>2012</td>
<td>3</td>
<td>6</td>
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<td>2013</td>
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<td>8</td>
</tr>
<tr>
<td>2014</td>
<td>5</td>
<td>10</td>
</tr>
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<td>2015</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td>2016</td>
<td>9</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: KPMG in India analysis, Industry discussions conducted by KPMG in India
Note: Figures are rounded to the nearest integer and may not add up exactly to column totals

Sensing a market opportunity, broadcasters have made large numbers of channels available in HD format. Approximately 36 channels across genres like GEC, Infotainment, Sports and Movies are available on the HD platform, and this number is expected to rise to close to 50 by next year.

"The HD market opened up in 2010, saw an increased traction in 2011 and has exploded in 2012. 15-20 percent of new DTH customers are opting for HD services. Increasing number of flat panel sales is a very important factor influencing the sale of HD services."

- Anil Khera
CEO,
Videocon D2H

"Post digitisation, we see more targeted offerings coming in. For instance, Gujarat, Maharashtra and UP can all be called HSM, but they are culturally very different. In today’s analogue world, they are all served one spectrum of content created in Mumbai."

- Uday Shankar
CEO,
Star India

"With digitisation, broadcasters with launch more niche channels. I expect more channels aimed at men and youth segments, travel & leisure, health & wellness. The focus will not only be on 14-34 year old women, but young males also."

- Man Jit Singh
CEO,
Multi Screen Media Private Limited

Scan the QR code to hear more from Man Jit
Regulatory snapshot

<table>
<thead>
<tr>
<th>Entity</th>
<th>Wish-list</th>
<th>Comment</th>
</tr>
</thead>
</table>
| Broadcasters | Timely digitisation with addressability | • There have been implementation challenges and delays in complete digitisation of four metros. At the same time, while boxes have been seeded in homes, these are not necessarily addressable.  
• Several broadcasters have indicated that timely digitisation along with consumer addressability is the most important development needed by the television industry. |
| Move to CPT, rather than CPRP based system | | • Currently, the industry uses the CPRP metric to arrive at advertisement rates.  
• A CPT metric based system better represents the new C&S households added every year. |
| Introduce pricing freedom | | • In the DAS regime, the government has regulated the retail pricing, and recommended a revenue share amongst various stakeholders in the value chain.  
• Strong broadcasters prefer pricing freedom in fixing consumer tariffs for different channels. |
| Self regulation of advertisement inventory | | • While TRAI has mandated a maximum of 12 minutes of inventory per hour of programming, compliance measures against broadcasters remains low.  
• Strong broadcasters would like to see the industry move towards self-regulation in advertisement loading to enhanced consumer experience and higher advertisement rates for the broadcasters. |

Complete and timely digitisation is foremost on any broadcaster’s wish-list.

- Asheesh Chatterjee  
Chief Financial Officer,  
Reliance Broadcast Network Limited

The industry should move from a CPRP to a CPT model. This will help niche genres a lot. It is also in-line with what the world is doing.

- Rohit Gupta  
President,  
Multi Screen Media Private Limited
### Industry wish-list

<table>
<thead>
<tr>
<th>Entity</th>
<th>Wish-list</th>
<th>Comment</th>
</tr>
</thead>
</table>
| MSOs                 | Introduce pricing freedom to broadcasters and mandate a revenue share between stakeholders | • MSOs prefer pricing freedom for the broadcasters to fix consumer tariffs for different channels.  
• A market driven pricing model may lead to consumers in different areas paying different ARPUs for the same bouquet of channels. |
|                      |                                                                                               |                                                                                                                                                                                                          |
|                      |                                                                                               | A better option would have been for the regulator to allow broadcasters to fix their MRP to end customers and then mandate a revenue share for the various players across the value chain. At least this should have been tried in the initial 1-2 years of DAS. It may be noted that during the CAS regime, the only problem that was highlighted (in terms of ARPU and ARPU share) was that broadcasters were not allowed to price their offerings, and customer price was regulated. |
|                      |                                                                                               |                                                                                                                                                                                                          |
|                      |                                                                                               | The entire onus of digitisation is on the MSOs. MSOs are obtaining boxes, subsidizing the boxes, and executing rollout on the ground. The government could play a more supporting role. For instance, instead of reducing customs duty on boxes, they have doubled it (to make the local STB manufacturing industry competitive vis-à-vis imports). While we appreciate that local manufacturing needs to be encouraged, the government should have given local manufacturers some fiscal incentives or removed VAT as done with the Telecom Sector or reduced it for a couple of years till the local manufacturers achieved economy of scale. This would have reduced the cost of the STBs. Today, the MSOs are being penalized to make the local industry competitive. |

- **Subhashish Mazumdar**  
  Senior Vice President, IndusInd Media & Communications

- **Ravi Mansukhani**  
  Managing Director, IndusInd Media & Communications
<table>
<thead>
<tr>
<th>Entity</th>
<th>Wish-list</th>
<th>Comment</th>
</tr>
</thead>
</table>
| DTH operators          | Rationalize taxes                  | • The DTH industry is subject to multiple taxes. The tax levies on DTH industry includes an average of 10 percent entertainment tax, 10 percent in license fees, and an additional 10 percent customs duty on set-top-boxes.  
• Rationalization of taxes is expected to provide a boost to the industry enabling providers to invest in infrastructure development and customer acquisition. |
| Timely access to       | Timely access to transponder space  | • Timely access to transponder space has been cited as a key concern.  
• Allowing DTH operators to buy transponder space in the open market will enable faster access to transponder space and eliminate capacity constraints. |
| transponder space      |                                    |                                                                                                                                        |
| Reduction/             | Approximately 95 percent of customer-end  | • Approximately 95 percent of customer-end equipment (set-top-boxes and antennae) are imported.  
• DTH providers would also like to see a reduction in custom duty on digital head-end equipment and set-top boxes. |
| removal of customs     |                                    |                                                                                                                                        |
| duty on set-top-boxes  |                                    |                                                                                                                                        |
| Content and others     | Higher investment in content        | • High carriage fee and low subscription revenues limit broadcaster’s ability to invest in quality content.  
• As digitisation progresses further, television industry would like see higher investment in content in order to command subscription premium for an enhanced consumer experience. |
| Good quality talent    | Limited availability of quality    | • Limited availability of quality personnel across the value chain constrains the ability of the television industry to innovate and create disruptive strategies for rapid growth.  
• Availability of academic programmes focused on the media sector, particularly television, will enable the sector to tap into the right people in terms of training skills and capability. |
| for media industry     | personnel across the value chain    |                                                                                                                                        |
|                        |                                    |                                                                                                                                        |
Print
Regional to the rescue
Print industry overview

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<tbody>
<tr>
<td>Total advertising</td>
<td>100</td>
<td>108</td>
<td>110</td>
<td>126</td>
<td>139</td>
<td>150</td>
<td>7.3%</td>
<td>162</td>
<td>179</td>
<td>200</td>
<td>222</td>
<td>248</td>
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<tr>
<td>Total circulation</td>
<td>60</td>
<td>64</td>
<td>65</td>
<td>67</td>
<td>69</td>
<td>75</td>
<td>7.3%</td>
<td>79</td>
<td>82</td>
<td>86</td>
<td>89</td>
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<tr>
<td>Total industry size</td>
<td>160</td>
<td>172</td>
<td>175</td>
<td>193</td>
<td>209</td>
<td>224</td>
<td>7.3%</td>
<td>241</td>
<td>261</td>
<td>285</td>
<td>311</td>
<td>340</td>
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<tr>
<td>Total newspaper revenue</td>
<td>148</td>
<td>159</td>
<td>163</td>
<td>181</td>
<td>196</td>
<td>211</td>
<td>7.6%</td>
<td>228</td>
<td>248</td>
<td>272</td>
<td>298</td>
<td>327</td>
</tr>
<tr>
<td>Total magazine revenue</td>
<td>12</td>
<td>13</td>
<td>12</td>
<td>12</td>
<td>13</td>
<td>13</td>
<td>3.8%</td>
<td>14</td>
<td>14</td>
<td>14</td>
<td>13</td>
<td>14</td>
</tr>
</tbody>
</table>

Sources: KPMG in India analysis, Industry discussions conducted by KPMG in India

2012: Tough year for print

The calendar year 2012, was the year when the going got tough and the tough got going. The INR 224 billion Indian print industry grew by only 7.3 percent from INR 209 billion in 2011- lower than KPMG in India’s expectation of 8.3 percent growth last year.

The high dependence on advertisement revenues resulted in the growth of print industry being dampened by poor macro economic performance of the country. In 2012-13, the Indian economy slowed down its growth momentum- registering a growth of only 5 percent as compared to 6.2 percent in 2011-12. The slowdown can be attributed to a host of factors such as high interest rates to curb inflation, investment bottlenecks that slowed down corporate and infrastructure investment and poor global economic conditions that took a toll on India’s exports. All this has resulted in advertisers adopting a cautious approach towards their marketing initiatives-leading to relatively muted growth in overall advertising spends.

In such challenging times, the Indian print industry has adopted a pragmatic approach with most print players now focusing on consolidating their position in core markets and penetrating them further through the launch of new editions rather than entering newer territories. The industry has also made efforts to save the bottom line by effectively managing operating costs. For example, HT Media has brought down its raw material costs from a high of 38.2 percent in Q2FY13 to 33.8 percent in Q3FY13. The decline in raw material costs was brought about by lower consumption of newsprint and softening of international newsprint prices which have declined from USD 623/tonne in the beginning of CY12 to USD 620/tonne towards the end and further to USD 616/tonne in February 2013. On the other hand, Dainik Bhaskar has over a period of time decentralised its printing operations. The strategy has helped the company shrink average delivery times from seven hours to four hours, and papers are now supplied within a 200-kilometer radius of where they are printed, instead of the previous 350 kilometers.

The print industry continued to derive most (94 percent) of its revenues from the newspaper category. The INR 13 billion magazine segment continued to decline in share due to decline in readership of general category magazines. The industry is worried that the readership of the sector is holding flat but not growing. Niche magazines with their defined readership and advertiser base continued to perform better.

Advertising, as stated earlier, is a prime contributor (67 percent in 2012) to the total revenue earned by the print sector. However, with advertising budgets tightening and the eventual threat of newer competitive platforms such as digital, in the long run, it would be prudent for the industry to increase circulation / subscription revenue as much as possible.

“2012 started on a tough note for the print media industry, including HT Media. With strong headwinds on advertising revenues throughout the year, our focus this year was on rationalising costs. The bright spots were our emerging businesses like Mumbai, Hindi and Radio, which have shown growth despite a difficult economic environment.”

- Vinay Mittal
Chief Financial Strategist,
HT Media

References:
01. KPMG in India analysis
02. FICCI-KPMG Indian Media and Entertainment Industry Report 2012
03. According to Ministry of Statistics and Programme Implementation website of the Government of India it is Central Statistics Office
04. ICICI securities analyst report, Feb 13, 2013
05. http://knowledge.wharton.upenn.edu/india/article.cfm?articleid=4439
06. IRS Q3 2012
Accordingly, 2012 witnessed some improvement in circulation revenues which increased by 7.3 percent year on year as compared to only 3.8 percent in 2011. This was achieved through launch of new editions and increase in cover prices of established editions. Going forward, the industry may adopt a differentiated pricing strategy by increasing the price of established editions in mature markets while holding the prices low in case of tier II and III markets or while entering newer markets. Such an approach will enable mature editions to gradually decrease their dependence on advertising revenues.

Growth in the previous year was mainly driven by an increase in advertising volumes and circulation revenue. Yield in most markets remained flat or marginally improved and did not have any material impact on the overall growth of the print sector. Overall advertising in the industry has grown 7.3 percent - lower than previous estimate. The English segment faced the roughest weather. While the market for English dailies continues to be tough, the regional and vernacular markets continue to defy gravity and grow on the back of rising literacy and low print media penetration as well as the continued tide of advertisers wanting to spend in these markets. The growth of the overall print industry was, hence, largely driven by Hindi and the vernacular print markets. The Hindi print market grew by 9.8 percent from INR 62 billion in 2011 to INR 69 billion in 2012 and vernacular from INR 63 billion in 2011 to INR 69 billion in 2012 respectively.

Print sector growth during last five years

Accordingly, 2012 witnessed some improvement in circulation revenues which increased by 7.3 percent year on year as compared to only 3.8 percent in 2011. This was achieved through launch of new editions and increase in cover prices of established editions. Going forward, the industry may adopt a differentiated pricing strategy by increasing the price of established editions in mature markets while holding the prices low in case of tier II and III markets or while entering newer markets. Such an approach will enable mature editions to gradually decrease their dependence on advertising revenues.
The Indian print industry continues to be a promising long term growth story. However, in 2013 the growth of the industry is expected to be subdued and from mid 2014 onwards it will gradually gain momentum and will be worth 340 billion by 2017 registering CAGR of 8.7 percent. The industry’s future performance will be a factor of the macroeconomic environment stabilising and print players achieving greater operational efficiencies and connecting with readers through delivery of high quality content. The industry is expected to focus on profitable growth by implementing cost control initiatives and adopting technology across key business performance areas such as planning, budgeting, customer relationship management, strategic outsourcing, etc. While leading players have made a head start in this direction, many still have to fully review their existing business models.

The inherent advantages of print industry – extensive reach, localisation benefits and ability to create trust and achieve a higher ‘attention span’, are expected to serve as a base for growth and ensure that print continues to be one of the most important platforms for Indian advertisers. By 2017, the print industry is estimated to contribute for 20.5 percent to the Indian M&E industry.

The power of a billion: Realizing the Indian dream

Key trends of 2012 and sector growth drivers

Scale tilting in favour of Hindi and other vernacular print markets

Share of English, Hindi and vernacular languages
Over the years, there has been a gradual increase in the market share of vernacular newspapers. The combined share of Hindi and vernacular dailies has risen from 53 percent in 2008 to 61 percent (refer graph above) in 2012. The industry expects this trend to continue largely due to volume growth driven by the launch of new local editions and gradual improvement in advertisement rates of these markets.

While the English print commands higher ‘cost-per-thousand’ (CPT) compared to regional print, metro markets are challenging in terms of advertising and circulation, leading to lower growth for the English language dailies. The English segment grew by 3.6 percent versus industry growth of 7.3 percent and Hindi and vernacular grew at 9.8 percent. The segment will also likely face a greater threat from digital platforms, especially considering the imminent shift in media consumption habits due to increased broadband penetration and availability of faster access once 4G is rolled out. The Socio Economic Classification (SEC) and income demographics that the English market addresses is also the market that is most likely to adapt high speed mobile devices and change reading behaviour.

By 2017, the scale is further expected to tilt in favour of the Hindi and vernacular markets – together constituting 64 percent of the industry revenues growing at a CAGR of 10.8 percent and 10.9 percent respectively. The English market will be worth INR 114 billion growing at a CAGR of 4.8 percent.

Advertising continues to be the key contributor

Advertising is the cornerstone of the print industry’s performance and has witnessed one of the most, if not the most, challenging years in a decade. The strong correlation between economic growth and advertisement spends was reflected in the weak advertiser sentiments. Some of the big spending sectors such as Education, Banking, Financial Services and Insurance, Telecom and Retail tightened budgets and the advertising spends remained flat or declined. The slowdown in advertising volumes was particularly more intense in the case of the English market. The share of English print advertisement volumes declined from 32 percent in 2011 to 27 percent in 2012. Vernacular dailies continued to enjoy volume growth with their share increasing from 37 percent in 2011 to 39 percent in 2012.

In 2012 the growth in advertising over the previous year was largely driven by volume. Industry discussions indicate that this trend will continue at least till the first half of 2013. Going forward, with advertising regaining ground on the back of improvement in economic activities, the advertising-circulation mix is expected to swing back in favour of advertising.
Print players are looking to scale up through geographic and product expansions as well as increasing the footprint and quality of digital delivery formats. Localisation of news through special editions has plenty of growth opportunities as well. Industry participants contend that localised and targeted advertising is difficult to achieve in nationwide broadcast media, giving print an edge with respect to local businesses such as restaurants, malls, retail shops and neighbourhood services. Supplements continue to be launched, the industry believes that launching supplements in existing markets helps them penetrate further by gaining access to new readers and expanding the advertiser base. A few examples of the supplements launched during 2012 include Habitat, Watches Luxury And Beyond and Weekend Life by Hindu, Ebela, Ananda Plus and Bishoy Ashay by Ananda Bazar Partika and Yuva by Hindustan Times. Further, Dainik Bhaskar (Bhopal) brought together ten real estate developers of Bhopal who are developing ‘New Bhopal Area’ near the International Airport and launched ‘Gatefold’ a special feature which was distributed in Bhopal.

### Advertising and circulation revenue share

<table>
<thead>
<tr>
<th>Year</th>
<th>Advertising</th>
<th>Circulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>67%</td>
<td>33%</td>
</tr>
<tr>
<td>2013p</td>
<td>67%</td>
<td>33%</td>
</tr>
<tr>
<td>2014p</td>
<td>68%</td>
<td>32%</td>
</tr>
<tr>
<td>2015p</td>
<td>70%</td>
<td>30%</td>
</tr>
<tr>
<td>2016p</td>
<td>71%</td>
<td>29%</td>
</tr>
<tr>
<td>2017p</td>
<td>73%</td>
<td>27%</td>
</tr>
</tbody>
</table>

Source: KPMG in India analysis, Industry discussions conducted by KPMG in India

### Top categories advertised on print (by volumes)

<table>
<thead>
<tr>
<th>Categories</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Change from 2011</th>
</tr>
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<tbody>
<tr>
<td>Auto</td>
<td>6.8</td>
<td>7.8</td>
<td>7.1</td>
<td>9.8</td>
<td>11.4</td>
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<tr>
<td>Education</td>
<td>17.1</td>
<td>17.3</td>
<td>14.6</td>
<td>10.6</td>
<td>10.6</td>
<td></td>
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<tr>
<td>FMCG</td>
<td>5.8</td>
<td>7.2</td>
<td>7.4</td>
<td>8.9</td>
<td>10.3</td>
<td></td>
</tr>
<tr>
<td>Real estate &amp; home improvement</td>
<td>6.4</td>
<td>6.5</td>
<td>8</td>
<td>8.4</td>
<td>8.6</td>
<td></td>
</tr>
<tr>
<td>Clothing/Fashion/Jewellery</td>
<td>5.1</td>
<td>5.5</td>
<td>5.3</td>
<td>6.5</td>
<td>7.1</td>
<td></td>
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<tr>
<td>Retail</td>
<td>5.5</td>
<td>5.8</td>
<td>5.8</td>
<td>5.6</td>
<td>5.8</td>
<td></td>
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<tr>
<td>BFSI</td>
<td>8.3</td>
<td>7.9</td>
<td>8.7</td>
<td>6.7</td>
<td>5.7</td>
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<tr>
<td>HH durables</td>
<td>6.5</td>
<td>5.3</td>
<td>5.3</td>
<td>5.7</td>
<td>4.9</td>
<td></td>
</tr>
<tr>
<td>Telecom/Internet/DTH</td>
<td>6.2</td>
<td>5.4</td>
<td>6.3</td>
<td>4.7</td>
<td>4.1</td>
<td></td>
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<tr>
<td>Travel &amp; tourism</td>
<td>4.3</td>
<td>3.5</td>
<td>2.5</td>
<td>2.8</td>
<td>2.3</td>
<td></td>
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<tr>
<td>Corporate</td>
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<td>3</td>
<td>2.8</td>
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<tr>
<td>Media</td>
<td>1.9</td>
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<td>1.5</td>
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<td></td>
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<tr>
<td>Alcoholic beverages</td>
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<td>0.2</td>
<td>0.2</td>
<td>0.1</td>
<td></td>
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<tr>
<td>Others</td>
<td>22.2</td>
<td>22.5</td>
<td>23.6</td>
<td>25.7</td>
<td>25.3</td>
<td></td>
</tr>
</tbody>
</table>

Source: Pitch Madison Ad Outlook 2013
For the first time in the last five years, the Education category is not the highest spender in the print medium. While the Education sector has maintained its share on print advertising at 10.6 percent, the Auto sector has increased its contribution to 11.4 percent in 2012 as compared to 9.8 percent in 2011.

FMCG continued to be one of the top spenders on the print medium contributing 10.3 percent in 2012 as compared to 8.9 percent in 2011. Its contribution in 2008 was 5.8 percent. Increased spend by FMCG companies has been a big respite for the print sector in a year where growth was hard to come by.

The next two years will be critical with the advertising growth to be largely driven by increases in election spends, advertising driven by the launch of new products (30 auto model launches in the next 12-18 months), categories expanding due to product and brand launches (4G, foreign retail chains), launch of new editions and publications catering to niche markets.

Circulation revenues contribution to sector grows compared to previous year
In an attempt to improve circulation revenues, newspaper companies are trying to encourage readers to purchase multiple papers per day through bundling of editions, for example, bundling business papers and tabloids with regular newspapers and providing them at discounts. Such initiatives are expected to increase penetration and improve circulation revenue.

The cover price of newspapers in India is extremely low when compared to other countries. While an Indian daily is sold at a monthly price of ~USD 2-3, the same subscription can be as high as USD 6-8 in Pakistan, USD 18-20 in Malaysia.

After last year's price corrections by the magazine players, 2012 saw newspaper players finally opening-up to experimenting with cover prices and taking baby steps towards increasing these in many markets. During the year, some of the leading publishing houses marginally increased the cover price of a few of their editions. DNA increased its cover price from INR 2.5 to INR 3 while Times of India increased it from INR 5 to INR 6 and for D B Corp the average cover price went up from INR 2.5 to INR 2.72.

Language markets continue to grow
In the print sector, revenues from Hindi and vernacular segments are fast catching up with English, which has, to date enjoyed a majority share of the value. Hindi and vernacular language publications have always enjoyed a healthy readership base. In 2012, nine out of top ten dailies being published were either in Hindi and vernacular language publications. However, in the past this segment had lagged in its ability to effectively monetize.

In 2007-09, the advertising rate premium commanded by English newspapers was roughly 10 times over that of regional language papers. The scenario is now changing with the premium paid by advertisers for English newspapers steadily declining to be in the range of 3-4 times in 2012. The industry believes that there is potential for Hindi and vernacular dailies to further increase their rates.

The two segments (Hindi and vernacular) now contribute approximately 62 percent of industry’s revenues and cater to 89 percent of the readership.
Together, the Hindi and Vernacular markets are expected to grow at a CAGR of 10.9 percent over the period 2012-2017, outpacing the English language market’s growth of 4.8 percent.

### Language-wise Average Issue Readership and revenue split

<table>
<thead>
<tr>
<th>Language</th>
<th>2012</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>AIR Split</td>
<td>Revenue Split</td>
<td></td>
</tr>
<tr>
<td>English</td>
<td>10%</td>
<td>39%</td>
<td></td>
</tr>
<tr>
<td>Hindi</td>
<td>36%</td>
<td>30%</td>
<td></td>
</tr>
<tr>
<td>Vernacular</td>
<td>54%</td>
<td>31%</td>
<td></td>
</tr>
</tbody>
</table>

Source: IRS Q3, KPMG in India analysis

The year witnessed regional players increasing their foothold in key markets and also the entry of national players in regional markets. Dainik Bhaskar increased its penetration in Maharashtra with its Marathi daily ‘Divya Marathi’ while Bennett Coleman & Co. (BCCL) entered the Bengali market by launching a Bengali daily, ‘Ei shomoy’. The newspaper (‘Ei shomoy’) is placed to compete against Ananda Bazar Patrika, which has for many decades now been eastern India’s most widely circulated daily. The ‘Hindu’ has also shared their interest to launch a Tamil daily in 2013.

Backed by the increase in purchasing power across tier II and III cities along with the rise in literacy rates, regional media consumption will continue to rise. As is the trend with many players, editions with local content in regional languages will attract readers and help in consolidating the position of the newspaper, thereby attracting local advertisers.

Competition among English print media players has now moved into tier II and tier III markets with leading English-language dailies launching their editions in cities such as Coimbatore, Madurai, Bhopal and Indore. Some players are also setting up printing facilities near these markets to manage their printing operations.

These developments indicate continued industry belief in the growth of regional markets. The growth story of the regional print market is stronger than ever and the publishers believe that there are ample opportunities which have yet to be tapped.

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**Literate but not reading: A challenge or opportunity?**

As per 2011 census, India’s literate population base of 895 million provides a huge target audience to print companies. The literacy rate has increased considerably over the last decade with some states such as Kerala at 94 percent and the National average at 74 percent. However, as per IRS Q3 2012, approximately 44 percent of those people do not read any newspaper publication. This clearly highlights that there is much headroom for growth amongst the literate non-readers.

Contrary to the view that the youth is not reading, IRS data highlights that the readership habits of 16-19 year olds are comparatively healthier than any other age-groups. However, the newspaper reading habits amongst children in the age-group of 12-15 years are found to be the least at 31 percent (with 59 percent not reading the newspaper). This could be a potential threat to the print industry as reading habits are formed in those early years.

---

**Language-wise Average Issue Readership and revenue split**

<table>
<thead>
<tr>
<th>Language</th>
<th>2012</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>AIR Split</td>
<td>Revenue Split</td>
<td></td>
</tr>
<tr>
<td>English</td>
<td>10%</td>
<td>39%</td>
<td></td>
</tr>
<tr>
<td>Hindi</td>
<td>36%</td>
<td>30%</td>
<td></td>
</tr>
<tr>
<td>Vernacular</td>
<td>54%</td>
<td>31%</td>
<td></td>
</tr>
</tbody>
</table>

Source: IRS Q3, KPMG in India analysis

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<table>
<thead>
<tr>
<th>State</th>
<th>Percentage of literate population not reading any newspaper</th>
<th>Percentage of literate people as per IRS Q3 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>West Bengal</td>
<td>60%</td>
<td>77%</td>
</tr>
<tr>
<td>Gujarat</td>
<td>57%</td>
<td>76%</td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td>57%</td>
<td>64%</td>
</tr>
<tr>
<td>Assam</td>
<td>56%</td>
<td>74%</td>
</tr>
<tr>
<td>Orissa</td>
<td>54%</td>
<td>73%</td>
</tr>
<tr>
<td>Bihar</td>
<td>53%</td>
<td>59%</td>
</tr>
<tr>
<td>Chhattisgarh</td>
<td>51%</td>
<td>69%</td>
</tr>
<tr>
<td>Punjab</td>
<td>51%</td>
<td>76%</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>49%</td>
<td>64%</td>
</tr>
<tr>
<td>Haryana</td>
<td>49%</td>
<td>77%</td>
</tr>
<tr>
<td>Himachal Pradesh</td>
<td>48%</td>
<td>85%</td>
</tr>
<tr>
<td>Karnataka</td>
<td>47%</td>
<td>74%</td>
</tr>
<tr>
<td>Uttarakhand</td>
<td>45%</td>
<td>79%</td>
</tr>
<tr>
<td>Andhra Pradesh</td>
<td>45%</td>
<td>67%</td>
</tr>
<tr>
<td>Rajasthan</td>
<td>44%</td>
<td>66%</td>
</tr>
<tr>
<td>Jharkhand</td>
<td>42%</td>
<td>63%</td>
</tr>
<tr>
<td>Jammu &amp; Kashmir</td>
<td>41%</td>
<td>86%</td>
</tr>
<tr>
<td>Delhi</td>
<td>39%</td>
<td>90%</td>
</tr>
<tr>
<td>Maharashtra</td>
<td>36%</td>
<td>81%</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td>34%</td>
<td>83%</td>
</tr>
<tr>
<td>Chandigarh</td>
<td>24%</td>
<td>90%</td>
</tr>
<tr>
<td>Goa</td>
<td>22%</td>
<td>92%</td>
</tr>
<tr>
<td>Kerala</td>
<td>17%</td>
<td>97%</td>
</tr>
</tbody>
</table>

Source: IRS Q3 2012

Furthermore, as seen from the table above, there are seven states where the literacy ratio is higher than the all India average, but the percentage of people not reading any publication is also higher than the average of 44 percent. For instance, in West Bengal, which has played a pivotal role in the development of the print industry in India, 60 percent of the literate population does not read a newspaper.

The above statistics highlight the challenges, and in turn, potential opportunities for the print industry. The industry needs to look at these segments and develop innovative strategies to promote reading habits.
Improving readership habits among youth within age group of 15 to 20 and also aligning the presentation of news to meet their requirement is a challenge which print media needs to address immediately. There exist a serious threat of this section of reader base shifting to the new and social media for news and views consumption.

- Sunil Mutreja
  Executive Director,
  Amar Ujala Publications Ltd

**Rural markets on the radar**

Rural India accounts for 70 percent of India’s population, 56 percent of National Income and 64 percent of the total expenditure. Union Budget 2013-14 has allocated INR 801 billion towards rural development schemes and INR 270 billion for agriculture. The budget has also fixed an annual agriculture credit target of INR 7000 billion in 2013-14, up from INR 5,750 billion.

The government’s decisions to extend the interest subvention scheme for short-term crop loans and higher allocation for the national rural employment guarantee scheme are expected to help stir demand in rural pockets. This is expected to increase the disposable income of rural consumers, who contribute to about one-third of FMCG sales. Rural markets have been a key focus area for many consumer goods players such as Dabur, HUL, ITC and Emami; this focus is likely to increase going forward.

As advertising spends are being directed towards tier-II and III cities, industry will witness trend of existing players launching more local editions to attract retail advertisers. However publishing houses will have to be pragmatic and balance the economics of launch with the market potential.

- Mohit Jain
  Director-Business and Commercial,
  The Times of India Group

Macroeconomic statistics indicate that India’s rural market presents opportunities that business cannot ignore. The rural population has the potential to become an important consumption centre by moving beyond survival mode.

Marketers are hence looking at rural consumers to increase their product sales. For instance, the auto sector is increasing its share of volume in rural India. Light commercial vehicles (LCV) is the fastest growing segment that is estimated to register a sales growth of around 20 percent during FY 2012-FY 2015.

High dependence of companies on rural markets:

<table>
<thead>
<tr>
<th>Company</th>
<th>Category</th>
<th>% sales from rural market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hindustan Unilever</td>
<td>Household products</td>
<td>45</td>
</tr>
<tr>
<td>Hero Honda</td>
<td>Two-Wheelers</td>
<td>60</td>
</tr>
<tr>
<td>Dabur</td>
<td>Personal products</td>
<td>40</td>
</tr>
<tr>
<td>Dish TV</td>
<td>Media</td>
<td>33</td>
</tr>
<tr>
<td>TVS</td>
<td>Two-Wheelers</td>
<td>50</td>
</tr>
</tbody>
</table>

Source: The Marketing Whitebook 2012-13, Businessworld

Recognizing the potential of rural India, i9 Media launched ‘Rural Marketing’ magazine with a focus on highlighting the finer points of the rural bases, which go unnoticed by mainstream media. The favourable macroeconomic constituents of rural markets have attracted publishing players to enter and strengthen their position in the rural markets.

The traditional vision of the rural economy as purely agricultural is clearly obsolete. There are significant changes i.e. increasing income, rising education and technology penetration as well as globalisation that are enabling exposure and awareness. According to the National Sample Survey (Household Consumer Expenditure in India 2009 –10) the average monthly per capita expenditure in 2009 –10 was estimated at INR 1053.6 in rural India. This accounts for 60 percent increase over 2004 –05.

19. The Marketing Whitebook 2012 – 13, Businessworld
22. Niche magazine for rural India launched, 16 August 2012, exchange4media.com
Digital platforms yet to have any significant impact

Globally, the print industry has witnessed a decline in its subscription and advertising revenues due to the steady shift of consumers towards new media platforms such as the internet and mobile. To be more competitive, companies have maintained low newspaper cover prices (with some exceptions) and focused on differentiating by providing high quality, analytical content to the consumers. However, bankruptcies have continued unabated. Rocky Mountain News, Cincinnati Post, Halifax Daily News and Tucson Citizen are some of the newspaper companies that have filed for bankruptcy in the last few years.

Amidst the gloom, some publications have been able to monetise content on the digital platforms. While a few leading business dailies such as The Wall Street Journal and the Financial Times have been behind the pay walls for some time now, the global print industry is witnessing general newspapers also establishing similar pay models. For instance, The New York Times introduced its paid subscription services by signing up 100,000 digital subscribers in the first month and has grown to 450,000 paid subscribers in a year’s time. As a result, for the first time, The New York Times’ circulation revenues surpassed its advertisement revenues. However, not all dailies are able to master the digital game. The ability to attract online readers to pay for content will be the key differentiating factor. The winners will be those who can create value for their content and facilitate on-demand aggregation far more efficiently than they have done till date.

<table>
<thead>
<tr>
<th>Online newspaper reading behaviour</th>
<th>Percent of users</th>
</tr>
</thead>
<tbody>
<tr>
<td>Behaviour</td>
<td>USA</td>
</tr>
<tr>
<td>Ever visit a paper site</td>
<td>66.9%</td>
</tr>
<tr>
<td>Visit a paper site daily</td>
<td>17.1%</td>
</tr>
<tr>
<td>Percent of pages viewed per visitor</td>
<td>1.1%</td>
</tr>
</tbody>
</table>

Source: WAN-IFRA/ComScore, November 2012. In the US, for example, 67% of people who ever use the Internet, visit newspaper sites. But only 17% of daily web users turn to their newspaper site daily.

In marked contrast to the global trends, the Indian print industry is growing with steady increase in both advertising and circulation revenues. Although, internet broadband penetration has been increasing at an enormous pace, current penetration levels are too low to pose a significant threat to the industry. Online reading behaviour indicates that only 35.4 percent of the Indians who ever use the internet, visit newspaper websites and only 9.9 percent of daily web users turn to their newspaper website daily. This is substantially low when compared to countries such as USA and France.

Although several print media houses have moved to online channels, they are usually slow to adapt or monetise their content effectively. Success cases are few and far between. For instance, HT Media’s digital segment witnessed an 18 percent increase in revenues from its digital segment to INR 138 million from INR 117 million in Q3FY13 as compared to Q3FY12. HT Mobile registered a 40 percent growth over Q3 FY12. The company has also registered revenue growth of 30 percent over Q3 FY12 on both HTCampus.com and Shine.com. The Times Internet Limited (part of The Times group) has built 24 properties across various categories such as online news, eCommerce, music, video, and communities and achieved a base of 30 million plus monthly visitors. Content is getting digitised and becoming platform agnostic, while also becoming available in audio and video formats. Due to technological advancements and growing user needs, content today is highly interactive, easily distributable to its users at low cost and is real time. However, monetising digitised content online is another industry challenge.

Source:
24. HT Media, Company Website
25. Company website

In industry will witness the shift of tactical advertisement from print to ecommerce platform, but for brand advertisement print will remain the preferred choice of an advertiser.

- Sunil Mutreja
Executive Director,
Amar Ujala Publications Ltd

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For advertisers, access to mass markets remains the key, leading print players with an established reader base will always be high on the spending plans of advertisers. The overall shift of readers from print to online will continue and will get to critical mass at some point in India’s future. So print players must continue to develop innovative advertising packages combining both print and online to secure the advertising spend for their brands.

**Activation business adding an innovative flavour to the print medium**

Brand activation is now an important part of any brand building exercises and print players have been tapping this opportunity by providing integrated solutions to media planners. Due to its local nature, compared to a national medium like television, print players have been able to provide customised solutions to advertisers. The industry is providing activation solutions to brands for promotions, brand/product launches, brand awareness campaigns, consumer fairs, exhibitions and other mega social events. Most of the players have invested in developing their activation divisions. The activation segment in the print is driven by development of award properties and rural properties. Our industry discussions indicate that while marketers plan to increase the proportion of their below-the-line spends in 2013, the growth will be driven by activities which are targeted towards rural audiences. The organised portion of this industry is poised to increase as advertisers’ increase their below-the-line spends over the next two years, build communities and amplify the customer experiences.

**Cost rationalisation**

Due to challenges and the slowdown faced by print companies in India, companies have already been focusing on cost reductions across all functional areas for some time. The economic downturn has, however, led to still tougher measures. Some publishers are looking to increase efficiency by outsourcing part or all of their production process and finding ways to collaborate with others, implementing strong inventory management processes to reduce the newsprint carrying cost and designing a leaner organisation structure to reduce manpower cost.

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"Print industry will have to be innovative to design customised and integrated ad solutions to create value for advertisers, along with continuously tightening the grip on operational costs."  

- DD Purkayastha  
Group CEO, Anand Bazaar Patrika

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**Online and offline classifieds business continue to co-exist but balance tilting towards online**

Overall classified market in India is driven by growth in the service sector, favourable demographics and growth in the advertising industry. Print classifieds constitute 59 percent of the overall classifieds industry. Challenges faced by the online classified business—language barrier, lower penetration of the internet and online payment mechanism, are saving the offline classifieds for the time being. With increasing penetration of internet, the offline classified business is expected to cede its majority share to the online space.

**Online and offline classified business**

<table>
<thead>
<tr>
<th>Year</th>
<th>Online</th>
<th>Offline</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>58.9%</td>
<td>41.1%</td>
</tr>
<tr>
<td>2014</td>
<td>57.7%</td>
<td>42.3%</td>
</tr>
<tr>
<td>2015</td>
<td>56.6%</td>
<td>43.4%</td>
</tr>
<tr>
<td>2016</td>
<td>55.5%</td>
<td>44.5%</td>
</tr>
<tr>
<td>2017</td>
<td>54.3%</td>
<td>45.7%</td>
</tr>
<tr>
<td>2018</td>
<td>53.1%</td>
<td>46.9%</td>
</tr>
</tbody>
</table>

Source: [Netscribes report – online and offline classified market in India](#)

Print players have been quick to assess the above trend of declining offline classified business and to compensate for the loss of revenue, had started their online classified business well in advance. For example, Bennett Coleman & Co. Ltd has established a strong presence in the three of the most dominant online classifieds categories - matrimonial, jobs and real estate.

**Newsprint prices anticipated to be stable but rupee depreciation still a risk**

Newsprint typically accounts for 40 to 50 percent of a publisher’s cost base. The total newsprint demand in India was 2.1 million MT in FY 2012. Of this, approximately 1 million MT of newsprint was produced and procured locally, while 1.1 million MT (approximately 50 percent of total demand) was imported from international newsprint producers.

**Break-up of domestic and imported newsprint consumption**

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic</th>
<th>Imported</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>14.4</td>
<td>6.8</td>
</tr>
<tr>
<td>2005-06</td>
<td>15.9</td>
<td>6.8</td>
</tr>
<tr>
<td>2006-07</td>
<td>18.2</td>
<td>7.9</td>
</tr>
<tr>
<td>2007-08</td>
<td>19.3</td>
<td>8.9</td>
</tr>
<tr>
<td>2008-09</td>
<td>20.9</td>
<td>9.8</td>
</tr>
<tr>
<td>2009-10</td>
<td>19.5</td>
<td>9.9</td>
</tr>
<tr>
<td>2010-11</td>
<td>21.4</td>
<td>10.5</td>
</tr>
<tr>
<td>2011-12</td>
<td>21.3</td>
<td>10.7</td>
</tr>
</tbody>
</table>

Source: Centre for Industrial and Economic Research Industry statistic

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26. Industry discussions conducted by KPMG in India  
27. Netscribes report – Online and offline classified market in India
Magazines continue a sluggish growth

The magazine industry witnessed a growth rate of 1 percent in 2012 and was valued at INR 13 billion. As readers demand more focused content, the demand for the general content category continued to decline. The industry feels that general content and news magazines is a fading segment, whereas special interest magazines and niche content magazines have good potential to be of interest to readers with a monetisation potential in the long run.

Industry experts believe that going forward, additional requirements of newsprint will largely be fulfilled by import of newsprint. To compete with the imported newsprint, domestic newsprint manufacturing companies are not able to increase prices leading to tremendous financial pressure and no incentive for any manufacturer to add to existing capacity. Industry anticipates that the newsprint prices will be stable in 2013; however, if the rupee depreciates against the dollar, landed costs may increase. Significant unused capacity in the global newsprint supply chain due to the declining consumption in the West has made newsprint imports competitive and a major source of meeting domestic newsprint needs.

In 2012 newsprint prices were stable, giving some respite to the publishers in a challenging year. Also the gap between the imported newsprint price and the domestic newsprint narrowed in the last quarter of 2012. The gap noted in the earlier period was due to foreign currency exchange fluctuation.
Readership trend

### Top 10 magazines

<table>
<thead>
<tr>
<th>Magazine</th>
<th>Language</th>
<th>Q3 2012</th>
<th>Q3 2011</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vanitha</td>
<td>Malayalam</td>
<td>2271</td>
<td>2590</td>
<td>↓</td>
</tr>
<tr>
<td>Pratiyogita Darpan</td>
<td>Hindi</td>
<td>1894</td>
<td>2025</td>
<td>↓</td>
</tr>
<tr>
<td>SamanyaGyan Darpan</td>
<td>Hindi</td>
<td>1733</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>India Today</td>
<td>English</td>
<td>1526</td>
<td>1636</td>
<td>↓</td>
</tr>
<tr>
<td>Saras Salil</td>
<td>Hindi</td>
<td>1351</td>
<td>1941</td>
<td>↓</td>
</tr>
<tr>
<td>Meri Saheli</td>
<td>Hindi</td>
<td>1205</td>
<td>1209</td>
<td>↓</td>
</tr>
<tr>
<td>Karmakshetra</td>
<td>Bengali</td>
<td>1183</td>
<td>1047</td>
<td>↑</td>
</tr>
<tr>
<td>Malayala Manorama</td>
<td>Malayalam</td>
<td>1053</td>
<td>1307</td>
<td>↓</td>
</tr>
<tr>
<td>General Knowledge Today</td>
<td>English</td>
<td>1047</td>
<td>1087</td>
<td>↓</td>
</tr>
<tr>
<td>Cricket Samrat</td>
<td>Hindi</td>
<td>1044</td>
<td>1159</td>
<td>↓</td>
</tr>
</tbody>
</table>

Source: IRS Q3 2012 and IRS Q3 2011

### Top 10 Hindi magazines

<table>
<thead>
<tr>
<th>Magazine</th>
<th>Q3 2012</th>
<th>Q3 2011</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pratiyogita Darpan</td>
<td>1894</td>
<td>2025</td>
<td>↓</td>
</tr>
<tr>
<td>SamanyaGyan Darpan</td>
<td>1733</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Saras Salil</td>
<td>1351</td>
<td>1941</td>
<td>↓</td>
</tr>
<tr>
<td>Meri Saheli</td>
<td>1205</td>
<td>1209</td>
<td>↓</td>
</tr>
<tr>
<td>Cricket Samrat</td>
<td>1044</td>
<td>1159</td>
<td>↓</td>
</tr>
<tr>
<td>India Today</td>
<td>966</td>
<td>1116</td>
<td>↓</td>
</tr>
<tr>
<td>Grehlakshmi</td>
<td>909</td>
<td>983</td>
<td>↑</td>
</tr>
<tr>
<td>Grin Shobha</td>
<td>873</td>
<td>990</td>
<td>↓</td>
</tr>
<tr>
<td>Champak</td>
<td>725</td>
<td>859</td>
<td>↓</td>
</tr>
<tr>
<td>Vanitha</td>
<td>702</td>
<td>777</td>
<td>↓</td>
</tr>
</tbody>
</table>

Source: IRS Q3 2012 and IRS Q3 2011

The power of a billion: Realizing the Indian dream
Globally, magazine readership in most categories has been declining primarily due to free content availability on the internet, easy access to information from various sources and changing lifestyles, making time availability a premium. Similar trends are being noted in India, with 8 of the top 10 magazines witnessing negative readership trends, as per IRS surveys during 2011 Q3 and 2012 Q3.

Industry believes that revenues for magazine will not go down but the sources of revenue are undergoing a change as there is more contribution from non-subscription-based areas. While advertising, sales and subscription may contribute a large portion of the total revenues, together, events, innovations and digital presence are also adding to the topline.

The Indian economy is expected to grow at 5 percent in 2012-13, lower than the average growth rate of 6.5 percent in 2011-12 and 8.4 percent in 2010-11. This slowdown in GDP has been brought about by a host of factors such as supply constraints, weak investment, business and investor sentiment, currency depreciation and stubbornly high inflation.

Though there seems to be some increase in advertising sales for both regional and English metropolitan newspapers, if the economy does not improve, the industry will see advertisers shifting from print to less expensive targeted media.

- Tariq Ansari,
Chairman and MD - Next Mediaworks Ltd.
Hiring and retaining talent

The tough macroeconomic situation has been challenging publications to find innovative ways to cut costs without compromising on the quality of content. In the light of current circumstances, players are investing heavily in building strong editorial teams while at the same time reducing overall headcount. A quality talent pool will be a key asset for the industry and its success would depend upon the publication’s ability to differentiate its content from mass market information available for free on digital platforms.

However, availability of talent remains a challenge for all media segments, especially so for print. While there are many journalism schools in India, quality remains a challenge. Industry discussions indicate that even today to a great extent, few students choose a career in print as their first preference. This means the talent pools remain fragile and the ability to deliver original content low.

Conclusion

Indian print industry is comparatively better off than its global counterparts, which have been experiencing declining revenues over the past few years. Although the overall Indian scenario looks promising, capitalising on future potential, however, will depend on how the industry deals with the present challenges.

The sector is projected to grow at a CAGR of 8.7 percent and touch INR 340 billion by 2017. The opportunity lies in tapping the growth potential of the Hindi and vernacular markets while concurrently the challenge will be to build additional capabilities to explore alternate sources of revenues. Circulation revenues are expected to grow at a CAGR of 4.5 percent from 2012 to 2017 on back of increased penetration in regional markets.

Rising literacy, growth in disposable income, brand consciousness and strong commercial development in tier II and III cities will together contribute to increased penetration of regional print media. Recent policy measures taken by the government can pave the way of recovery for the Indian economy and restore its fiscal health. With some improvements also likely in the global economy in 2013, the prognosis for the Indian economy looks somewhat better and real GDP growth is expected to be in the range of 6.1 to 6.7 percent in 2013-14.

The print industry today is faced with a dynamic environment that is unprecedented—changing business models, consumer and reader demographics present opportunities and challenges that will greatly improve profitability for flexible and aggressive players and erode the bottom line of static players. The pre-requisite, therefore, is to plan a strategy that identifies the boundaries between premium and commodity content and build up an effective pricing model around it. Going forward, we may see differentiated models being developed by industry participants to generate additional revenue streams.

"The long term growth story of the Indian language print industry remains promising, with government taking steps to improve the policy environment which in turn has given a boost to corporate sentiments and we are very well placed to capitalise on growth opportunities, as they present themselves. Clearly the growing importance of regional markets and the potential of increasing consumption in Tier II and III cities are the core growth drivers of the regional print media segment. We are expending considerable time to conduct more focused consumer research, bringing in more innovation in content and further localising it, to create differentiated products. Additionally, media penetration and adaptation of content to relevant marketing and delivery platforms to serve different niche audiences, will also become core to success."

- Girish Agarwal
Promoter Director,
D B Corp Ltd.
Films
A blockbuster year
Introduction

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 percent Yo-Yo, contributing 76 percent to the INR 112.4 billion film industry. Digital distribution played a significant role in increasing the reach of the industry. The industry has begun penetrating tier II and III markets and entertaining the un-served population which sits near the bottom of the pyramid. All this has been made possible by leveraging technology which allows for a movie watching experience at an affordable cost and in a secure environment.

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 be worth INR 193.3 billion by 2017. Domestic theatricals will continue to be the major growth driver for the industry while ancillary revenue streams will also grow rapidly albeit off a smaller base.

For these films, co-production continues to be the preferred business model. Production houses see prudence in teaming up with peers who know those local markets. Both international and Bollywood studios are leveraging co-productions deals for entering newer markets as they learn the pulse of the vernacular audience. Local producers are leveraging the national and international distribution strength of their co-producers and taking their content to newer geographies.

“2012 was a fantastic year for the film industry with differentiated content and talented debutants attracting audiences to the theatres in larger numbers. This was also aided by superb promotions by production houses and studios, as everyone battled it out to enjoy a big opening weekend. 2013 has begun on a great note and promises to set new benchmarks in promotions and pre release efforts, and thereby achieve bigger and better opening figures.”

- Apoorva Mehta
CEO, Dharma Productions

“Last year, we have seen a huge pool of new talent come into the industry and taste success. That’s a great sign for the industry. However, we need to keep a check on the production and marketing costs. The production costs are disproportionately high. Meanwhile, marketing needs to be aggressive but cost effective. While we have a rich INR 1 billion plus club, we need to see how much ROI are we really getting on the projects. Small is big literally with some tightly budgeted films making a gold run at the box office. It looks likely that the revenues from C&S are going to slowdown as well, so it matters more to us that we keep production costs in check because our dependence on theatricals is bound to increase. We need adequate support from Government of India. There is tremendous pressure due to high entertainment tax rate and service tax and the industry needs to engage Government seriously in this regard.”

- Vijay Singh
CEO, Fox Star Studios

Production

Professionally-run production houses are competing with the family-run banners to bring in greater sophistication and efficiency across the value chain. The approach has shifted from producing pure star driven films to experimenting with content and providing a platform to newer talent. Films such as ‘Paan Singh Tomar’ and ‘Gangs of Wasseypur’ have pushed the envelope on the kind of content that works in India and have managed to achieve unanticipated box office success.

Although production costs have escalated by 15-20 percent in 2012, these have been more than offset by strong box office performance. While the cost structure varies based on the budget and star cast, artist fees continue to form a major component of film’s budget for most large productions.

Bollywood and Hollywood production houses are moving into regional markets which are also observing a tectonic shift in the consumption pattern of the audience. The new generation in regional markets is more receptive to non-mainstream films and is encouraging experimentation with content.

The power of a billion: Realizing the Indian dream

- Ramesh Sippy
Co-Chairman, FICCI Media and Entertainment Committee

01. KPMG in India analysis
02. Industry discussions conducted by KPMG in India
The success of Vicky Donor marks the change in the content strategy of the Indian film industry. Production houses are now focusing on producing films which are based on strong content (storyline), small budgets and non-star films with aggressive marketing and distribution spends.

Economics of Vicky Donor

![Graph showing the economics of Vicky Donor](image)

The comedy-drama film based on the concept of sperm donation and infertility emerged as one of the highly profitable productions of 2012. Produced at a cost of INR 50 million, the film was promoted just like any big budget film. Co-produced by actor John Abraham’s JA Entertainment and Eros International Media, the companies spent INR 70 million on marketing the movie across various media platforms. The commercial success of the film can be measured in terms of its domestic gross box office collections which were 9.2x (INR 460 million) the cost of production and C&S rights which were sold at 1.5x the cost of production. The film was released overseas with 125 prints and grossed USD 1.2 million (INR 65 million) at the international box office.

The film which was produced with two newcomers as lead actors- Ayushmann Khurrana and Yami Gautam proved that even a non-star film with a strong storyline can achieve commercial success.

Following its success, the remake rights of the film for the Tamil and Telugu versions have been sold, while producer John Abraham has announced its sequel will go into production in 2013.

"Vicky Donor and English Vinglish, illustrated new trend that smaller budget, high concept films can achieve higher returns at box office and other channels of distribution, provided they are marketed and distributed like big high profile films. As part of strategy we will continue to support smaller budget, high concept films which ensures limited downside with unlimited upside. This also enable us to diversify and strengthen the overall business model."

- Kamal Jain
  Group CFO-India,
  Eros International Media Ltd.
Distribution – Digital dominance is here

Over the past few years, the industry has steadily shifted from releasing films with physical prints to digital distribution. The share of the digital format has increased from roughly 50 percent in 2010 to about 80-90 percent in 2012. Digital distribution has enabled films to broaden their reach and do it far quicker than ever before. Distributors are now able to capture revenues in a shorter time frame by having same-day release across theatres and pre-selling C&S rights. Most films now garner about 60-80 percent of their revenue in the first week of release.

Box office success in the first week is considered critical and marketing plays an important role in determining turnout. Some reports indicate that pre-release marketing budget is found to be highly correlated with the opening weekend success of a movie. With this trend increasingly becoming prominent, advertising spends are on the rise.

Print and advertising (P&A) budgets witnessed a 20 percent Yo-Yo increase in 2012 with marketing spends dominating. In 2012, an average 60 percent of P&A budgets were spent on promotion and advertising of the film.

Film marketing activities have progressed beyond posters and promos with the aggressive use of new marketing tools on social media, portals, search engines and even activation. Use of social media has become an important component of pre-release marketing strategy for any film. Some players have gone a step ahead and developed mobile apps for promoting their movie. For instance, Disney UTV’s marketing team developed a mobile app for ‘Barfi’ which was used to create a strong connect between the protagonist and the audience.

In 2012, the average film marketing costs ranged anywhere between INR 80-120 million. For high budget films, this went up to INR 150 million and for low budget films, in some cases, it exceeded their production cost. As per industry estimates, for a low budget film, a minimum budget of INR 35 to 50 million is required to ensure a decent commercial release for the film. However, the economics are different in South India where marketing budgets are still low at INR 15-20 million per film. It is anticipated that as media clutter grows, marketing budgets for films will continue to climb in order for products to get noticed.

The distribution of Hollywood content is also evolving rapidly. While most big-budget English movies are distributed by the respective studios, several other films require local distributors. For example, PVR Pictures has identified this area as a potential opportunity and distributed 18 Hollywood titles last year. It also plans to distribute another 24 titles in next 15 months. In order to compete with domestic titles, Hollywood continues upping marketing budgets, some Hollywood films are now being marketed at spends as high as INR 50 million. For instance, Avengers which was released in 1000 prints across English, Hindi and South Indian languages was marketed at pan India level. Star Movies India did a 360-degree marketing campaign comprising all mediums – print, online, OOH and television, to promote the action movie in India. The Star Movies Facebook page also offered an Avengers app featuring wallpapers, videos and puzzles related to the superheroes.

In film marketing the battle for eyeballs can be won or lost in the first 2 weeks of the campaign. First impressions are critical in our industry, so once our research on pre-campaign audience awareness is done, we ensure that our first creative (trailer and posters) has very high on appeal and reach amongst our target audience. Once a good base is created then further marketing interventions in the 6-8 week period prior to the film’s release, become that much more effective in achieving box office revenue targets.

- Shikha Kapur
Executive Director - Marketing, Studios, Disney UTV

The power of a billion: Realizing the Indian dream

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- Kapil Agarwal
Joint Managing Director, UFO Moviez India Ltd.

We have seen that superlative content, backed by innovative marketing, wide distribution and high C&S valuations have been the growth driver for the business. We have seen a lot of high concept content movies deliver good numbers at the box office and the risks taken by producers have paid off thus paving the way for the need for more such content. The increase in the number of multiplexes and increased digitisation of 2K screens and E-Cinema has helped us ensure cost effective reach and better show casing opportunities. 3D movies have also helped bring back audiences into the theatre especially for Hollywood and we will see a spurt in the number of 3D movies in Bollywood as well.

- Vijay Singh
CEO, Fox Star Studios

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Exhibition

Domestic theatrical revenues continues to be the main source of revenue for the film industry, with 76 percent of its revenue coming from this channel and this trend is expected to continue in the foreseeable future. However, the landscape is undergoing drastic changes. India continues to be heavily under screened with 8 screens per million available. The opportunity is huge and the exhibition industry is expanding its supply, although it is constrained in recent times by the slowdown in the growth of the commercial real estate market.

In 2012, the industry added 152 new screens with major growth coming from expansion of multiplexes. While no new screens were added in Delhi and Mumbai, Gujarat and Bihar saw maximum supply additions. Gujarat added 21 new multiplex screens and a single screen while Bihar added 18 new multiplex screens and 2 new single screens.

The South Indian exhibition industry added 41 screens with 90 percent (37 screens) multiplex screen additions. The multiplex screen additions were restricted to Kerala, Andhra Pradesh and Karnataka while Tamil Nadu added only 1 single screen. With many metros and tier-I markets getting close to saturated, the focus is now shifting to the next 40 cities which are experiencing rapid urbanization and greater economic growth.

There is a huge opportunity for multiplex operators in the South as it is still dominated by single screens. The region has a huge movie-going population and we expect it to evolve into a multiplex culture in the next 5 years.

- Nitin Sood
Chief Financial Officer,
PVR Limited

2013 will be a breakthrough year for Cinepolis and we expect our growth to hit into higher gear. Many of the projects that we signed with developers during the past 5 years are now starting to materialize. We plan to open 60 screens this year and then around 60-100 screens every year after this one.

- Milan Saini
Managing Director and Country Head,
Cinépolis India

Growth of the multiplex industry will be highly correlated to the level of real estate development as most players intend to grow both organically and inorganically. Organic growth of the industry will be mostly through greenfield investments as most multiplex players do not perceive value from converting single screens into multiplexes. Accordingly, only 10 single screens were converted into multiplexes in 2012. Inorganic activity gathered pace in 2012 with PVR acquiring Cinemax. The quest for scale in the exhibition business will continue to drive deals as players race to add screens. In the short run, organic growth will be limited by the bottlenecks created due to slowing development of malls and commercial real estate.
Single screens continue to face challenging times with as many as 97 screens shutting down in 2012. The year saw single-screen theatres making efforts to re-invent themselves and upgrading their existing infrastructure to provide enhanced movie watching experience experience. Players are making renovations from improving picture quality, surround sound systems, and air-conditioning, to improving the parking spaces and quality of food and beverages. Some players have also introduced online ticketing systems to curb black marketing and enhance convenience for consumers. The Andhra Pradesh Film Chamber of Commerce (APFCC) has teamed up with theatre owners and producers to set up a portal for online ticketing in 1,500 odd single-screen theatres across the state while the Maharashtra government is incentivizing theater owners to adopt online ticketing systems by providing tax incentives.

“Many single screen owners are facing challenging times. Single screens are in existence since 1913 and paying entertainment tax since 1923. However, till today we have been loaded with heavy entertainment tax. The Government should consider entertainment as an industry and accordingly provide incentives to single screen exhibitors to renovate and improve facilities which can lead to increase in occupancy levels.”

- Ram Vidhani
President, Cinema Owner and Exhibitor Association of India

The industry has achieved 77 percent digitization of screens and expects to achieve 100 percent digitization by next year. Digital technology is now enabling reaching the un-served population which sits near the bottom of the pyramid. The key advantages of digital technology – affordability, security, timely access is facilitating the emergence of a new category of exhibitors. Players such as United Media Works are developing business models that are addressing issues of piracy at the video theaters (Government licensed outlets) and tapping the un-served audience through making the films available at an affordable cost.

“Single screen contribution to Box Office is increasing gradually. In reality the per show revenue of single screen is higher than that of multiplex. However, there is significant under reporting of occupancy by single screens, which will eventually be addressed by proliferation of computerised ticketing system along with digitisation of the screens.”

- Sanjay Gaikwad
Chief Executive Officer and Managing Director, UFO Moviez India Ltd

Scan the QR code to hear more from Sanjay

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09. UFO Moviez India Ltd. market intelligence and company records
10. A portal to kill the black ticket, Deccan Chronicle, July 2012
11. Industry discussions conducted by KPMG in India
Industry Performance

<table>
<thead>
<tr>
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<th></th>
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</thead>
<tbody>
<tr>
<td>Domestic Theatrical</td>
<td>80.2</td>
<td>68.5</td>
<td>62.0</td>
<td>68.8</td>
<td>85.1</td>
<td>92.4</td>
<td>104.7</td>
<td>115.3</td>
<td>127.6</td>
<td>142.2</td>
<td>23.8%</td>
<td>10.8%</td>
</tr>
<tr>
<td>Overseas Theatrical</td>
<td>9.8</td>
<td>6.8</td>
<td>6.6</td>
<td>6.9</td>
<td>7.6</td>
<td>8.3</td>
<td>9.0</td>
<td>9.8</td>
<td>10.8</td>
<td>11.9</td>
<td>9.0%</td>
<td>9.4%</td>
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<tr>
<td>Home Video</td>
<td>3.8</td>
<td>4.3</td>
<td>2.3</td>
<td>2.0</td>
<td>1.7</td>
<td>1.4</td>
<td>1.2</td>
<td>1.1</td>
<td>1.0</td>
<td>0.9</td>
<td>-15.0%</td>
<td>-12.0%</td>
</tr>
<tr>
<td>Cable &amp; Satellite Rights</td>
<td>7.1</td>
<td>6.3</td>
<td>8.3</td>
<td>10.5</td>
<td>12.6</td>
<td>14.1</td>
<td>16.2</td>
<td>19.1</td>
<td>22.8</td>
<td>27.3</td>
<td>20.0%</td>
<td>16.8%</td>
</tr>
<tr>
<td>Ancillary Revenue Streams</td>
<td>3.5</td>
<td>3.5</td>
<td>4.1</td>
<td>4.7</td>
<td>5.4</td>
<td>6.2</td>
<td>7.2</td>
<td>8.3</td>
<td>9.6</td>
<td>11.1</td>
<td>15.2%</td>
<td>15.5%</td>
</tr>
<tr>
<td>Total</td>
<td>104.4</td>
<td>89.3</td>
<td>83.3</td>
<td>92.9</td>
<td>112.4</td>
<td>122.4</td>
<td>138.3</td>
<td>153.6</td>
<td>171.7</td>
<td>193.3</td>
<td>21%</td>
<td>11.5%</td>
</tr>
</tbody>
</table>

Source: KPMG in India analysis

Theatricals

Domestic theatrical

2012 was an exciting year for the Indian film industry with footfalls returning to the big screen. The domestic theatrical segment grew at a CAGR of 23.8 percent as against our estimate of 7 percent last year.12

Bollywood: INR 1 billion club

Number of movies crossing INR 1 billion

In 2008, Ghajini became the first movie to cross INR 1 billion at the box office, setting a new benchmark for Bollywood. However, its exclusivity seems to be fading with an increasing number of films crossing the INR 1 billion threshold. 2012 witnessed nine films crossing the coveted INR 1 billion mark, as compared to only five films in 2011. Moreover, with box office collection of “Ek Tha Tiger” touching close to INR 2 billion, aspirations have been set higher. Continued success at box office driven by strong content and expansion of multiplexes is expected to establish INR 2 billion as the new benchmark for success.

Source: KPMG in India analysis

12: KPMG in India analysis
What was interesting about 2012 was that not only did ‘big budget, big star-cast’ movies top the charts, but small-budget movies with unique stories also drew crowds to the theaters. Films such as ‘Vicky Donor’, ‘Kahaani’ and ‘Oh My God’ all enjoyed box office success.

### Top 20 Bollywood movies by box office collections

<table>
<thead>
<tr>
<th>Movie</th>
<th>Production house</th>
<th>Net Collection (INR billion)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ek Tha Tiger</td>
<td>Yash Raj Films, Fantastic Films, Prime Focus</td>
<td>1.99</td>
</tr>
<tr>
<td>Dabangg 2</td>
<td>Arbaaz Khan Productions, Shree Ashtavinayak Cinevision</td>
<td>1.55</td>
</tr>
<tr>
<td>Rowdy Rathore</td>
<td>UTV Motion Pictures, SLB Films Pvt. Ltd.</td>
<td>1.31</td>
</tr>
<tr>
<td>Barfi</td>
<td>UTV Motion Pictures</td>
<td>1.26</td>
</tr>
<tr>
<td>Agneepath</td>
<td>Dharma Productions Pvt Ltd</td>
<td>1.23</td>
</tr>
<tr>
<td>Jab Tak Hai Jaan</td>
<td>Yash Raj Films</td>
<td>1.22</td>
</tr>
<tr>
<td>Housefull 2</td>
<td>Eros International, Nadiadwala Grandson Entertainment</td>
<td>1.14</td>
</tr>
<tr>
<td>Son Of Sardaar</td>
<td>Viacom 18 Motion Pictures</td>
<td>1.05</td>
</tr>
<tr>
<td>Bol Bachchan</td>
<td>Shree Ashtavinayak Cinevision Pvt Ltd, Devgan Films</td>
<td>1.02</td>
</tr>
<tr>
<td>Khiladi 786</td>
<td>Eros International, H.R. Musik, Hari Om Entertainment Company</td>
<td>0.90</td>
</tr>
<tr>
<td>Talaash</td>
<td>Aamir Khan Productions, Excel Entertainment</td>
<td>0.82</td>
</tr>
<tr>
<td>OMG (Oh My God!)</td>
<td>Grazing Goat Pictures, Viacom 18 Motion Pictures, Playtime Creations</td>
<td>0.80</td>
</tr>
<tr>
<td>Cocktail</td>
<td>Eros International Media Ltd., Illuminati Films, Prime Focus, Raj Film Productions, Cocktail Film</td>
<td>0.71</td>
</tr>
<tr>
<td>Raaz 3</td>
<td>Vishesh Films, Fox STAR Studios</td>
<td>0.70</td>
</tr>
<tr>
<td>Student of the Year</td>
<td>Dharma Productions Pvt Ltd, Red Chillies Entertainment</td>
<td>0.70</td>
</tr>
<tr>
<td>Kahaani</td>
<td>Boundscript Motion Pictures and Pen Movies</td>
<td>0.59</td>
</tr>
<tr>
<td>Ishqzaade</td>
<td>Yash Raj Films</td>
<td>0.47</td>
</tr>
<tr>
<td>Agent Vinod</td>
<td>Illuminati Films, Prime Focus</td>
<td>0.45</td>
</tr>
<tr>
<td>Kya Super Kool Hain Hum</td>
<td>Balaji Motion Pictures</td>
<td>0.44</td>
</tr>
<tr>
<td>Jannat 2</td>
<td>Fox STAR Studios, Vishesh Films</td>
<td>0.43</td>
</tr>
</tbody>
</table>

* Updated till January 6, 2013

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The exponential growth in domestic theatrical revenues can be attributed to the growth in number of screens via growth of multiplexes, coupled with increased ticket prices and delivery of robust content that appealed to both, the multiplex and single screen audiences.

We are observing a definitive change in consumption pattern of our patrons. Not only is there a surge in footfalls, but patrons are also frequenting theatres more often. Because of these factors, 2012 has been a good year for film entertainment business and if the early signals are anything to go by, 2013 already looks quite promising. January to March is typically a lean period, however, we have seen a tremendous surge in February admissions due to a persistent supply of quality films. We are looking forward to a very strong 2013.

- Mr. Kamal Gianchandani
President,
PVR Pictures Ltd.

The number of screens available for releasing a film is also rising, aided by greater use of digital prints. It is estimated that close to 77 percent of screens have been digitized. The main driver behind this is the huge price difference between digital and physical prints, which now makes it affordable for a distributor to release a greater number of prints for a film. Big-budget movies are now released across as many as 3,500 screens now as compared to 1,000 three years ago.

To cash in on the increasing footfalls and maximize profits, multiplex operators have increased ticket prices by 15 to 20 percent. The average ticket price for multiplexes is now INR 160, compared with INR 60 at single screens. This has not impacted the occupancy rates. In fact, the footfalls at PVR cinemas have increased by around 38 percent from December 2011 to December 2012.

Revenue split of regional market for Hollywood films - 2012

<table>
<thead>
<tr>
<th>Movie</th>
<th>Year of release</th>
<th>Number of screens for theatrical release</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hum Aapke Hain Kaun</td>
<td>1994</td>
<td>500</td>
<td>-</td>
</tr>
<tr>
<td>3 Idiots</td>
<td>2009</td>
<td>1,000</td>
<td>2x in 15 years</td>
</tr>
<tr>
<td>Dabangg 2</td>
<td>2012</td>
<td>3,500</td>
<td>3.5x in 3 years</td>
</tr>
</tbody>
</table>

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Shortening of the movie shelf life

First week business has increased driven by the wider release and number of prints. The first week and weekend contribute almost 60-80 percent of a film’s total collection. Even within the first week, the trend is getting skewed towards the weekend. Considering this, multiplex chains are experimenting with pricing models to maximize revenue. By adopting a differential pricing strategy for weekdays and weekends, they are able to maximize footfalls across the week.

Hollywood also claims a share of the pie

2012 proved to be a blockbuster year not only for Bollywood but also for Hollywood films in India. The share of Hollywood movies in gross box office collections increased to 8.5 percent in 2012 with total collections of INR 9.5 billion. A wider distribution network due to digitization, growth in multiplexes and robust marketing has aided the growth of Hollywood content.

However for a movie to garner revenues on a large scale it is important to attain a pan India reach and the dubbing of Hollywood movies in regional languages such as Hindi, Tamil and Telegu has achieved that. Currently, English movies derive 35 percent of their revenues from dubbed formats.

Innovative marketing strategies used by Hollywood studios have provided a fillip to growth. Many studios have tied up with local brands such as McDonalds, MCD, Crax Corn Rings, Perfetti Alpenliebe Swirl, LG Electronics 3D TV to promote their films.

In 2012, The Amazing Spider-man was released with 1236 prints in four languages - English, Hindi, Tamil and Telugu in 2D, 3D and IMAX formats. The box office collections are usually in favour of 3D movies. As per industry estimates, for films which are released in 3D and 2D prints, box office collections are shared in the ratio of 6:4.

We are observing a definitive change in consumption pattern of our patrons. Not only is there a surge in footfalls, but patrons are also frequenting theatres more often. Because of these factors, 2012 has been a good year for film entertainment business and if the early signals are anything to go by, 2013 already looks quite promising. January to March is typically a lean period, however, we have seen a tremendous surge in February admissions due to a persistent supply of quality films. We are looking forward to a very strong 2013.

- Mr. Kamal Gianchandani
President,
PVR Pictures Ltd.

14. Industry discussions conducted by KPMG in India
15. ‘Bollywood no longer talks of piracy; but ignoring dangers of online can be costly’, The Economic Times, February 2013
17. PVR Ltd. Quarterly report ended December 2012
18. KPMG in India analysis based on Industry discussions
The performance of Hollywood movies still varies widely by genres. While franchises and big action movies such as Spiderman, Avengers or Skyfall are succeeding because of their mass appeal; dramas and comedies still find it difficult to grab audiences at a pan-India level. The strong box office performance of “Life of Pi” was an exception to the drama genre. With Indian audiences’ increasing global outlook and more so, the successful strategies in marketing these movies to the right audiences, demand for international movies is on the rise.

Regional performance
It is not only Hindi or English films which are contributing to the elite INR 1 billion club. A Tamil action thriller film ‘Thuppakki’ was not only a blockbuster in the Southern market, but collected INR 1 billion within 11 days of its release.

Bengali film ‘Challenge 2’ also earned over INR 1.24 billion at the box office. The increasing preference amongst patrons for local taste in content has seen regional cinema growing over the years. While South India hitherto dominated the regional cinema segment, other regions such as Bengali, Marathi and Punjabi have also gathered pace. The Tamil and Telugu film industries are both major contributors to the growth of the South Indian film industry. The growth of regional cinema is led by digitization, boost of multiplexes, emergence of new talent and organized funding. The rise of regional channels has also given a boost to the regional industry as it presents more opportunities for cable and satellite monetization.

Top overseas films in India

<table>
<thead>
<tr>
<th>Movie</th>
<th>Production House</th>
<th>Indian Box Office (USD million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amazing Spider Man</td>
<td>Columbia Pictures, Marvel Studios, Marvel Enterprises, Laura Ziskin Productions</td>
<td>14.5</td>
</tr>
<tr>
<td>The Avengers</td>
<td>Marvel Studios, Paramount Pictures</td>
<td>12.6</td>
</tr>
<tr>
<td>Skyfall</td>
<td>Metro-Goldwyn-Mayer (MGM), Danjaq, Eon Productions</td>
<td>10.7</td>
</tr>
<tr>
<td>Life of Pi</td>
<td>Fox 2000 Pictures, Haishang Films, Rhythm and Hues</td>
<td>10.3</td>
</tr>
<tr>
<td>The Dark Knight Rises</td>
<td>Warner Bros. Pictures, DC Entertainment, Legendary Pictures, Syncopy</td>
<td>9.2</td>
</tr>
<tr>
<td>MIB 3</td>
<td>Amblin Entertainment, Hemisphere Media Capital, Imagenation Abu Dhabi FZ, Media Magik Entertainment, Parkes/MacDonald Productions</td>
<td>5.0</td>
</tr>
<tr>
<td>Ice Age 4</td>
<td>Blue Sky Studios</td>
<td>4.2</td>
</tr>
<tr>
<td>Titanic 3D</td>
<td>Twentieth Century Fox Film Corporation, Paramount Pictures, Lightstorm Entertainment</td>
<td>3.6</td>
</tr>
<tr>
<td>Madagascar 3</td>
<td>DreamWorks Animation, Pacific Data Images (PDI)</td>
<td>2.9</td>
</tr>
<tr>
<td>Resident Evil: Retribution</td>
<td>Constantin Film International, Davis Films/Impact Pictures (RE5), Davis-Films, Impact Pictures</td>
<td>2.1</td>
</tr>
</tbody>
</table>

Source: Internet movie database (IMDB)

During the last 3 years there has been over 50 percent increase in small-budget movies. Especially in the Tamil, Marathi, Bengali & Hindi markets, such movies are doing good both in production numbers and collections. While in Hindi, these are referred to as ‘multiplex movies’, the opposite has happened in the other regional language markets where the movies usually have very native, grassroots themes and are made with a budget of INR 20 million or less. For example, in Tamil, small movies are distributed in just 20-30 screens in the first week, then grow to 60-70 screens in the second week and to even more screens if they meet with success.
2012 also saw an increase in exhibition of vernacular content in overseas markets. Telugu film ‘Eega’ and Tamil film ‘Billi’ both did very well in UK, USA, Malaysia and Australia\(^{21}\). Tamil movie ‘Thuppakki’ collected INR 11.8 million in UK and INR 17.6 million in USA\(^{22}\) in its first week of release.

The industry also saw studios tapping into the regional opportunity. Reliance Big Pictures, Disney UTV Motion Pictures and Eros International are increasingly investing in the regional space\(^{23}\). Actor-Producer Akshay Kumar is also venturing into Marathi, Gujarati and Punjabi film production. Favorable cost economics could be one of the drivers. Regional movies are not only cheaper to produce but also have low marketing costs and longer theatrical windows. The average cost of producing a Hindi commercial movie is above INR 150 million as opposed to a Marathi or Punjabi movie which costs between INR 10-40 million\(^{24}\).

### International theatrical

While the domestic theatrical business performed extremely well, the overseas segment experienced moderate growth this year. The market witnessed a growth of 9 percent in 2012. UK, USA and Middle East together generated about 70 percent of the international revenue – UK accounted for 20 percent, USA 20 percent and Middle East 30 percent\(^{25}\). USA, UK, Australia, New Zealand and U.A.E accounted for 98 percent of all the overseas revenue for the top 20 Bollywood movies of 2012. In the Tamil film industry, for the top 10 movies, Malaysia generated 75 percent of the revenues followed by UK, USA and Australia. Korea, China, Taiwan and Pakistan are also fast gaining traction for the Hindi film industry\(^{26}\). Pakistan, for instance, has widened the release of Hindi movies from 15 screens to 30-35 screens. This year also saw relatively low budget movies with strong content do well overseas. Barfi generated revenues of INR 320 million\(^{27}\) and English Vinglish garnered revenues of INR 975 million\(^{28}\) overseas.

### Cable and satellite rights

Revenue from Cable and satellite (C&S) rights grew at 20 percent in 2012. C&S rights for high budget Bollywood movies were sold at an average of INR 500-400 million\(^{29}\). While the satellite rights of ‘Ek Tha Tiger’ were sold at INR 750 million, ‘Student of the Year’ and ‘Dabangg2’ were sold at INR 500 million each, satellite rights of ‘Kahaani’ were sold for as low as INR 80 million. However, industry is of the view that satellite right rates may remain flat for a while, but are likely to increase in the medium to long run. This is keeping in mind the increasing competition among movie channels, the limited supply of ‘appropriate’ movies for TV given censor guidelines and the rising trend of pre-release selling and bundling of C&S rights of movies. After Salman Khan signed an INR 5 billion deal with Star TV network for rights of his upcoming films, Ajay Devgn has recently signed a five year deal for his upcoming movies with Star India for INR 4 billion\(^{30}\).

While big budget films draw in handsome amounts for satellite rights, small budget films with no star cast struggle to sell their rights to satellite channels and are usually bundled with larger films. On one hand, formulaic ‘masala’ movies and genres such as romance, comedy and action perform equally well at the box office and on television; whereas genres such as suspense thrillers do not perform well on the small screen as the customer base is quite different from a multiplex audience. Also, the advertisement breaks on small screen intrude the continuous attention span required for such films\(^{31}\). An example of this is that despite grossing more than INR 1 billion at box office, there was limited interest in ‘Barfi!’s satellite rights\(^{32}\). While ‘Agent Vinod’ fared only INR 450 million at the box office, its satellite rights were sold at around INR 300 million\(^{33}\). The industry is of the view that the repeat value of content like ‘Barfi!’ is quite low on television as compared to action and comedy genres.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Movie</th>
<th>Genre</th>
<th>TVR</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ra-one</td>
<td>Action</td>
<td>6.72</td>
</tr>
<tr>
<td>2</td>
<td>Bol bachchan</td>
<td>Comedy</td>
<td>4.83</td>
</tr>
<tr>
<td>3</td>
<td>Agneepath [Hrithik Roshan]</td>
<td>Action</td>
<td>4.73</td>
</tr>
<tr>
<td>4</td>
<td>Housefull 2</td>
<td>Comedy</td>
<td>3.78</td>
</tr>
<tr>
<td>5</td>
<td>Singham</td>
<td>Action</td>
<td>2.59</td>
</tr>
<tr>
<td>6</td>
<td>Ferrari Ki Sawaari</td>
<td>Comedy</td>
<td>2.47</td>
</tr>
<tr>
<td>7</td>
<td>Bodyguard</td>
<td>Action</td>
<td>2.45</td>
</tr>
<tr>
<td>8</td>
<td>Don 2</td>
<td>Action</td>
<td>2.21</td>
</tr>
<tr>
<td>9</td>
<td>Players</td>
<td>Action</td>
<td>2.1</td>
</tr>
<tr>
<td>10</td>
<td>3 Idiots</td>
<td>Comedy/Drama/Romance</td>
<td>2.08</td>
</tr>
</tbody>
</table>

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21. ‘Foreign Return’, The Indian Express, August 2012
22. ‘Thuppakki: Movie Rocking at Overseas Box Office’, Southnews.in, November 2012
23. ‘Regional cinema reels in corporate movie investors’, Business Line, April 2012
24. Industry discussions conducted by KPMG in India
25. ‘Barfi’ Worldwide Lifetime Collections | Updated!, BoxOfficeDay.com, January 2013
26. ‘English Vinglish earns Rs.27 crore on weekend’, India Today, October 2012
27. ‘Salman Khan signs 500 crore deal with TV channel’, India Today, January 2013
28. ‘Ajay Devgn signs 400 crore deal with Star India’, Adaptation, March 2013
29. ‘Is Barfi! too sweet for television?’, DNAIndia.com, February 2013
30. ‘Agent Vinod has recovered 50% of its cost’, Dinesh Vijan’, Oneindia Entertainment, March 2013

With digitization likely to provide greater clarity in terms of TRPs, Video-On-Demand (VOD) services, and greater number of movie channels, the demand for all genres of films on cable and satellite platforms is expected to increase. The theatre-to-television window is reducing with movies being broadcast on television within 60 to 90 days of their theatrical release. Recent examples would be films such as ‘Kahaani’, ‘Ek Tha Tiger’, and ‘Son of Sardar’.

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21. ‘Foreign Return’, The Indian Express, August 2012
22. ‘Thuppakki: Movie Rocking at Overseas Box Office’, Southnews.in, November 2012
23. ‘Regional cinema reels in corporate movie investors’, Business Line, April 2012
24. Industry discussions conducted by KPMG in India
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29. ‘Is Barfi! too sweet for television?’, DNAIndia.com, February 2013
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The power of a billion: Realizing the Indian dream
Ancillary revenue streams

Rising production costs, global economic slowdown, and increasing competition for exhibition screens have given rise to a pressing need for alternative sources of revenue. Ancillary revenue streams constituted 4.8 percent of film revenue in 2012 and are expected to contribute 5.7 percent by 2017[32]. However, these revenue streams will continue to be a small number relative to box office. Indian cinema is still very much dependent on the theatrical revenue with 76 percent of revenue coming from this segment. The South Indian film industry for instance derives 90 percent of its revenues from theatrical exhibition[33].

In-Cinema advertising:
The growing penetration of digital distribution has given rise to the growth of cinema advertising, giving the advertiser the flexibility to target a captive audience in the desired region. Currently an exhibitor’s revenue comprises 70 percent ticket sales, 20 percent food and beverage and 10 percent cinema advertising. While the proportion of each is expected to remain the same, the volume in absolute terms is expected to go up[33].

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Reflecting a reversal of the trend of showcasing new movies on GECs, television networks are now premiering new movies back on the movie channels. They are also launching strong marketing campaigns to mark the premiere of movies. For example, Zee Cinema conducted a strong marketing campaign to drive buzz around the world TV premiere of ‘Agneepath’. STAR India has also been strengthening its movie channels ‘Star Gold’ and the newly launched ‘Movies Ok’ through rebranding and marketing initiatives.

Home video

The home video market continued to decline in 2012, with market size shrinking by 15 percent from INR 2 billion to INR 1.7 billion[32]. Piracy and the growing popularity of digital technology are the primary factors leading to a fall in market size. Moreover, Value Added Service (VAS) and Video on Demand (VoD) are an evolution of the home video market and are expected to take away significant share of the DVD/VCD market. For big budget films with a star cast, for instance, the number of DVDs sold in the entire country ranges between 30,000-40,000 units only. Niche content such as lifestyle videos, educational videos and classic series continues to grow in the home video segment. Demand for such content has a long tail and has grown at a CAGR of 20-25 percent from 2007-2012, accounting for 10 percent of total home video sales[34]. Reliance Home Video and Games for instance has entered into a tie up with the British Broadcasting Corporation (BBC) to distribute the latter’s productions in India. The BBC has a large library of documentaries and classic works. Such content entails sentimental value for customers seeking to build library and sales for this genre are expected to gather pace.

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Home video segment is down but not out - the need for home consumption will always remain, whether through physical or digital delivery. While slashing prices have not been able to combat piracy, it has destroyed consumer’s value perception of the physical format. The niche special interest content is observing robust demand and growing at 20-25 percent. We are investing in the special interest category such as self-development and health and fitness content.

- Hiren Gada
  Director, Shemaroo Entertainment Ltd.

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[31] Bollywood no longer talks of piracy; but ignoring dangers of online can be costly, The Economic Times, February 2013
[32] KPMG in India analysis
[33] Industry discussions conducted by KPMG in India
[34] Reliance Home Video into distribution deal with BBC, Screen.indianexpress.com, May 2012
Licensing & Merchandising (L&M) and Gaming:
L&M and Gaming are still very underpenetrated categories in India due to inhibitors like piracy and a diverse audience to be reached with different propositions and price points. Also, merchandising needs sustained brand recall, which Indian films have not been able to create as they are mostly do not produce sequels. Hollywood has, over the years, created iconic figures such as Batman and Spiderman. India is yet to create iconic figures on a scale that will generate robust revenues for the producer. Disney’s Cars generated moderate theatrical revenues in India but was immensely popular in the merchandising segment. Disney also tied up with consumer brands such as Pepsi and Britannia to popularize the Cars merchandise. Gaming also remains unexplored owing to lack of knowledge, captivity and reach. With a plethora of sequels and organized retail emerging in India, the merchandising and gaming markets if not tapped into will be a missed opportunity. Licensed merchandise today is inhibited by the lack of an appropriate retailing infrastructure – this segment will only grow once modern retail formats grow. With the government approving multi-brand retail in India in 2012, the industry is indeed hopeful that this revenue stream can finally fulfill its promise.

Content syndication:
Sharing of intellectual property rights has not yet materialized significantly in India. While a first of its kind deal has been signed between Dutch entertainment firm Endemol and motion pictures maker Eros International to share and develop properties based on their intellectual property rights, the industry needs to actively explore this avenue to open a new stream of revenues.

Pay per view (PPV):
With the net DTH subscriber base growing at 18.8 percent in 2012, pay per view is expected to grow robustly over the years. The phase 2 of TV digitization is set to cover 38 cities by March 2013 (although with likely delays) and phase 3 aims to cover smaller towns and cities by November 2013. There will be considerable monetization potential for regional pay per view services. PPV will also aid the airing of parallel cinema movies, which often struggle to find slots in the exhibition spaces. With the emergence of new talented directors producing movies with strong storyline and inclination of Indian audience towards good quality content, PPV will be a strong driver for indie cinema.

Key themes
Penetration into tier II and tier III markets
Digitization has changed the face of the movie industry in a number of ways, one being simultaneous release of Indian movies on several screens, including those in tier II and tier III cities. Amongst those trying to cash in on this opportunity are movie exhibitors who now see tier II and tier III cities as potential drivers of growth. Even though Delhi and Mumbai contribute between 55-60 percent of the revenues of a big budget film, multiplex expansion in these regions is rapidly drying out. In 2012, there were no new screen additions in Mumbai and Delhi.

Multipleplexes like PVR Cinemas, Inox Movies and Reliance Big Cinema are rapidly expanding their footprint in towns such as Latur, Darjeeling, Raipur etc. Cinepolis plans to expand its footprint in the south by opening 11 screens in Kochi in 2013. It plans to open 500 screens across the country by 2016. Multiplex chain INOX is planning to launch around 50 screens by the end of 2013, entering new territories such as Madurai, Bhopal, Surat, Bhubaneshwar, Kharghar and Udaipur. PPV Talkies, PVR Cinemas’ no-frills cinemas for consumers in tier II cities, is looking to add 50 more screens for the Talkies model in the next three years. SRS Cinemas is also looking to add screens to cities such as Bhiwadi, Shilma and Lucknow. With lower real estate prices in smaller towns and the leeway to launch a no-frills cinema, the exhibitors are able to considerably bring down the cost per screen. Keeping in mind demographics of these cities, the prices of tickets are lower than those charged by multiplexes in the metros. For instance, while a regular PVR ticket price ranges from INR 100-275 in Delhi/NCR, it ranges from INR 40-90 in Ujjain and INR 50-150 in Bilaspur.

While the domestic consumption has maintained, experimental cinema has started being accepted in unexpected markets. We were surprised to see the success of Hollywood movies in tier 2 markets like Nanded, Bilaspur and Ujjain. 3D demand is also on a rise as quality of content is improving. We see increased uptake of 3D content even in non-metros.

L&M and Gaming:...
Use of social media in pre-release marketing strategies
With Social Media grabbing about 25 percent of the internet surfing time in India, this medium is rather hard to ignore. India has more than 70 million social network surfers – a potentially large platform for digital marketing. These consumers are already being targeted by the film industry. For example, Yash Chopra’s Jab Tak Hai Jaan trailer received 30,000 likes in the first week of its release on YouTube, breaking records worldwide. Movies such as Anurag Kashyap’s Gangs of Wasseypur utilized social media very effectively to create attention. The sequel was marketed through a pseudo election campaign between the sequel’s prime characters. The election was staged on Twitter. The current spend on digital marketing platforms such as Facebook and YouTube is approximately INR 1.8 million and will rise significantly in the near future.

Disney has demonstrated how to leverage social media on a large scale. It engages with millions of consumers through more than 1000 social media accounts. It has pages and accounts across Facebook, Twitter, LinkedIn, and YouTube for every movie it makes, for all its theme parks and for Disney merchandise. The company has more than 3.5 million followers online. - The goal is to recreate the Disney magic online.

Consolidation in exhibition industry

While the industry will see further consolidation, the industry needs at least 30,000 more screens. With screen density of only 8 per million as compared to Indonesia (141), US (117), China (31) and Brazil (10), India has a long way to go.

- Kapil Agarwal
Joint Managing Director, UFO Moviez India Ltd.

The film exhibition business has evolved considerably in the last few years with the multiplexes growing steadily and capturing the attention of the Indian audience in a significant way. As the industry attempts to fix the severely underpenetrated exhibition market, competition between multiplex chains has led to aggressive expansion efforts. Growth has been both organic as well as inorganic. PVR’s acquisition of Cinemax in November 2012 upped PVR’s rank, establishing it as the number one company in the film exhibition business in terms of screen count. Post the acquisition, PVR possesses 351 screens across 85 properties. Cinepolis, the world’s 4th largest exhibition company is also looking to expand both organically as well as via acquisition. A concerted effort is underway by the industry to tap into the vast opportunity presented by India’s underpenetrated movie exhibition market.

- Utpal Acharya
Head of Distribution and Acquisition, Reliance Entertainment

PVR’s screen evolution – a mix of organic and inorganic growth

The future of Indian film industry lies in consolidation and continuous simulated, synergetic and symbiotic growth. Consolidation has already begun in the exhibition space and Indian market is going to witness a maximum of three major player in this segment. The exhibitors (read large multiplex operators) will start getting into content creation and acquisitions. Indian studios/production houses have already started entering into multi-level tie-ups. We will see many GECs and movie channels enter into the movie production purely due to their contribution in this space and sheer need for content at a reasonable price. Overall I can say that, in 100th year Indian cinema is finally heading for a gradual, cumulative growth which is going to continue at least for the next two decades.

- Utpal Acharya
Head of Distribution and Acquisition, Reliance Entertainment

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43. ‘Facebook has 71 million active users in India, 50 million duplicate accounts worldwide’, Gadgets. ndtv.com, February 2013
45. Industry discussions conducted by KPMG in India
47. PVR Limited, Investor Presentation, Feb 2013
Digitization spreads its wings

Digitization has changed the landscape of Indian cinema in several ways. Widespread release of movies across several screens, curtailment of piracy, reduced cost of prints, lower storage and maintenance expenditure and release of small budget films in a cost effective manner are some advantages offered by this technology. However, digital prints cost less, amounting to considerable savings for producers and distributors. Dabangg 2 was released on 3,500 screens, a number previously considered unrealistic before the advent of digitization. The exhibition sector is expected to achieve 100 percent digitization in the next two years. However, the cost of installing a digital system is high with installation costs of non DCI compliant systems ranging between INR 1-1.2 million and cost of DCI compliant systems costing INR 3-4 million. Moreover, the entire value chain of films industry has been digitized except production of films where 80 percent of the movies are still produced in analog format.

Digitization has spread its wings across several films, allowing for wider release and cost-effective production.

At INOX and FAME, we believe that adopting the latest technology is mandatory to bring in the best movie viewing experience to our guests. Today, we take pride in converting all our screens to DCI Compliant 2k Digital technology. This has helped in bringing state of art technologies like 3D to smaller cities. In addition to this, all these screens are now controlled by our Network Operations Centre (NOC). The installation of the NOC has helped us in monitoring our content and observe all screens across all cities we are present in.

- Alok Tandon
Chief Executive Officer, Inox Leisure Ltd.

The power of a billion: Realizing the Indian dream

The march of digitization

<table>
<thead>
<tr>
<th>FY</th>
<th>Movie</th>
<th>Digital Prints*</th>
<th>Analog Prints*</th>
<th>Total Prints*</th>
<th>Digital as % of Total Prints</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>Jab Tak Hai Jaan</td>
<td>1725</td>
<td>221</td>
<td>1946</td>
<td>89%</td>
</tr>
<tr>
<td></td>
<td>Ek Tha Tiger</td>
<td>1750</td>
<td>351</td>
<td>2101</td>
<td>83%</td>
</tr>
<tr>
<td></td>
<td>Don 2 - 2D/3D</td>
<td>1871</td>
<td>479</td>
<td>2350</td>
<td>80%</td>
</tr>
<tr>
<td></td>
<td>Dabangg2</td>
<td>2363</td>
<td>275</td>
<td>2638</td>
<td>90%</td>
</tr>
<tr>
<td></td>
<td>Rowdy Rathore</td>
<td>1927</td>
<td>373</td>
<td>2300</td>
<td>84%</td>
</tr>
<tr>
<td></td>
<td>Ra.One -2D/3D</td>
<td>1900</td>
<td>600</td>
<td>2500</td>
<td>76%</td>
</tr>
<tr>
<td>2011-12</td>
<td>Aagneyath</td>
<td>1669</td>
<td>416</td>
<td>2085</td>
<td>80%</td>
</tr>
<tr>
<td></td>
<td>Bodyguard</td>
<td>1480</td>
<td>585</td>
<td>2065</td>
<td>72%</td>
</tr>
<tr>
<td></td>
<td>The Dirty Picture</td>
<td>1613</td>
<td>350</td>
<td>1963</td>
<td>82%</td>
</tr>
<tr>
<td></td>
<td>Players</td>
<td>1500</td>
<td>361</td>
<td>1861</td>
<td>81%</td>
</tr>
<tr>
<td></td>
<td>Tees Maar Khan</td>
<td>1210</td>
<td>490</td>
<td>1700</td>
<td>71%</td>
</tr>
<tr>
<td></td>
<td>Dabangg</td>
<td>985</td>
<td>613</td>
<td>1598</td>
<td>62%</td>
</tr>
<tr>
<td></td>
<td>Housefull</td>
<td>930</td>
<td>550</td>
<td>1480</td>
<td>63%</td>
</tr>
<tr>
<td></td>
<td>Rajneeti</td>
<td>1014</td>
<td>537</td>
<td>1551</td>
<td>65%</td>
</tr>
<tr>
<td></td>
<td>Kites</td>
<td>876</td>
<td>618</td>
<td>1494</td>
<td>59%</td>
</tr>
</tbody>
</table>

Source: UFO Moviez India Ltd market intelligence and Company records
Note: * First week data of domestic theatrical release.

48. ‘Salman Khan’s Dabangg 2 gets fantastic opening at Box Office’, OneIndia Entertainment, January 2013
49. Industry discussions conducted by KPMG in India
Parallel cinema slowly and steadily gaining ground

Cinemas in India may be segregated into 3 genres: mainstream, non-mainstream and art house movies. 2012 saw mainstream cinema grow even bigger. The year also saw the emergence of non-mainstream cinema with movies such as ‘English Vinglish’ and ‘Kahaani’ gaining sufficient traction. Anurag Kashyap’s ‘Gangs of Wasseypur (I & II)’ garnered revenues of INR 470 million, an amount unheard of for this category of films. Art house cinema (or independent cinema) is yet to establish its foothold in the Indian industry. Produced on a limited budget of INR 20-50 million, art house films struggle to promote themselves and claim exhibition space. Notwithstanding, some of these films are claiming considerable international fame. Apart from being honored as the Best Punjabi Language Film at the 59th National Film Awards and winning the Golden Peacock award for best film at the 43rd International Film Festival of India (IFFI) 2012 in Panaji, Anhe Ghode Da Daan also received global acclaim. The film won the Special Jury Mention and the Black Pearl Trophy at the Abu Dhabi Film Festival. It was also showcased at the 55th British Film Institute, London Film Festival, and the Busan International Film Festival. International co-productions have been one of the primary enablers of this genre of cinema. Indie cinema, however, is in need of organized funding with more government, access to favourable slots in exhibition space and the support of an established art house circuit in India.

- Kamal Jain
Group Chief Financial Officer - India Eros International Media Limited

There is a global appreciation of India’s diverse and vibrant film culture and this is evident from the increasing international collaborations on Indian Stories. Films Like Qissa (Punjabi), Dabba (Hindi), Arunoday (Marathi), Chauti Koot (Punjabi) are all international co-productions with NFDC and it is interesting to note that we are leveraging the various international treaties on audio-visual co-productions signed by the Government of India to achieve such collaborations. Further, the attachment of International Sales Agent gives such films a worldwide footprint. These partnerships which are based on the spirit of collaboration, make it possible to think local and act global, thus promoting the cinemas of India at both within India and abroad.

- Vikramjit Roy
General Manager,
NFDC (India)

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50. Box Office India
51. Industry discussions conducted by KPMG in India
52. 'Punjabi film Anhey Ghode Da Daan wins Golden Peacock at IFFI', Movies.ndtv.com, November 2012
53. 'Bite of real cinema', Tribuneindia.com, January 2012
Key industry challenges

Piracy

The issue of piracy remains a critical issue for the Indian film industry. However, there are some changes that have helped the industry battle this issue aggressively.

A few years ago, a film reached television and home video only after six months of its theatrical release. Pirates could take advantage of this delay, and would flood the market with pirated DVDs/VCDs. Currently, the theatre-to-television window has been reduced to less than 3 months. The TV premier of ‘EK Tha Tiger’ happened only 3 months after its theatrical release, while it happened in only 2 months for ‘Son of Sardar’. This has had some effect on the business of pirated DVDs.

Also, with the shift in consumer preference to the Internet, the business of piracy has also transformed. The physical format (VCDs and DVDs) is disappearing and pirates are therefore shifting online.

However, piracy continues to plague the industry. Indeed, camcording incidents in theatres have significantly increased in recent times. During January to September 2012, the Motion Pictures Association (MPA) had identified 53 forensic matches to camcording incidents in India, a 77 percent increase as compared to 30 camcording incidents for the same period in 2011. The audit report of first nine months of 2012 revealed that India accounted for 54 percent of all forensic matches in the Asia-Pacific region.

Content theft at source, through camcording in cinemas is an organised crime and remains the biggest challenge for us and the industry to combat. We need to build adequate deterrents to combat piracy, starting with strengthening laws and building consumer awareness. Government and stakeholders need to work together to build a robust regulatory environment with specific and strong legislation, which will provide law enforcement the tools to arrest and prosecute criminals.

- Uday Singh
Managing Director
Motion Picture Association, India

As per the Motion Pictures Distributors Association (MPDA), India is among the top nations in the world in terms of video piracy. MPDA India estimates that the loss due to piracy in 2012 was USD 1.1 billion, an increase of 15.79 percent from that in 2008.

In this context, it is important that industries collaborate and create efficient mechanisms for content protection. With cooperation from the government and internet service providers, site-blocking measures can combat online piracy. The initiatives of Telugu film industry are a significant step in that direction.

- Andhra Pradesh Film Chamber of Commerce (APFCC) and MPDA have formed an alliance to promote content protection. The alliance is working on initiatives to tackle camcording, content theft online and on cable as well as promote public awareness on the importance of content protection. In June 2012, a joint operation by MPDA and APFCC revealed two major organized criminal syndicates that cost the film industry about INR 250 million in lost revenues.

- The Anti Video Piracy Cell (AVPC) of the APFCC has also designed a web application to detect and report online piracy. The application which is compatible with all smartphones has educative information about content piracy (both online and pirated CDs). People coming across pirated material being sold on the streets or video libraries, can leverage this application to alert the AVPC instantly through their mobile phones. Such efforts will be recognized and rewarded by the industry.

While the Government and other affiliated agencies have made progress in developing response procedures to copyright infringement, strict enforcement is lacking. In developed economies, piracy is taken very seriously, with people found guilty of such infringement subjected to criminal charges.

Moreover, a major deterrent to piracy will come only from a change in mindset on the part of consumers.

Under-penetration of theatre screens

While India leads world averages in terms of the number of films produced each year and attendance, the under-penetration of theatre screens in India remains the biggest challenge for the industry. There are just 8 screens per million people, unlike in the United States, where there are 117 per million.

Content theft at source, through camcording in cinemas is an organised crime and remains the biggest challenge for us and the industry to combat. We need to build adequate deterrents to combat piracy, starting with strengthening laws and building consumer awareness. Government and stakeholders need to work together to build a robust regulatory environment with specific and strong legislation, which will provide law enforcement the tools to arrest and prosecute criminals.

We are still severely under-penetrated in terms of number of screens per capita, especially considering the number of movies we make each year. The industry should look at doubling the number of screens in the next 10 years. Only once we have enough screens can the industry truly take advantage of the content democratization that has been enabled by digital, both in production and exhibition.

- Senthil Kumar
Co-Founder
Real Image

54. Industry discussions conducted by KPMG in India
55. ‘Bollywood no longer talks of piracy; but ignoring dangers of online can be costly’, The Economic Times, February 2013
56. ‘A new app to curb online piracy’, Times of India, March 2012
57. ‘Show time: Growth in multiplexes to be be driven by malls’, Business Today, May 2012
The number of screens is highly correlated with commercial real estate development in the country, which is currently challenged due to the overall economic slowdown. At many places urban land supply is controlled by state-owned development bodies and housing boards, leaving limited space for development of malls. Restricted land supply also leads to high real estate prices. Moreover, the approval process for a multiplex is very slow and cumbersome, as it is largely controlled by the local municipalities. Obtaining a theatre operating license can take as long as 6 months in certain cases.  

Regulatory hurdles  

**Extreme Taxation**  
High entertainment tax acts as a major impediment to the growth of exhibition industry, as the overall tax implication is as high as 40-50 percent in states like Maharashtra, Uttar Pradesh, Bihar and Karnataka. Such high rates of entertainment tax on box office admissions seem irrational considering that films are available on other platforms like television and Internet platforms for free or very little cost. Such regulations have also led to many corrupt trade practices. To save on entertainment tax, some theatre owners under-declare occupancy rates. It is estimated that approximately 25-30 percent of the ticket sales is under reported by these theatres. Hence, it is imperative that the entertainment tax structure across the country be rationalized by bringing down rates of entertainment taxes.

Lack of mall readiness is slowing down the screen expansions. Last year approximately 30 percent of the plans have got delayed.  

- Sanjay Gaikwad  
Chief Executive Officer and Managing Director,  
UFO Moviez India Ltd  

58 Industry discussions conducted by KPMG in India
<table>
<thead>
<tr>
<th>State</th>
<th>Entertainment Tax (as percentage of ticket price)</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maharashtra</td>
<td>45% for tickets under INR250; 49.5% for tickets priced at INR251-350; 51.75% for tickets at INR351-500; 54% for tickets INR501 and above</td>
<td>Marathi films are tax free</td>
</tr>
<tr>
<td>Bihar</td>
<td>50%</td>
<td></td>
</tr>
<tr>
<td>Karnataka</td>
<td>40%</td>
<td>Kannada films are tax free</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>30% for ticket up to INR10; 35% for tickets between INR 10-30; 40% for tickets exceeding INR30</td>
<td></td>
</tr>
<tr>
<td>West Bengal</td>
<td>30%</td>
<td>2% for films in Bengali, Santhali and Nepali language</td>
</tr>
<tr>
<td>Haryana</td>
<td>30%</td>
<td></td>
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<tr>
<td>Kerala</td>
<td>30%</td>
<td></td>
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<tr>
<td>Orissa</td>
<td>25%</td>
<td></td>
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<tr>
<td>Gujarat</td>
<td>20%</td>
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</tr>
<tr>
<td>Delhi</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>Andhra Pradesh</td>
<td>20%</td>
<td>15% for Telugu films</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td>15%</td>
<td>Tamil language films are tax free</td>
</tr>
<tr>
<td>Assam</td>
<td>15% for tickets less than INR 20; 20% for tickets more than INR 20</td>
<td></td>
</tr>
<tr>
<td>Jharkhand</td>
<td>Entertainment Tax exempted for the period April 2012 to March 2013</td>
<td>Earlier it was 110%</td>
</tr>
<tr>
<td>Punjab</td>
<td>Tax Free</td>
<td></td>
</tr>
<tr>
<td>Jammu and Kashmir</td>
<td>Tax Free</td>
<td></td>
</tr>
<tr>
<td>Rajasthan</td>
<td>Tax Free</td>
<td></td>
</tr>
<tr>
<td>Himachal Pradesh</td>
<td>Tax Free</td>
<td></td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td>20%</td>
<td></td>
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</tbody>
</table>

Film actors, artists, technicians, distributors (for non-theatrical rights) etc. are liable to pay service tax thereby increasing the costs of movie making. Service tax on lease of immovable property is another financial burden for exhibitors. Exhibitors for cinematographic films are not liable to service tax. Accordingly, taxes paid on input side including service tax on immovable property becomes a cost for exhibitors and is not creditable.

Separately, it will be useful to provide tax holiday benefits for infrastructural development on setting up cineplexes in tier II and tier III cities to incentivize the sector and boost growth and development of such cities.

Ticket price controls

Ticket pricing in many states is regulated by state governments. In Tamil Nadu, single screen theatres are allowed to charge a maximum of INR 50 per ticket and multiplexes can charge a maximum of INR 120 per ticket depending on the set of facilities.

In Andhra Pradesh, a proposal to hike cinema ticket rates in single screens from INR 10 to INR 25 and INR 60 to INR 75 has currently been put on hold. The industry expects the governments to relax regulations on fixed number of shows and cap on ticket pricing and let the exhibitors decide on the admission rates according to demand. Flexible pricing will also help to reduce black-marketing of tickets since theatre owners will have freedom to revise the rates according to the audience inflow.

Themes of the future

Upcoming trends in film financing

The advent of organized funding

Sourcing of film financing has been largely unorganized due to high risk nature of the business. However, with scaling up of revenues, Indian films are increasingly attracting private equity / venture capital funding from institutions directly. Cinema Capital, a venture capital fund focused on the film and entertainment sector has recently funded films like ‘Heroine’, ‘Bol Bachchan’, ‘Chakravyuh’, and ‘Dabangg2’. Highground Enterprises, Magus Entertainment and Springboard Ventures are some of the other venture capital firms investing in Indian films. After a lull in interest from film funds and other venture funds’ interest in the film business, 2012 saw a revival of interest.

DAR Media Private Limited, a Mumbai-based film production and distribution company, and MentorCap Management Private Limited, an investment advisory firm, have got an INR 1 billion film fund approved under the new alternative investment funds (AIF) guidelines laid down by Securities and Exchange Board of India (SEBI). AIFs are funds that pool local and overseas capital and invest according to a stated policy. The DAR MentorCap Film Fund will identify film projects with a budget of between INR4 crores and INR30 crores, and find a pool of investors to back them.

Bani Banerjee, a veteran with The Chatterjee Group (TCG), is also launching a private equity fund worth INR 2 billion to fund film and entertainment projects. This indicates the growth of organized film financing for the film industry, and is expected to sustain and grow in the years ahead.

59. Proposal to hike cinema ticket rates put on hold, The Hindu, January 17, 2013
61. DAR MentorCap gets Sebi approval for Rs 1 bn film fund, Indiantelevision.com, November 2012
62. ‘DAR Media, MentorCap launch Rs.100 cr film fund’, Livemint.com, October 2012
63. ‘TCG veteran to launch PE funds in realty, film’, Business Standard, January 2013

- Kulmeet Makkar
Chief Executive Officer,
The Film & Television Producers Guild of India
Indian media industry: Growth story unfolds

Mr. Karan Ahluwalia, EVP, Media & Entertainment, Yes Bank

The Indian M&E industry has seen a metamorphosis over the past two decades and is at an inflection point towards an accelerated growth trajectory to reach USD 30bn by 2020. What really makes the Indian M&E industry a potential goldmine? Currently it is the heightened consumption of media in Tier II and III cities, sustained growth of regional media, impact of positive regulatory changes, digitization and the rapidly accelerating new media space.

The face of the entertainment industry has changed. The industry has reinvented itself from a private community dominated by a privileged few to an organized and corporatized industry with lower entry barriers. Growing exposure to various organized providers of capital such as banks, film funds, development capital, PE and capital market are driving several industry players to restructure and transform from a family run structure into corporate enterprises. The avenues and challenges of film financing have also evolved, with reliance on unorganized funding sources (such as family and friends, moneylenders and other non conventional sources) in the 1980’s giving way to an increasing role of organized funding sources in the 1990’s when capital markets developed and firms began raising funds through equity markets. Additionally, the ease of listing on London’s AIM and raising funds through the FCCB route motivated various firms to utilize international capital markets. The last few years have witnessed the emergence of private equity as a mode of financing for the M&E industry. The altered economic backdrop created “opportunities in adversity” for private equity and strategic buyers to acquire assets at attractive valuations with several notable deals in the M&E segment.

It has always been difficult for filmmakers and financiers to predict the success of films. From a financial institution’s perspective, the fragmented structure of the production segment needs to be addressed since a credible track record, sound balance sheet and good corporate governance are prerequisites for organized funding. However, in the recent past, increased efficiencies, transparency, track record, strong budgetary controls & timelines and reduced distribution risk have enabled content creators to cover their working capital requirements through Financial Institutions, either in the form of Single/Slate financing or discounting various deals involving the sale of IP distribution rights. Other methods of raising capital such as crowd financing, film funds, P&A financing further reflect the rising maturity of the Indian film industry when it comes to structured methods of financing. Yes Bank has constantly demonstrated its commitment to this sunrise sector by engaging in key structured transactions for a range of M&E enterprises in this segment.

Today, the need for diversification & linear integration has led to the emergence of media conglomerates, strategic joint ventures as well as alliances that call for pooling of technology, capital and talent to jointly create and exploit IP rights. Co-productions and the presale of IP rights have become the new modus operandi for funding film productions involving local and global major studios. Various overseas studios have been actively participating in the Indian industry with the aim of opening newer avenues for expansion; given the stagnation in their mature home markets. These studios are using their strong international network to distribute movies around the globe. Leading US studios are going a step further and are now seeking to capture a share of the commercially viable Indian regional film industry. Remakes, a phenomenon commonly observed in Bollywood, dates back to the inception of the Indian film industry. Until recently, the South Indian film industry has traditionally been the primary source of content for Bollywood remakes. However, there have been several recent instances where Hindi movies are being remade to cater to regional audiences. Another trend is that movies are being made based on bestselling novels. The film distribution landscape is witnessing a shift from movies being distributed not only the traditional international markets such as the US, UK, Middle East Australia and SAARC countries but also to many non traditional markets such as Morocco, Turkey, Africa and Vietnam, among others.

Indian production houses are gradually migrating and adopting global best practices in order to gain traction as well as build scale, this will enable them to access innovative and structured financing products such as securitization of IP receivables and gap funding to name a few. However, government deregulation, prudent structuring of the entire value chain and greater participation by stakeholders will further accelerate growth in the industry and help bridge the gap vis-à-vis international markets.

Unless otherwise noted, all information included in this column/article was provided by Karan Ahluwalia. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India.
Independent filmmakers embrace crowd funding

Crowd funding (also called crowd financing, equity crowd funding, or hyper funding) is a financing model where a project is funded by small contributions from a large number of individuals or communities, usually through Internet portals or social networks, rather than seeking substantial sums from a small number of investors. Participants or sponsors of such initiatives may receive some reward in return (in cash or kind) based on their contribution. Crowd funding for movies is a trend that is already popular in many countries across the world and is gradually being adopted by independent filmmakers in India who find it difficult to source funds for their films.

Crowd-funding vs Crowd-investing

Crowd-funding is when individuals fund a movie or any project in exchange for tangible and intangible rewards and incentives, for example DVDs, tickets or VIP passes, name on credits, music lessons, autographed merchandise etc. There is no profit sharing involved. On the other hand, crowd-financing or investing is when the investors fund money for financial gain – for example an equity or profit sharing in the venture or loan payback with interest.

Case Study – ‘I AM’

‘I Am’, the National Award winning film has given a boost to the idea of crowd funding of movies. Being a film that dealt controversial subject matter, it was not able to get backing of any studio. Therefore it turned towards the crowd sourcing model for funds. The film aggressively used social media campaigning to attract investors. I Am’s fund-raising campaign used more than 50 user-generated videos. The director provided regular updates on the project and spread high awareness of the legal issues. Around 400 individuals – both local and foreign contributed to the project. All of them were acknowledged as co-producers in the movie as well as were part of the profit sharing process. The total amount pooled in for the movie was INR 30 million.

After successfully raising funds from the general public for ‘I Am’, its producer-director duo Sanjay Suri and Onir again took the crowd-funding route for their upcoming film ‘Chauranga’.

Another example of crowd funding is a project by two filmmakers from Kolkata on independent filmmaking. They are seeking contribution from people through crowd funding platforms – Wishberry and Indiegogo. Though people are welcomed to pay more, but one could become a producer by paying just a rupee. That is why the film makers have named it as ‘The One Rupee Movie’. The project was able to collect INR 153,000 as of 21 December.

Advantages

- Risk Reduction
  - Risk of investment is low as the loss is divided among a larger group that is involved in the funding.

Disadvantages

- Limitation on amount of funding
  - Only works for small budget films.
  - There is a limitation of funds pooled in for finance.

- Transparency in financial dealings
  - There is no interference in work from production houses.

- Difficult to attract foreign investors
  - Only a good script with a universal appeal is able to attract investors.

- Risk of concept leakage
  - Risk of film’s concept being copied as some parts of the movie need to be disclosed to the masses to attract investors.

64. ‘The growing trend of crowd funding’, Times of India, October 2012
65. ‘Crowd funding set for Indian boom’, Film Business Asia, March 2013
66. ‘Crowd funding: An emerging trend in Bollywood’, Times of India, March 2012
67. ‘The One Rupee Film Project’, Lifer.com, December 2012
Co-production treaties and international partnerships

Hollywood studios embrace Indian co-productions

India is emerging as a M&E hot spot for international studios. Realizing the growth prospect Hollywood studios such as Disney, Fox, Sony and Warner Brothers have entered into co-production deals and distribution deals with domestic production houses. Fox Star co-produced five films in 2012—‘Bol Bachchan’, ‘Jannat 2’, ‘Raaz 3’, ‘London Paris New York’ and ‘Ekk Deewana Tha’. Fox Star Hindi film line-up for 2013 includes Jolly LLB (co-production with Subhash Kapoor) and Murder 3 (a co-production with Mahesh and Mukesh Bhatt’s Vishesh Films). Viacom18 now distributes Paramount Pictures films in India, and is also producing Hindi films.

Hollywood studios performance 2012

<table>
<thead>
<tr>
<th>Studio</th>
<th>Number of releases</th>
<th>Gross Box Office collections</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sony Pix</td>
<td>12</td>
<td>INR 2.17 billion</td>
</tr>
<tr>
<td>Disney</td>
<td>5</td>
<td>INR 0.91 billion</td>
</tr>
<tr>
<td>Fox Star</td>
<td>11</td>
<td>INR 1.65 billion</td>
</tr>
<tr>
<td>Warner Bros</td>
<td>15</td>
<td>INR 1.00 billion</td>
</tr>
</tbody>
</table>

Source: Life of Pi, Skyfall mark Hollywood’s increased box office share in India, The Economic Times, February 2013

Co-productions between actors and studios

Many actor-turned producers are tying up with large studios to share the cost of production and mitigate risk. For example, Akshay Kumar’s Grazing Goat Pictures partnered with Viacom18 Motion Pictures to co-produce ‘Oh My God’. Saif Ali Khan’s Illuminati Films also co-produced two films – ‘Cocktail’ and ‘Agent Vinod’ with Eros International Media. This works out to be a win-win situation for both the actor-producer and studios. Instead of charging acting fees, the actor-producer takes a pre-agreed share of profits. So, if a film earns profits, both the actor and the studio gain, and if it fails to perform well, the studio at least saves on the hefty cost of a star lead-actor.

Co-production treaties among nations

While India already had co-production treaties with Britain, Brazil, France, Germany, Italy and New Zealand, it signed co-production agreements with Poland and Spain in 2012 for audio-visual co-productions. Such co-productions help Indian film producers to raise the much-needed funds for film production. Onir and Sanjay Suri’s upcoming film ‘Chauranga’ sought international assistance from Europe. It received an investment of INR 1 million from Sweden’s Göteborg International Film Festival for developing the screenplay; and INR 15 million from German production house Pong for post-production work. This is not the only one in league. The script of Anurag Kashyap Films’ upcoming release ‘Monsoon Shootout’ was developed by the British Film Institute which involved an investment of INR 5 million. The satellite rights for the film were pre-sold to French broadcaster Arte France for INR 15 million, and international distribution rights to film sales company Fortissimo Films. Dutch private equity investor Pardesi Films also invested in the project.

Foreign subsidies

Many countries offer incentives on shooting in their land. This in turn promotes tourism and raises the tourist traffic into their country. Various tourism boards are increasingly pitching for locations to producers in India by offering subsidies, which can be as high as 40 percent of the cost of a film.

These incentives range from tax rebates, free stays, visa facilitation, and in certain cases, can also share the cost of production. Cashing on the opportunity, Indian film makers are now trying to film in exotic locations. The Fiji government offers 47 percent tax rebate to fully funded overseas films being shot there. Films such as ‘3G’ and Anubhav Sinha’s ‘Warning’ have been recently filmed in Fiji. Lately, the German Federal Film Fund (DFF) has allowed for 20 percent production subsidy on VFX (visual effects) works done in Germany. South Africa offers 30 percent and Australia gives about 40 percent tax concession in Value Added Tax (VAT) refunds. Czech Republic offers 20 percent rebate to companies from abroad who employ local talent. Further, Spain offers up to 20 percent rebate to filmmakers on their payments. Following the success of Bollywood film ‘Zindagi Na Milegi Dobara’ which was filmed partly in Spain, the influx of Indian tourists to Spain has increased tremendously. There was a 65 percent increase in the number of visas issued for Indian tourists to Spain till August 2012.

<table>
<thead>
<tr>
<th>Production houses and studios</th>
<th>Co-Productions (2012)</th>
</tr>
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<tbody>
<tr>
<td>Grazing Goat Pictures and Viacom18 Motion Pictures</td>
<td>Oh My God</td>
</tr>
<tr>
<td>Ajay Devgn Films and Viacom18 Motion Pictures</td>
<td>Son of Sardaar</td>
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<tr>
<td>Illuminati Films and Eros International Media</td>
<td>Agent Vinod</td>
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<tr>
<td>Ajay Devgn Films and Shree Ashtavinayak Cinevision</td>
<td>Bol Bachchan</td>
</tr>
<tr>
<td>Akshay Kumar’s Hari Om Entertainment Company, Eros International and H.R. Muskik</td>
<td>Khiladi 786</td>
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<tr>
<td>Aamir Khan Productions and Excel Entertainment</td>
<td>Talaash</td>
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Skill Development

Both the government and industry have recognized the need for skill development programs for the film industry. Going forward the industry is expected to add programs and certification courses which contribute towards the honing skill of the sector.
As an industry, our level of creative output can be raised significantly if there are more high quality well-run institutions focused on the cinematic arts. There is a dearth of formal training in most creative disciplines of filmmaking such as writing, editing, sound, production design, visual effects and so on. We have no dearth of talented individuals who are forced to learn completely on the job due to the lack of any structured training facilities for them to avail of. They are like diamonds in the rough, who with the help of some polishing and finishing can help the industry shine much brighter."

- Siddharth Roy Kapur
  Managing Director
  Studios, Disney UTV

Media and Entertainment Skill Council:
The government of India has identified M&E as one of the many industries which require training institutes. Accordingly under the National Skill Development Policy 2009, National Skill Development Council (NSDC) has constituted a Media and Entertainment Skill Council (MESC), which will focus on the television, print, films, radio, animation, gaming and advertising industries. Institutes focusing on technicians, stuntmen, spot boys and others employed in film industries will be set up. The skills council will be headed by actor Kamal Hassan. MESC will act as an accreditation body for the training programmes. It will work closely with NSDC to train more than 11.7 million people over the next 10 years in skills such as lighting, scriptwriting, electric work and tailoring.

The Ministry of Human Resource and Development in Government of India and the State Government Education Ministries need to focus on education in the media and entertainment sector. United States has over 300 media universities and schools offering Degree or Master Degree and even doctorates. Right now media schools in India are only eligible to offer diplomas. Why can’t they have degree granting status? It will go a long way in not only attracting talented students but also boost the image of vocational education in the country.

- Ravi Gupta
  Dean
  Whistling Woods International

First school for 'Film Curation':
Film Curation, also known as ‘film programming,’ pertains to archiving, documenting, researching, contextualising and cataloguing films. It is now emerging as a field in film studies as there is a demand for trained professionals who have cross-disciplined knowledge of various aspects of cinema and who can select films for a festival in an informed manner. As a first step towards this, the Film and Television Institute of India (FTII) organized a four-day course on film curation and is also planning to organize it every year. In addition, Dr Ambedkar University in Delhi has introduced a full-time course aimed at creating professionally-trained curators.

Multiplexes – slicing the audience and creating service differentiation

Large formats:
After upgrading from single theatres to a multiplex environment, moviegoers in India can now advance to even larger cinema watching experience. International exhibitor, Cinépolis, will soon open its large multiplex format called Megaplex (mega multiplex) in India. Large format megaplexes allow for more titles to be played and for titles to stay in theatre for a longer first run. The 15-screen megaplex which will be launched in Pune is designed to have 3 Cinépolis VIP screens (a luxurious and ultra premium cinema experience) and 12 regular screens. The megaplex will run 75 shows per day or 1 new show every 10 minutes offering patrons with unprecedented choice of film titles and show timings. Average seating capacity is 180 seats. Cinépolis is opening more such megaplexes with 14 screens in Thane, 11 screens in Kochi and 10 screens in Ghaziabad soon. PVR also has an 11-screen multiplex in Bangalore, 9 screens each in Mumbai, Chandigarh and Kochi. However, not many exhibitors have invested in the megaplex format in India so far as it is very expensive to build and requires large investment due to high land cost and rentals. Also, industry is of the view that a 15-screen theatre would do well only in cities with multiple cultures or market for regional language films.

Luxury entertainment:
Movie goers have begun to appreciate luxury in entertainment. They are increasingly willing to pay INR700-INR1000 for a PVR’s Director Cut ticket or Big Cinema’s Ebony Lounge, as it offers a differentiated experience to them. It is not merely a luxury movie theatre, but is a complete package with grand auditoriums with 180 degree reclining chairs, a cafe, a restaurant-cum-bar, a lounge, a patisserie and a film-themed book shop. PVR has witnessed an encouraging response from patrons in Delhi region, and PVR plans to take this model to other key metro cities as well.

Tapping the Bottom of the Pyramid through ‘Valueplexes’:
As with many industries, the film industry has also recognized the immense potential posed by the audience which lies at the bottom of the pyramid. Almost 70 percent of India’s population lives in rural areas indicating a large untapped market. Rural incomes are growing faster than urban incomes, with the low income group expected to shrink significantly, middle income group likely to go up to 500 million from the current 350 million people and the rich segment to expand to 150 million from 50 million. The industry has begun to recognize the vast potential of this segment. United MediaWorks (UMW), for instance, has started Nukkad Entertainment, a chain of small-sized digital cinema halls targeting the lower-middle and lower-income groups.

80. Census 2011
81. Preeti Mehra, “The rural income pyramid is morphing into a diamond”, Business Line, January 2013
82. ‘Dem of ‘paisa vasool’ video parlours’ Business Standard, January 2013

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Nukkad Entertainment

Nukkad Entertainment (‘Nukkad’), an initiative started by United Media Works (UMW), is a chain of small-sized digital cinema halls targeting the lower middle & lower income groups of the country. It offers easy and legitimate access of film content to under-served markets.

- Easy access: Availability of cinema halls in remote areas
- Legitimate access: Standard, legal and good quality viewing experience

Nukkad’s aim is to enable the lower segments of society to gain access to legal content, hence limiting their need to indulge in piracy. The ticket price ranges from INR 30-50 and average capacity of 120 seats, the theatre is marketed as a ‘Paisa Vasool’ movie hall.

The no-frills theatres which can be set up with a minimum area of 1200-1500sqft provides in-theatre movie experience similar to multiplexes – offering Food and Beverage and air conditioning to the consumers. Currently, there are 2 operational Nukkads in Gujarat and UMW plans to open 2,000 similar theatres by 2015.

The model aims to:
- Curb piracy: Providing legitimate access to movies at low cost in a cinema hall is expected to help bring down incidents of piracy
- Offer new revenue streams to the film industry: The model aims to provide exhibition services to the ‘un-served’ category of audiences thereby creating a new market for the film industry.
- Add to government revenue: Creates a new source of tax revenue for the government and also generates employment across the country
- Provide entertainment to un-served category: Provides a audience access to high quality content in a multiplex like environment
- Opportunity for in-cinema advertising: Enables national advertisers to reach the remote areas
- Community development: Nukkad educates children living in the areas of proximity. Each Nukkad facility endeavours to educate 50 children during morning hours.

Key issues faced:
- Obtaining Licenses: The Nukkad Entertainment cinema hall operates on video theatre licenses and certain states have halted issuance of new licenses. For example, since 2008 issuance of licenses has been banned in Rajasthan as certain video theatres were found to be exhibiting pirated and adult content.
- Uneven entertainment tax structures: High entertainment tax applicable in some of the states is making the model of small sized cinema halls an unviable proposition.
- Procuring content as the right price: Convincing distributors to share film content at a rational rate especially for the distant and non-existing territories is an up-hill task.
Leveraging potential of research

The high cost of developing, making, acquiring and distributing a film is making it imperative for companies to assess consumer demand and behaviour intelligently and use the knowledge innovatively. Similar to any consumer product, the content of a film can be shaped in part by scientifically understanding the content preferences of audience and revealing what fascinates them and captivates their attention. Market research can prove to be a helpful tool at every stage of a film’s life cycle.

<table>
<thead>
<tr>
<th>Pre-Production</th>
<th>Production</th>
<th>Post Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>To decide on target audience-its acceptability and marketability</td>
<td>Selection of storyline, star cast concept testing, audience pre-testing</td>
<td>To decide on appropriate channel mix and ensuring focused marketing to attract target audience</td>
</tr>
</tbody>
</table>

The industry no longer has to rely solely on its instincts when it can leverage statistical tools and frameworks to define a target audience for a genre and assess the market potential of a concept. Analysis of basic parameters such as demographics, income distribution and consumer behaviour parameters such as genre preference, spending and media consumption pattern by age, gender, geography, language, income bracket etc can unravel the mystery behind erratic audience behaviour.

Once the target audience has been decided, content can be refined through focused group testing to ensure that the content turns out to be relevant and appealing. This can be done by using various testing tools such as Concept Testing, Content Development and Audience Pre-testing.

- Concept testing and development enables a production house develop the theme of movie
- Audience pre-testing helps production houses make necessary changes in the storyline to make it more appealing while the reactions also help distributors focus their marketing strategies. There are mixed opinions on pre-testing, some producers have only limited or no faith in this process, believing that the treatment of a story can make or break a movie, there are others who strongly support the practice
- Companies can also use Pre-release Awareness Testing to gauge the effectiveness of their marketing efforts and make necessary changes to the game plan to ensure maximum impact

The final stage of any movie lifecycle is to convince prospective audiences to buy movie tickets. The art of marketing a movie is fast evolving and becoming innovative and scientific in its approach. Shorter box office windows, low attention span, high cost of watching movies in theatre and availability of alternate entertainment options such as web, mobile, TV etc have added to movie marketers’ onus of creating extensive buzz and interest to attract the audience to theatres. Movie marketers can employ tools to define which platforms should be used to engage prospective audience and continuously assess whether the efforts are creating positive results.

In India the concept of market research is still nascent. However, it is gradually finding its place as part of a content-feedback mechanism to position the marketing campaign of the films.

“As the film was based on a sensitive topic, we were not sure as to how this film would be accepted by the housewives. For this we conducted a focused group research among women aged 35+ years to focused group testing to ensure that the content is relevant and appealing to this section of audience. We received a strong feedback on the hospital scene where it is revealed that Akshay Kumar is God. The scene was originally written with Akshay Kumar dressed casually (in jeans and shirt). The audience could not believe that he was God unless he adorned the avatar which audience is used to seeing Indian gods and goddesses (traditional outfit with ornaments). We then re-written the scene with Akshay in traditional costume of Lord Krishna and it turned out to be a good decision. The movie was able to connect with the audience and gained a fabulous response.”

- Ashvini Yard
  Co-Founder,
  Grazing Goat Productions

Although, market research cannot be a full proof methodology to ensure box office success, it can certainly de-risk a movie’s exposure to uncertain audience reaction. Much can be achieved if the Indian film industry follows a methodological and scientific approach to movie making.
Case study – BARFI!

Cost of Production – INR 300 million
Box Office Collection – INR 1.26 billion

Barfi! has changed the way audiences consume content today. Prior to Barfi! it was mostly mainstream plots with action, comedy or drama that crossed the INR 1 billion mark. To add to it, a film where the leading protagonists had physical and mental disabilities, even with a superstar would have been difficult to score high at the box office. But Barfi! has changed all of that by outperforming at the domestic box office and garnering more than INR 1 billion revenue. It is the first Hindi blockbuster film where dialogues constituted less than 20 percent of the run time of a movie.

The marketing challenge
The major challenge was to steer away from the theme of disability without shying away from the subject of the film and to ensure that the target audience did not perceive this as a dull and serious film. The objective of the film producers was to establish the film as an entertainer and to emphasize that it was a fun film about Barfi! – a street smart, happy-go-lucky guy who charms his way through everything.

Overcoming the challenge
With inputs from consumer research, it came up with a tagline “Don’t Worry Be Barfi!” and positioned the film around it. This positioning remained consistent through the campaign across creative, events, PR, alliances, media and digital.

Campaign details
• **Barfi! Bulao** – To establish the youth connect, college students were given an opportunity to get the Barfi! team to visit their college. The Barfi Bulao contest in association with a radio partner got the cast to do interesting things in colleges – hang out in the canteen, arrange a patch up etc.

• **‘Barfi! Live Experience’** - This was yet another property with a brand partner (Nissan Micra) that had the Barfi! team along with music composer Pritam perform in malls across different cities in India.

• **Media Alliances** – Ranbir Kapoor appeared in the Barfi! style along with Priyanka and Ileana on several reality and fiction shows (Indian Idol, Dance India Dance, Comedy Circus, Taarak Mehta Ka Oolala Chashma) in addition to an unique integration - Barfi! Marathon on Zee TV with Barfi! interacting with the lead characters of three prime time shows on the same day. In another first, Barfi! was integrated on the ‘Barfi! news series’ on the TV Today group where Barfi! walked through significant news of the last decade in his inimitable style. The ‘Cholbe Na’ campaign by Dainik Bhaskar and ABP Ananda in Kolkata also integrated the film with Ranbir Kapoor urging Kolkataites to ‘Be sweet, Be charming, be Barfi!’ The free media worth of these alliances is estimated to be around INR 500 million.

To increase the fun quotient of the campaign, a song “Fatafati” was launched that was partly sung by Ranbir and featured behind-the-scenes footage in the week leading up to the release.

Digital campaign
• During Diwali 2011, an adwords campaign was launched with Barfi as the keyword. Many people who searched for Barfi on Google were able to see a message about Barfi the film and got a chance to win a box of sweets autographed by Ranbir Kapoor.

• A digital app was created on Youtube (www.youtube.com/barfi) where people could make Ranbir Kapoor dance, smile and cry and do anything else they desired. They could also learn tips to impress girls at Barfi’s Patashala.

Brand associations
• Coffee Day associated with the film keeping the youth connect and had Barfi branded coffees and additional branding via tentcards, menu and danglers at 1200 Café Coffee Day outlets across the country.

• Other brands that added to the share of voice across media (TV, Print, Digital, Radio & In-store) were Prestige, Monte Carlo, Nutrasweet, Mydala.com, Rupa, Panasonic, Goodricke and Vodafone – all adding up to over INR 18 crore of media worth.

A diligently planned marketing strategy supported by continuous monitoring the reach of the marketing campaign helped Barfi! achieve an audience reach of 90 percent (Movie Excitement Score tracker) on the week of its release.

Barfi! Movie Excitement Score (% reach)

<table>
<thead>
<tr>
<th>Week</th>
<th>R-4</th>
<th>R-3</th>
<th>R-2</th>
<th>R-1</th>
<th>Release week</th>
<th>R+1</th>
</tr>
</thead>
<tbody>
<tr>
<td>41</td>
<td>66</td>
<td>79</td>
<td>90</td>
<td>90</td>
<td>Release week</td>
<td>94</td>
</tr>
</tbody>
</table>

Source: Industry discussion conducted by KPMG in India
Last year, we have seen a huge pool of new talent come into the industry and taste success. That’s a great sign for the industry. However, we need to keep a check on the production and marketing costs. The production costs are disproportionately high. Meanwhile, marketing needs to be aggressive but cost effective. While we have a rich INR 100 crore plus club, we need to see how much ROI are we really getting on the projects?

Small is big literally with some tightly budgeted films making a gold run at the box office. It looks likely that the revenues from C&S are going to slowdown as well, so it matters more to us that we keep production costs in check because our dependence on theatricals is bound to increase. We need adequate support from GOI. There is tremendous pressure due to high entertainment tax rate and service tax and the industry needs to engage Government seriously in this regard.

- Mr. Vijay Singh,
ClIndia - Chief Executive Officer,
Fox Star Studios
Technology transforming media consumption

Media and the means of consumption of media have been evolving over the years. Media exists in various forms although today it is predominantly associated with video. Media can be informative, educational or entertainment oriented. Evolution in the means of consumption of various categories of media has largely been driven by technological innovations and to some extent by a change in content.

Take for example, the case of cinema, the key form of entertainment available to the average Indian. Indian Cinema first began its journey in the form of black and white motion pictures without sound. As technology progressed and the ability to capture and reproduce the sound came into existence, movies became more engaging. Technology has had a major impact on the evolution of cinema, with better equipment during the production and the post production processes and with the way cinema is exhibited to audiences in theaters.

Digital cinema players including UFO have made a significant impact over the past 8 years on how Indians watch movies in theaters. With better capture equipment during the production process, directors of movies want to emulate and reproduce reality to its finest detail every time their movies are screened. With our UFO technology we ensure that every screening is the finest detail every time their movies are screened. With our UFO technology we ensure that every screening is reproduced immaculately as is expected by the director of the film. Beyond this, UFO has significantly grown the business of cinema by taking the first-day-first-show to small and big cities alike. A movie which would previously be screened in just 200 – 300 theaters is now screened in over 2,000 theaters on day one. This has significantly improved the probability of every movie to make money and ensure profitability. This has contributed to unprecedented box office numbers each time a big ticket movie is released across an increasing number of theaters. The INR 1 billion plus box office collections movie club has thus come into existence and is growing every year.

However, just taking a movie to all the screens does not necessarily translate into more business. The challenge also lies in monetization, and ensuring that appropriate collections flow to the respective stakeholders quickly. Transparency is a biggest challenge faced by the Indian Film Industry. The assumed under declaration of revenues also has an impact on rightful revenue flow to all the stakeholders. We’ve addressed this challenge with our Impact Exchange platform, where we provide computerized box office ticketing systems free of cost to theaters and enable instant settlement of dues to each of the stakeholders in a timely manner. The instant availability of sales data permit better, more scientific release strategies for distributors allowing them to maximize the revenue collected. Technology is thus impacting the way media is made and distributed and also monetization.

Technology is not only changing the business of media but has also significantly impacted where and how consumers today consume media. Consumer lifestyles have become increasingly busy with time. This has given rise to a need to consume media on-demand as and where one’s lifestyle allows. In western countries, where there is an widespread broadband access and high bandwidth at the last mile, on-demand media consumption platforms like Apple TV and Roku have flourished. In India, while the penetration of Internet has increased over the last few years, the constrained availability of consistent high-bandwidth internet connectivity will continue to be a challenge for at least the next decade. Further, with the high costs of licensing spectrum, bandwidth providers will continue to have to charge for data based internet plans. Therefore, the leveraging of the Internet as a true means of delivering high quality media consumption, apart from the occasional low quality user generated content that is viewed, is a while away for India.

We have been working over the last few years in trying to solve this challenge ourselves. We have now developed a technology called MediaBoost, which will specifically address this challenge. While there is significant activity on the wireless front with operators considering enabling 4G networks for wireless internet access, this will never be sufficient to fulfill the ever increasing demands by consumers for media consumption and higher quality media. There are many companies with online on-demand services that have tried and failed predominantly because a consumer trying to access a media service online typically faces challenges of long waits, buffering breaks and low quality streaming. The other major challenge relates to the limitation of watching media on their computers instead of the television.

We believe that the only way Indians can enjoy true on-demand entertainment is to look towards alternate delivery channels apart from the Internet. Satellite and DTH players have tried to address this with NVOD (near video on demand services) but again have seen limited uptake because of the lack of a pleasant user viewing experience. With our Media Boost technology, we’re enabling the existing legacy network that today connects every household with a television. This is the RF cable that runs through most homes and delivers regular cable channels. This cable network has been laid by an LCO (Local Cable Operator) using the lowest cost cables and one that has been serving live television content for decades now. This infrastructure remains old and obsolete and the skill sets of the personnel managing the network are also underdeveloped. The upgrade is an arduous task. Most firms that today manufacture networking devices have reached data rates of over a terabit and assume that the cable networks used to connect these devices are adequate. Hence they are not able to address the India’s connectivity needs.

Mr. Sanjay Gaikwad
CEO & Managing Director,
UFO Moviestar Ltd.

Technology transforming media consumption
Conclusion
There is a steady rise in the dynamism and confidence in India’s film sector. Increasing consumption in tier II and III cities, growing importance of regional markets, greater focus on market research, innovation in content and evolution of marketing and delivery platforms to serve different niches— all point towards a very positive future for the industry.

With our patent pending Media Boost technology, which has been developed specifically to enable high quality, high definition on-demand viewing of content on legacy networks using RF cable as a one way Forward path and the internet only as a low bit rate return path, we now have a solution that addresses India’s connectivity problems. This will allow an average Indian to subscribe to our service and get access to thousands of hours of on-demand movies, music, television shows and catch up television on-demand.

The future of media in India is heavily reliant on technological solutions to enable utilization and monetization of existing infrastructure available, rather than installing new infrastructure which entails long gestation periods and eventually become unviable in the long run.

Unless otherwise noted, all information included in this column/article was provided by Sanjay Gaikwad. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India.
New Media
Let the games begin!
New media continued its growth trajectory in 2012 (albeit slightly slower than the previous years), with estimated growth in advertising revenues of close to 40 percent over last year. Coming in at approximately INR 22 billion in revenue in 2012, digital adspend reached approximately 6.7 percent of the total M&E industry advertising revenue.

As predicted last year, the mobile story has begun to play out in India, with the user base expanding significantly over last year. The devices are getting cheaper, access better and time spent longer, leading to significant shifts in content consumption habits of large sections of the Indian audience. This audience, however, remains under-monetized – primarily due to a decline in on-deck revenues, sluggish ad rates and under investment in distribution platforms that allow customers to pay for content effectively.

One of the biggest challenges facing this industry in realising its full potential will be the ability to create distribution platforms with enough critical mass that provide users with a rich experience and transact seamlessly (even for small ticket sizes). There is increasing consensus in the industry is that it is no longer possible to prevent content from being made available on-line. The recourse for content owners is to invest and create credible platforms where users can consume content effectively and at the same time work towards effective policing of piracy.

Connectivity and access continues to get better

As expected, mobile and wireless connections continued to drive the growth of internet penetration in India. By the end of 2012 there were 124 million internet connections in India, a rise of 41 percent over last year. Over last year fixed line connections grew by 11 percent. Over the same period, wireless connections have grown by almost 50 percent, outlining the importance of mobile data access in the overall digital economy.

Going forward, the total number of connections is expected to surpass 380 mn by 2017, with wireless connections comprising nearly 90 percent of all connections added over 2012-2017. The projected growth is slightly lower than last year primarily due to continued uncertainty over 4G roll-out and continued uncertainty in the telecom environment.

India - Internet connections, 2012-2017P

<table>
<thead>
<tr>
<th>Year</th>
<th>Wireless Connections</th>
<th>Wireline Connections</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>124</td>
<td>25</td>
</tr>
<tr>
<td>2013P</td>
<td>169</td>
<td>29</td>
</tr>
<tr>
<td>2014P</td>
<td>208</td>
<td>34</td>
</tr>
<tr>
<td>2015P</td>
<td>272</td>
<td>40</td>
</tr>
<tr>
<td>2016P</td>
<td>332</td>
<td>47</td>
</tr>
<tr>
<td>2017P</td>
<td>386</td>
<td>55</td>
</tr>
</tbody>
</table>

Source: KPMG in India analysis
There is a never ending debate as to whether the Digital boom has arrived in our country or is still a far-fetched dream. I would say we are positively on the right road to get there and mobile devices will lead us to it!

We all know that India is the second-largest mobile phone user-base with over 900 million users in the world. So what does this mean? This opens up innumerable opportunities at our fingertips for us to grab.

Mobile devices have today emerged as a distinguished source of entertainment. Be it Games, Audio or Video content, users today have the power to engage with any of these from their mobile devices. Launch of 3G and 4G services has driven the digital consumption of content to an all-time high narrating a story of strong growth with new monetization models emerging.

The cellphone is no longer just a cellphone; it’s become a part of our day to day life. With the whole new purpose the mobile phone is serving today, digital marketing and advertising will soon form a substantial percentage of the marketing budgets. To tap the target audience residing in the digital space, it is important to understand the whats and hows of their consumption. This can only be achieved by diving into the digital ocean and swimming along with the audience. We should embrace the fact that mobile devices are the revolutionary inventions of the present era and there are many additional features to be explored in the coming time.

As and when cost effective 4G services are launched in India, this figure has the potential of being significantly higher. Either way, e-commerce players; content providers; tech companies and intermediaries will continue to disrupt and innovate to cater to opportunities offered by these users.

The world’s third largest Internet population

Taking into account multiple users for a single wireline connection, the number of internet users reached 174 million in 2012, about 25 percent of the size of the total TV viewers in the country and is expected to reach over 60 percent of total TV viewers by 2017.

As and when cost effective 4G services are launched in India, this figure has the potential of being significantly higher. Either way, e-commerce players; content providers; tech companies and intermediaries will continue to disrupt and innovate to cater to opportunities offered by these users.

The Great Indian Digital Story

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The devices are getting smarter, the users more engaged

In 2012, almost half of wireless access was via feature phones, but a rapid change in the device ecosystem on the ground, means that 2013 will be the first year when feature phones will cease to be the main use of internet access in the country. This shift is already having far reaching consequences for content providers, media platform owners (both on deck and off-deck) and telcom companies.

Smartphones and tablets have an installed base of approximately 44 million and 2.5 million units respectively, comprising a third of internet enabled devices in India. Driven by several cheaper smartphone options and more low cost tablets coming into the market, the share of these devices is expected to increase to 67 percent of all devices, by 2017.

**Device split**

**Shared of internet enabled devices, 2012**

- Feature phones: 22%
- Smartphones: 46%
- Tablets: 2%
- PCs & Notebooks: 30%

**Shared of internet enabled devices, 2017P**

- Feature phones: 17%
- Smartphones: 62%
- Tablets: 5%
- PCs & Notebooks: 16%

**Source:** Industry discussions conducted by KPMG in India
The rise of the (smart) mobile internet user

Nearly half (47 percent) of the respondents engage with smartphone messenger service WhatsApp and spend 24 minutes a day chatting making it the top smartphone app for urban Indian consumers. This further validates findings from Nielsen’s recent study on The Indian Smartphone User, which shows how chat and game apps rule the roost when it comes to smartphone apps.

- Prashant Singh
Managing Director - Media, Nielsen India Region

Operating system market share, October 2012

<table>
<thead>
<tr>
<th>Operating System</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Android</td>
<td>47%</td>
</tr>
<tr>
<td>Symbian</td>
<td>40%</td>
</tr>
<tr>
<td>Blackberry</td>
<td>4%</td>
</tr>
<tr>
<td>Windows Phone</td>
<td>3%</td>
</tr>
<tr>
<td>iOS</td>
<td>1%</td>
</tr>
<tr>
<td>Others</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: Nielsen Informate Mobile Insights 2013

These smartphone users are increasingly moving to Web-based and off-deck platforms for their content consumption needs, as opposed to relying on the telecom operator deck.

As per IAMAI estimates in the study - Mobile internet in India conducted in 2012, about 17 percent of mobile Internet users in India use the telco deck. This figure is likely to come down to 14 percent by next year. As has been the trend in other International markets, Telco portals once dominated content distribution, but are at risk of losing their allure. In international markets ‘Downloads through operator portals are still less than one million per month on average per operator compared to one billion per month downloads from the Apple App Store’.6

The success of off deck platforms is on account of several factors:

- They have historically offered much better revenue shares to developers, allowing for better innovation
- Off-deck platforms offer developers much tighter integration with the hardware and operating system of the device and are able to make search and payment native to the device, offering a much better user experience
- These platforms were able to curate a range of content from around the world into a single store, whereas most operator decks tended to be country specific with limited content quality
- Apple effectively commercialized the mobile app concept which has become on-off the main uses for a smartphone
- Operator decks largely missed the App revolution, focusing on CRBT, video clips and basic games – a lot of which was available for free on the internet anyway
- Off-deck platforms have kept content display very democratic by allowing users to vote for content based on their liking, engendering greater trust from consumers

The most important reason behind developers’ preference for app stores as a distribution channel is the advantage this platform offers in terms of a higher customer reach. Over half of developers distributing through the Apple, Google, Nokia and BlackBerry app stores claim that they key driver for app store selection is the ability to sell to more users.6

There were approximately 38 million smartphones with active Internet connections in India at the end of 2012.6 Android has the clear lead, and represents almost 50 percent of the installed base, however as the table below shows, Operating systems, versions, screen sizes and device types are growing rapidly and continue to pose significant challenges for content creators and curators to ensure compatibility across all these platforms.

Source: Industry discussions conducted by KPMG in India

India - Active Internet enabled smartphones, 2012-2017P

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Units</td>
<td>38</td>
<td>74</td>
<td>101</td>
<td>153</td>
<td>200</td>
<td>241</td>
</tr>
</tbody>
</table>

Source: Industry discussions conducted by KPMG in India
The smartphone is a very sophisticated entertainment device

On an average, Indians spend over 2.5 hours on their smartphones everyday and less than a quarter of that is spent on voice calls and SMS. The phone for these users is becoming the second screen and they spend on average, almost 2 hours a day browsing, watching videos, playing games and catching up on social networking sites with their friends.

Distribution of active time spent on smartphone (160 mins spent per day)

While the average price of Internet enabled mobile devices in India is INR 8,250, data consumption shoots up by almost 36 percent post the INR 15,000 price point. As the users of these smartphones devices upgrade to more sophisticated devices, their data consumption goes up dramatically, re-affirming their desire and willingness to spend on quality content.

Data consumption shoots up by almost 36 percent post the INR 15,000 price point

Having said that, feature phones will continue to be an important medium for access for on-line content in India for the next few years. By 2017, there will still be 61 million internet enabled feature phone users in the country and certain large players will continue to innovate to cater to this audience as well.
Facebook takes on the Feature phone battle

Facebook claimed a base of 71 million monthly active users in India in December 2012, an 81 percent increase over its December 2011 user base. Growth in worldwide user base over this period was 25 percent.

The social networking giant wants billions of people in the emerging markets to have access to its mobile apps on the purchase of their first smartphone. Facebook is trying to execute this strategy by working with a Chinese chipmaker Spreadtrum. The chipmaker will have the software directly imbedded into the chip of all ranges of smartphones, which would guarantee that millions of new smartphones (including the inexpensive ones) would soon be free of any compatibility issues and will be "Facebook ready."

Technically, any Android phone user can download the Facebook app from an Android app store. However, this agreement with Spreadtrum will ensure that the Facebook app will be inbuilt even for the lowest end smartphones to make their way into emerging economies such as India, without the worry of the hardware supporting the app features.

The tablet phenomenon – is it a desktop or mobile?

The installed base of tablet devices is expected to grow at a 50 percent CAGR to reach 20mn units by 2017. The average sale price of tablet computers has also fallen considerably over 2012, to sub INR 15,000 levels, with over 60 percent of units shipped priced under INR 10,000.

<table>
<thead>
<tr>
<th>Smartphone price categories in India</th>
<th>Starting price</th>
<th>Ranging upto</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micromax</td>
<td>INR 3,200</td>
<td>INR 13,000</td>
</tr>
<tr>
<td>Lava</td>
<td>INR 3,250</td>
<td>INR 13,500</td>
</tr>
<tr>
<td>Spice</td>
<td>INR 3,500</td>
<td>INR 7,500</td>
</tr>
<tr>
<td>Karbonn</td>
<td>INR 3,600</td>
<td>INR 10,000</td>
</tr>
<tr>
<td>Motorola</td>
<td>INR 5,250</td>
<td>INR 24,500</td>
</tr>
<tr>
<td>LG</td>
<td>INR 6,200</td>
<td>INR 26,000</td>
</tr>
<tr>
<td>Samsung</td>
<td>INR 6,000</td>
<td>INR 34,500</td>
</tr>
<tr>
<td>HTC</td>
<td>INR 7,400</td>
<td>INR 31,000</td>
</tr>
<tr>
<td>Nokia</td>
<td>INR 3,800</td>
<td>INR 38,200</td>
</tr>
</tbody>
</table>

Source: www.mysmartprice.com

"Tablets such as Aakash do not face direct competition from smartphones, given differing end uses owing to larger touch screens."

- Suneet Singh Tuli
  Managing Director,
  DataWind


09. Industry discussions conducted by KPMG in India
The app economy

Perhaps the biggest outcome and beneficiary of the mobile internet has been the rise of the app economy. Mobile applications (apps) have been around since the late nineties, but it wasn't until the launch of Apple Appstore that the app economy started to blossom in earnest. The number of apps downloaded globally has nearly doubled to 45 billion in 2012 from 25 billion in 2011, and is expected to rise to 300 billion by 2016.¹¹

The growth of the Indian app economy has been constrained primarily due to under investment in seamless payment and distribution platforms.

While the Apple App store and Android (through the Google Play store) currently accept card payments from Indian users, others such as the Nokia Store and Blackberry App World have billing arrangements with telecom operators, uptake however remains low by international standards.

¹¹ Gartner estimates, The Sydney Morning Herald, September 12, 2012

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Comparison of Tablet device categories

<table>
<thead>
<tr>
<th>Segment</th>
<th>Devices</th>
<th>Indicative price range</th>
<th>Functionalities</th>
</tr>
</thead>
<tbody>
<tr>
<td>High end</td>
<td>Apple iPad 3, iPad mini,</td>
<td>INR 22,000 – INR 49,000</td>
<td>7.9” / 9.7” screen 5 MP primary camera Wi-Fi /3G enabled iOS 6</td>
</tr>
<tr>
<td>Mid range</td>
<td>Samsung Galaxy tab 2, Zync Z1000, Spice Mi-1010</td>
<td>INR 11,000 – INR 15,000</td>
<td>7” screen 3 MP primary camera Wi-Fi enabled Android Jellybean OS</td>
</tr>
<tr>
<td>Low end</td>
<td>Datawind Aakash 2 (ubiSlate 7ci), Micromax Funbook, HCL Mo</td>
<td>INR 4,000 – INR 7,000</td>
<td>7” screen Wi-Fi, 2G enabled Android Ice Cream Sandwich OS</td>
</tr>
</tbody>
</table>

Source: www.flipkart.com; Note: Functionalities are representative and vary by model

Tablets are the new entertainment zone

While penetration of tablet devices will remain low relative to smartphones, the format is more suited to accessing rich content such as music, video, gaming and e-books. Initial studies are already showing that almost a third of the time spent on a tablet is for entertainment.

Share of time (%): Smartphones vs Tablets

![Share of time (%)](source)

Source: Nielsen Informate Mobile Insights 2013
Top Smartphone Apps

The Indian app economy is quickly gaining traction, enabled by growth in smartphone and tablet penetration, and driven by availability of international and localized content on several app stores operated by OEMs and mobile network operators.

Estimates indicate that approx. 100 mn apps are downloaded monthly in India, and this could surpass 5bn downloads per annum within 3 years.\(^\text{12}\)

India is the fourth largest market for Android apps, with App downloads by Android users in India over the past year exceeding downloads over the past 3 years combined.\(^\text{13}\)

The introduction of local currency pricing in Apple’s App store is expected to further spur consumption.

As is the case globally, monetization is likely to occur through a combination of upfront paid and ‘freemium’ microtransaction based apps. Given the complexity of catering to multiple standards across a fragmented device base, app developers will selectively focus on serving key platforms such as Android, with Windows Phone expected to gain traction on the back of increased adoption by OEMs.

While premium pricing of Apple devices will constrain App store download volumes, scope for monetization will remain high on account of a favourable user demographic and ease of transacting on the platform.

India has all the prerequisites for a vibrant app economy, in terms of a growing base of access devices, growing disposable incomes and adequate local development talent. The emergence of a system enabling seamless transactions will prove to be the inflection point for monetization over the coming years.

Online Advertising

Monetization in the new media space in India continues to remain dependent on revenues from advertising. Growing at close to 40 percent, the online Ad market (excluding mobile) in India touched INR 20 billion in 2012, and is expected to grow at a 32 percent CAGR to reach INR 74 billion in 2017.\(^\text{14}\)

Mobile advertising currently accounts for a small share of the market, estimated at INR 1.7 billion.\(^\text{14}\)

However, it is expected to grow significantly in the coming years, as advertising catches up with usage and time spent on mobile. Historically, there have been challenges related to screen size and return on investment (click through rates) for display advertising in mobile. However, a number of innovations in ad formats, growth in smartphones, larger screen sizes and penetration of tablets will ensure that mobile advertising continues to grow at a fast pace.

Indian Digital Advertising Market

Given the historical infrastructure bottlenecks with wired broadband and under investment in 3G, the Indian digital advertising industry is starting from a low base. It is expected to be amongst the fastest growing digital advertising markets in the world going forward.
Growth in India is being generated mostly from volume increases. Given the large inventory available, there has been pressure on ad rates, which remained largely flat in 2012.

Search advertising continues to dominate; accounting for 47 percent of total online desktop ad spends in India. Of this, close 90 percent was captured by Search Engine Marketing, with the remaining spend going to Search Engine Optimization. Video and social networks are emerging as a high growth area, showing over 50 percent growth during the year. Going forward, they are expected to grow at a CAGR of 40-50 percent up to 2017, compared with 32 percent for the overall market.

Mobile advertising continued to grow in India, however the base still remains small, and lags usage of mobile as an internet/data consumption device. The overall market for mobile advertising is estimated at INR 1.7 Bn, with growth pegged at 60-70 percent during 2012. Mobile advertising is currently dominated by search Ads, which account for over 75 percent of mobile advertising. However, going forward display advertising on mobile is expected to grow significantly. Driven by search impressions, websites account for a lion’s share of mobile advertising at over 75 percent. Despite growth in smartphones, apps still account for a relatively small share at 20 to 25 percent. In terms of ad impressions, the contrast is starker, with websites accounting for 95 percent of total ad impressions.

As the mobile segment is seeing rapid growth in media consumption and advertisers are beginning to appreciate the medium, we are seeing positive growth trends in ad revenues.

- Gautam Sinha
Chief Operating Officer,
Times Internet

We are seeing a lot of success with our innovative digital content, including the ability to create original web programming, for our core digital audiences. The scale of audiences is now here for digital content, and the monetization is getting there.

- Sameer Pitalwalla
Director-Video and Celebrity,
Disney UTV

Online Advertising revenue mix by Segment Ex-Mobile, 2012

This is in line with Global trends, where Video and Social networking increased at a rapid pace. Ad spending on online video increased 46 percent in 2012, far outpacing search (15 percent) and display overall (19 percent). In an indication of the growing traction for video, spending among Youtube’s top 100 advertisers increased 50 percent in 2012 compared to the previous year; Similarity to TV in terms of ability to connect with the consumer is one of the big drivers for growth in Video. This is driven largely by the increasing use of the internet for Brand advertising, and not just performance advertising.

Mobile advertising continued to grow in India, however the base still remains small, and lags usage of mobile as an internet/data consumption device. The overall market for mobile advertising is estimated at INR 1.7 Bn, with growth pegged at 60-70 percent during 2012. Mobile advertising is currently dominated by search Ads, which account for over 75 percent of mobile advertising. However, going forward display advertising on mobile is expected to grow significantly. Driven by search impressions, websites account for a lion’s share of mobile advertising at over 75 percent. Despite growth in smartphones, apps still account for a relatively small share at 20 to 25 percent. In terms of ad impressions, the contrast is starker, with websites accounting for 95 percent of total ad impressions.

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Disney UTV
The year gone by – Highlights

Review of 2012

The battle in video heats up

Viewership for on-line video grew by 45 percent between December 2011 and December 2012.

52 percent of the total videos viewed belonging to the entertainment category and in fact most of the top YouTube channels were related to Bollywood20.

Indian Video Viewership Online

<table>
<thead>
<tr>
<th>Year</th>
<th>Video Viewers</th>
<th>Minutes per Viewer</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011 December</td>
<td>495.5 millions</td>
<td>35.7</td>
</tr>
<tr>
<td>2012 December</td>
<td>446.9 millions</td>
<td>51.7</td>
</tr>
</tbody>
</table>

Source: Comscore “Rise of India’s Digital Consumer”, Minutes per viewer refers to total minutes in the corresponding month

Video in India continues to be dominated by short format video and mostly ad funded. Over the last two years, there have been several launches of long format video on demand services with mixed success. Video on demand in India continues to suffer from four big challenges:

- High bandwidth costs
- Availability of cheap content on cable and satellite
- Skepticism from content owners to license digital rights
- Lack of clarity on revenue sharing arrangements

However initial feedback on all new launches has been encouraging. There is clearly a huge unmet demand for good quality, long format content that can be viewed by a user on demand on any device – at a sensible price point.

UltraViolet: An Overview

UltraViolet is a new platform that allows users to collect, access, and enjoy movies and TV shows in the cloud from major Hollywood studios, technology companies and retailers. UltraViolet brings instant streaming and downloading to share for a household on a wide range of digital devices, including PCs, UltraBook, smartphones, tablets, media/gaming consoles, when they buy a movies or TV show once. UltraViolet currently has more than 8500 titles of Movies and TV shows. DECE (Digital Entertainment and Content Ecosystem) LLC consortium that developed ‘UltraViolet’ currently has 80 member companies, including many of the world’s leading movie studios, technology providers, consumer

UltraViolet adoption by the Indian Film Industry can cater to the widespread online diaspora and reach a global audience to create unique monetization opportunities for Indian content through global online consumption.

- Ravi V. Velhal
Global Content Policy Strategist,
Intel Corporation

Unless otherwise noted, all information included in this column/article was provided by the author. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India.

Rank Top Channels on YouTube21

<table>
<thead>
<tr>
<th>Rank</th>
<th>Top Channels on YouTube21</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>T-series</td>
</tr>
<tr>
<td>2</td>
<td>SET India</td>
</tr>
<tr>
<td>3</td>
<td>Rajshri</td>
</tr>
</tbody>
</table>

Source: Industry discussions conducted by KPMG in India
E-book launches to test monetization model for print

Both Amazon and Flipkart launched their e-books app and store during the year in India. Flipkart launched e-books through its Flyte store in November. Having tied up with key publishers, Flipkart launched with 65,000 titles, growing to 150,000 titles by December.

With the initial focus on setting up operations, numbers have been small so far, but the traction is promising. Flipkart has seen close to 100,000 downloads (including free and paid titles) in the first 2 months of launch itself. E-book titles are being offered at a discount to the print editions. The pricing and discount structures are expected to evolve further, as volumes build up.\(^\text{22}\)

Comparison of VOD services

<table>
<thead>
<tr>
<th>Name of the service provider</th>
<th>Launch time</th>
<th>Key Features</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tata Sky</td>
<td>2012</td>
<td>Tata Sky’s Video on Demand service is available on the Tata Sky set top box providing the subscribers access to select TV shows and to its movie library across multiple genres (consisting of 500 to 1000 movie titles).</td>
</tr>
<tr>
<td>Ditto TV by Zee</td>
<td>2012</td>
<td>The online service offers live TV streams and video on demand content on mobile phones, tablets, PCs, entertainment boxes and connected TVs. Ditto TV claims to offer more than 50 television channels to its subscribers and clocked 100,000 downloads since its launch.</td>
</tr>
<tr>
<td>Box TV</td>
<td>2012</td>
<td>Boxtv.com is a web based online video streaming service where users can subscribe its free or paid subscription to download movies, TV shows, short films, etc.</td>
</tr>
<tr>
<td>Big Fix</td>
<td>2011</td>
<td>BigFlix, a DVD rental company in India, has shifted exclusively to online video streaming - where its paid subscribers would have an access to over 1000 movie titles, TV shows, video clips, etc.</td>
</tr>
<tr>
<td>Apple TV</td>
<td>Mid 2013</td>
<td>A digital box that would allow the streaming of iTunes store content to a user’s television and also connect iDevices to the bigger display with the help of AirPlay. Already launched on the Apple India website — expected to be launched in stores over the next couple of months.</td>
</tr>
<tr>
<td>Lukup</td>
<td>Mid 2013</td>
<td>Hardware based OTT box with a large selection of international and domestic content that can be viewed on multiple devices. Expected launch date mid 2013.</td>
</tr>
</tbody>
</table>

Comparison of print and e-book pricing on Flipkart

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Calico Joe (John Grisham)</td>
<td>211</td>
<td>301</td>
<td>30%</td>
</tr>
<tr>
<td>And Thereby Hangs a Tale (Jeffrey Archer)</td>
<td>278</td>
<td>309</td>
<td>10%</td>
</tr>
<tr>
<td>Women and the Weight Loss Tamasha (Rujuta Diwekar)</td>
<td>106</td>
<td>122</td>
<td>13%</td>
</tr>
<tr>
<td>The Oath of the Vayuputras (Amish Tripathi)</td>
<td>210</td>
<td>245</td>
<td>14%</td>
</tr>
<tr>
<td>Shantaram (Gregory David Roberts)</td>
<td>305</td>
<td>377</td>
<td>19%</td>
</tr>
</tbody>
</table>

Source: Press articles (tatasky.com, medianama.com, themobileindian.com, thenextweb.com, vccircle.com)

Source: www.flipkart.com

\(^{22}\) Industry discussions conducted by KPMG in India
E-book sales comprise approx. 20 percent-30 percent of print edition sales in volume terms in developed markets, and this trend could be replicated in Indian markets, where e-books are predominantly accessed on tablets and smartphones as opposed to e-book readers.

Taking into consideration a 15 percent penetration of e-book reading apps amongst tablets in India and 5 e-book downloads annually per user by 2017, Indian e-book sales could reach 15 mn units per year with further upside expected from consumption on smartphones. A library of local language content is being grown, which should help catalyze penetration. A selection of free and low cost titles priced below INR 100 will also help to drive experimentation amongst readers.

Going forward, differentiation between providers could be in terms of range and depth of content libraries, effectiveness of discovery mechanisms, pricing, digital rights restrictions imposed, and ease of payments. E-books could also prove to be a platform for advertisers, as is the case in relatively mature markets.

**Innovation in micro-payments continues**

Micro-payments are increasingly critical online, particularly for categories such as Music, where transaction sizes are small. While traditionally, micro payments have been restricted to the on-deck platform, viable alternatives are emerging.

- With the launch of payment solutions such as Airtel Money and Vodafone's M-pesa, Telcos are likely to continue to play a central role in micropayments, particularly given their reach and experience with mobile billing.
- Online retailers have also seen good traction with direct micro payments models. For example, Flipkart's pre paid 'Wallet' allows users to preload money onto their accounts online, enabling easy low value transactions. In addition, enabling the storage of credit card details will also facilitate fast check out for low value transactions.

**Portals and other aggregators continue to make investments in content**

Page views for content properties such as news, finance, sports, lifestyle, movies and celebrity news have grown significantly during the year, by 80-100 percent in many cases. Apart from portals, most online players are investing in content as a means to drive user engagement. LinkedIn for example has invested in content around business, leadership and professional development, as part of its news section. Google is reportedly investing an additional USD 200 mn in original content for the Youtube website.

**Emergence of innovative ad formats with higher revenue potential**

Historically, brand advertising online has been under penetrated as compared to performance advertising but this is changing as more advertisers come on-line. This is resulting in the emergence of more innovative and engaging ad formats, which hopefully over a period will drive up inventory prices in certain categories. Portals such as Yahoo are developing curated content in sponsored pages for leading brands. Similarly, Facebook’s sponsored stories are expected to provide much higher reader engagement. These innovative formats command higher rates, and are expected to increase monetization potential through advertising online.

### Comparison of digital advertising formats

<table>
<thead>
<tr>
<th>Advertising unit</th>
<th>Key characteristics</th>
<th>Pricing mechanism</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Display advertising</strong></td>
<td>Includes Banners &amp; Leaderboards, Buttons, Rectangles &amp; Boxes and Skyscrapers</td>
<td>Cost per click (CPC)</td>
</tr>
<tr>
<td></td>
<td>Can consist of simple images or flash animations (over 50 percent of spend), and rich media with or without video</td>
<td>Cost per action (CPA)</td>
</tr>
<tr>
<td></td>
<td>Mature segment priced slightly higher than paid search, with greater effectiveness</td>
<td>Cost per thousand impressions (CPM)</td>
</tr>
<tr>
<td><strong>Paid search listings</strong></td>
<td>90 percent of the market is comprised of Search engine marketing, balance is Search engine optimization</td>
<td>Typically lower cost than banners</td>
</tr>
<tr>
<td></td>
<td>Provides advertisers cost effective reach to target audience</td>
<td>Pay per click (PPC)</td>
</tr>
<tr>
<td></td>
<td>Demonstrated user interest through proactive search</td>
<td>Cost per action (CPA)</td>
</tr>
<tr>
<td><strong>Mobile advertising</strong></td>
<td>Consists of mobile browser-based ads (75 percent of market), in-app ads (25 percent) and SMS ads (5 percent)</td>
<td>Cost Per Install (ad-funded apps)</td>
</tr>
<tr>
<td></td>
<td>Targeting of users based upon demographic characteristics such as SEC group possible (using handset or tablet model ownership as a proxy)</td>
<td>Cost per click (CPC)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cost per action (CPA)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cost per thousand impressions (CPM)</td>
</tr>
<tr>
<td>Advertising unit</td>
<td>Key characteristics</td>
<td>Pricing mechanism</td>
</tr>
<tr>
<td>--------------------------</td>
<td>-------------------------------------------------------------------------------------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td>Sponsored posts &amp; tweets</td>
<td>• Twitter/social network users paid to post specific content</td>
<td>• Cost per Tweet</td>
</tr>
<tr>
<td></td>
<td>• Large follower base of celebrity users can also be leveraged</td>
<td>• Cost Per Click</td>
</tr>
<tr>
<td></td>
<td>• Message effectiveness can be tracked in real time</td>
<td></td>
</tr>
<tr>
<td>Video advertising</td>
<td>• Include in-video display ad banners, translucent overlay ad banners, in-video streaming ads (skippable), standard in stream ads (non skippable) on online video platforms such as YouTube</td>
<td>• Cost Per Click (CPC)</td>
</tr>
<tr>
<td></td>
<td>• Advertisements are delivered based upon video content and search string</td>
<td>• Cost Per View (CPV)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social network</td>
<td>• Fan pages and contextual banners on social networks such as Facebook, LinkedIn, etc.</td>
<td>• Cost Per Click (CPC)</td>
</tr>
<tr>
<td>advertising</td>
<td>• Scope for highly contextual advertising based upon users’ social connections, interests &amp; hobbies, etc.</td>
<td>• Cost per action (CPA)</td>
</tr>
<tr>
<td></td>
<td>• Ads delivered based upon video content and search string</td>
<td>• Cost per thousand impressions (CPM)</td>
</tr>
<tr>
<td>Location based</td>
<td>• Driven by penetration of GPS enabled mobile devices</td>
<td>• Cost Per Click (CPC)</td>
</tr>
<tr>
<td>advertising</td>
<td>• Ads displayed within apps leveraging location data</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Suited for both local merchants and large brands</td>
<td></td>
</tr>
</tbody>
</table>

Source: KPMG in India analysis

---

“Mobile internet usage has already taken over PC internet usage in India in 2012. Given that Mobile media offers unprecedented targeted reach, intuitive interactivity, personalized engagement and ROI driven pricing, we are certain that it will bloom as the 7th and most powerful mass media in the years ahead.”

- Dippak Khurana
  CEO and Co-Founder, VServ.mobi

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**iTunes and Apple TV come to India**

Apple launched the iTunes store in India in December 2012, allowing Indian users to buy local and international music from the store. Songs are priced at anywhere between INR 7 to INR 15 for singles and albums start at INR 70. Following the launch of Flipkart’s Flyte last year, the entry of iTunes could provide a significant boost to digital music in India.25

25. KPMG in India analysis
Outlook for 2013

Digital ratings

Despite impressive growth in a relatively short period of time and having access to significant amounts of data about users, the industry still struggles to generate meaningful independently verified data. Unique viewers and click-throughs do not tell a story about the audience or paint a picture of their on-line consumption habits. Several players are working on bridging these gaps and will hopefully will lead to industry accepted measurement systems in the near future, that allow straightforward comparisons with traditional media measurement metrics.

Generation C: Defining the future of content – Google Inc.

The way people consume content has changed vastly in the recent years. For the first time, an entire generation has grown up with an unmediated relationship with content. They are a generation defined by their interaction with the internet, mobile, and social networks. They are the generation that sets the trends and determines what’s popular in content and culture today. They are the passionate fans who turned Justin Bieber, Psy and Dhanush into stars.

A fairly young and educated generation, they are knowledgeable, discerning and opinionated. To give an indication, almost 70 percent of YouTube viewers in India are under the age of 35 and 72 percent have a college or higher degree education.

At Google we call them Generation C. GenC is a psychographic label representative of a consumer class that is defined by 4 Cs:

• Curation: They pick trends around the physical and online world and amplify them through their own creative lens. Gangnam Style rapidly spread from 0 to 1 billion views in a course of 6 months. An entire ecosystem of content sprouted around Gangnam Style that further fed the viewership of the video. In India this trend was witnessed with Kolaveri Di, and more recently by T-Series, one of the leading channels on YouTube. They’ve recently crossed 1 million subscribers on their YouTube channel by curating content for their audience and determining the music that matters in popular culture today.

• Creation: They value creativity and productivity and the social capital that results from the same. They want a narrative and a purpose which is their voice in the world. They upload photos and videos they have taken themselves. In India 1 in 3 YouTube viewers comments on a video whereas it is 1 in 4 for photo uploads. On YouTube 4 years ago, 12 hours of content was uploaded per minute. Today we see 72 hours of content being uploaded per minute globally. Anybody can create content and find a global audience. In India, Yo Yo Honey Singh became the music star of the year in 2012 with his song Brown Rang which was not only the most watched song but also the top trending video for YouTube in India.

Will Windows 8 be a game changer

Despite previous attempts to dominate the mobile space, Microsoft has struggled to get traction on the OS front in the mobile space. There is certainly room in the smartphone arena for a strong third player – and Windows 8 looks to be making a positive impression on consumers and is leveraging its strengths in the PC market and Xbox gaming to create a consistent experience across platforms. Given there is a large development community that is already familiar with the Microsoft platforms, app development on this platform is likely to catch-up with other platforms very quickly. Either way this will expand the overall mobile media consumption market and in the long term be beneficial to the industry.

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Industry discussions and KPMG in India analysis

• **Connection:** This generation of users cannot live and breathe without their phones and they sleep with or next to their phone! They are constantly connected to people and things that matter most to them. They switch between devices 27 times per hour. In India, smartphone users spend close to 180 minutes* (Source: Nielsen Mobile Informate Insights) on their mobile phones, which is higher than the time they spend on TV and 1 in 3 YouTube users watch YouTube and TV together. As for video consumption, Indian users watch nearly 30 percent of videos on their mobile devices and another 20 percent at internet cafes where they have control over what they watch. For content creators and brands it will become increasingly important to cater to this multi screen pattern of consumption to be able to capture this generations attention in its entirety.

• **Community:** Gen C thrives on community, swapping videos with friends via email and social networks. They believe interactions online are as meaningful as they are in person and maintain a strong sense of community. This is especially true in India where more than 1 in 2 Indian YouTube viewers share videos on social networks; While 50 percent share videos via email, 65 percent update their social profiles daily. They want to make their friends laugh, to share funny, cool or popular videos and impress their friends. Sharing is big and for this they seek content around their passions and interests on a regular basis. One great example of this in India is the 12M+ and growing Cricket community on Google+.

Gen C is extroverted and expressive; they form tribes around social networks and interests and crave participation and feedback. They want authenticity, transparency and collaboration from the brands and content they interact with. Create videos that Gen C loves to share and they will share them, create communities around your brand and Gen C will join.

Video consumption as we know it will be transformed by Gen C, their wants and their engagement. The format in which content is consumed will therefore need to be reconsidered and a multi screen, multi purpose approach providing for the needs of Gen C will have to be adopted. Content creators will need to start catering to not just creation but curation, connection and building communities around their content.

Gaming

**Section Overview**

The gaming industry in India grew 16 percent over last year and is expected to grow at a 22 percent CAGR to reach INR 42 bn by 2017.

**India Gaming Market, 2012-2017P**

<table>
<thead>
<tr>
<th>Year</th>
<th>Console</th>
<th>Mobile</th>
<th>PC &amp; Digital TV total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>15</td>
<td>5.7</td>
<td>1.8</td>
</tr>
<tr>
<td>2013P</td>
<td>1.8</td>
<td>7.9</td>
<td>23</td>
</tr>
<tr>
<td>2014P</td>
<td>23</td>
<td>10.0</td>
<td>24</td>
</tr>
<tr>
<td>2015P</td>
<td>28</td>
<td>11.3</td>
<td>31</td>
</tr>
<tr>
<td>2016P</td>
<td>13.4</td>
<td>14.1</td>
<td>36</td>
</tr>
<tr>
<td>2017P</td>
<td>18.0</td>
<td>18.8</td>
<td>42</td>
</tr>
</tbody>
</table>

Source: Industry discussions conducted by KPMG in India

**Console gaming**

Console continues to be the largest segment of the Indian gaming market. However, its dominance is expected reduce gradually as mobile gaming gains significance.

While growth rates of 28 percent were forecast over 2011-2012, actual growth came in at 8 percent primarily due to:

- Overall sluggishness in the economy impacting both unit sales and attach ratios
- Sluggishness in ad rates and significant inventory overhang in the internet gaming space

Growth estimates for the console market have been further moderated going forward. This is primarily due to the fact that Sony’s PS2 console is expected to be phased out in India this year and upsides from attach growth in PSP, PS3 and Microsoft Xbox 360 sales will only partially offset PS2 sales. A fall in software sales earlier associated with PS2 consoles will also impact the market.

Consequently, the overall market is likely to grow at a 19 percent CAGR to reach INR 19 bn by 2017. For the console segment, a lot will depend on how the PS4 launch fares in India and how quickly the gaming experience on mobiles and tablets comes closer.**

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26. Industry discussions and KPMG in India analysis

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*Unless otherwise noted, all information included in this column/article was provided by the author. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India.*

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**While the smaller (Tier 1 and 2) cities have shown impressive growth across India, a major part of the console gaming habit is still dominated and determined by the population in the top 12 cities including the Metros.**

- Atindriya Bose
  
  Country Manager,
  Sony Computer Entertainment
Mobile gaming

Mobile gaming continued to see sustained growth in smartphone and tablet device penetration, and regular uptake of gaming content (IAMAI estimates that nearly 50 percent of mobile users regularly access gaming content). Although telecom operators such as Vodafone are increasingly recognizing the importance of developing a vibrant gaming ecosystem on-deck and are rationalizing revenue share terms (now offer 70 percent revenue shares to several large publishers), the off-deck segment is expected to eclipse the on-deck segment in value terms by 2014.

Monetization currently remains a challenge for Indian publishers, as the majority of game downloads are ad-funded. However, given that most Indian smartphone users have access to content published by global content providers and the fact that the gaming universe is highly fragmented, the spend gets spread across a large number of developers and private publishers.

As an industry we have not developed the right ecosystem to monetize content. We are still observing increased consumption in free ecosystems. The challenge is to transition from an ad dependent economy to a fairly priced ecosystem. The industry will have to leverage technology and significantly differentiate experience – add features which will make consumers feel enriched and be willing to pay for such services.

- Neeraj Roy
MD and CEO,
Hungama Digital Media Entertainment

Mobile games publishing outlook

Global app downloads have doubled to over 40 billion in 2012 across a billion devices. India currently has a smartphone consumer base of just over 40 million which is still only 4 percent of the total mobile phone subscriber base but growing at a CAGR of over 60 percent. This presents a huge opportunity for Indian developers, publishers, IP owners and brands to enter the burgeoning app market that is poised for significant growth in the years to come. Keeping in sync with this trend and the market needs, Milestone has recently forayed into the dynamic market of publishing mobile gaming apps. The operating model envisions a flexible multiple studio partnership model, financially supported by us, whereby the studios are given creative freedom to produce great games/apps that appeal to a global audience. Milestone will focus on understanding market needs, predicting the consumer behavior and executing marketing & PR campaign around the apps – including monetization, app analytics, performance measurement and ROI. Our aim is to help independent studios and development teams to stay focused on their core competence and yet get their products showcased to a global market through a gaming focused distribution platform.

Mr. Jayont R. Sharma,
Chairman & CEO,
Milestone Interactive Group

Scan the QR code to hear more from Neeraj.

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Low lifecycles of Gaming Apps

Install & Usage over a 3 month period
Retention (%): Apr’12 - Jun’12

<table>
<thead>
<tr>
<th>App</th>
<th>Apr’12</th>
<th>May’12</th>
<th>Jun’12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angry Bird Spies</td>
<td>16%</td>
<td>41%</td>
<td>100%</td>
</tr>
<tr>
<td>Gun &amp; Blood</td>
<td>4%</td>
<td>4%</td>
<td>100%</td>
</tr>
<tr>
<td>Crazy Bike Racing Moto</td>
<td>6%</td>
<td>18%</td>
<td>99%</td>
</tr>
<tr>
<td>DLF IPL T20 Fever</td>
<td>7%</td>
<td>34%</td>
<td>99%</td>
</tr>
<tr>
<td>Unicorn Dash</td>
<td>26%</td>
<td>53%</td>
<td>99%</td>
</tr>
<tr>
<td>BMX Boy</td>
<td>29%</td>
<td>64%</td>
<td>96%</td>
</tr>
</tbody>
</table>

Source: Nielsen Informate Mobile Insights 2013

PC & TV gaming
The PC gaming market grew nominally over this period consistent with last year’s report and is not expected to be a significant contributor to growth over the coming years.

While the TV gaming is a relatively small market, the segment holds some potential for growth going forward as digital cable operators attempt to offer compelling value added services to curb erosion in subscribers with the onset of mandatory digitization. This is however expected to be largely a lower income audience.

Set top device functionality, currently a major bottleneck to delivery of quality gaming content, is also expected to improve over time, allowing providers to transmit richer, interactive content.

Classifieds
The online classifieds market is estimated to have grown at around 24 percent, from INR 12 BN in 2011 to INR 15 BN in 2012. The two largest mature categories in classifieds, Jobs and Matrimonial account for 55 to 60 percent of the total classifieds market, and are estimated to have grown at 15-18 percent during the year. Emerging categories, including auto, real estate, education and horizontal classifieds grew at a faster pace, over 40 percent year on year. Going forward as well, emerging categories are expected to contribute significantly to growth.

Indian Online Classifieds Market

Source: Industry discussions conducted by KPMG in India

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27 Industry discussions conducted by KPMG in India
Themes for 2012

Monetization of digital content online

Media content remains under-monetized on the online/mobile platforms

There has been a significant increase in the internet user base, with the number of unique monthly visitors online at 125.28 mn in July 2012. The reach of new media (across desktop internet and mobile), is now significant compared to traditional media platforms.

**Reach of different media platforms in India**

![Chart showing reach of different media platforms in India]

Further, audiences online tend to have higher purchasing power, making them more attractive to advertisers. However, while digital ad spends have been growing significantly, monetization is still limited. Ad revenues generated online (across desktop and mobile) in India account for only around 6.7 percent of total the ad revenues across media platforms.

**Digital Advertising in India is dominated by aggregators, limited monetization by content owners**

![Chart showing digital advertising in India]

Reasons for under monetization

**Advertising**

Traditional media has well established and respected measurement metrics, historically high rates and a natural constraint on inventory (number of channels and ads per hours, number of print pages). Ad rates online are significantly lower than that for traditional media. This is driven by the availability of significant ad inventory online (that expands significantly every year) and advertiser concerns around ad engagement and effectiveness as compared to traditional media.

Further, audiences are heavily fragmented online, limiting the ability to raise revenue on individual properties. For example, while leading GEC channels on television may reach a weekly audience of over 70 mn,29 In comparison, barring YouTube (31 mn unique visitors in Jan 2013) and Facebook (15 mn unique visitors in Jan 2013), leading video sites online generate unique monthly viewership of only 1 to 3 mn. Even on YouTube, leading channels such as Tseries and Vevo generate only 12-13 mn video views a month (Likely to translate into less that 1 mn unique viewers)28.
Direct user payments for content
Over the past few years, user payments on digital platforms in India have been largely limited to on-deck sales on mobile feature phones. However, this model has its limitations. The high revenue share charged by mobile operators makes it prohibitive for content owners. Further, the on-deck model has its limitations in terms of the kind of content that can be pushed through, and is typically limited to content such as games, caller tunes, wallpaper etc. Finally, with the increasing proliferation of smartphones, the on-deck user base is becoming small and less relevant.

Globally, there have been successful models of generating content payments on digital platforms as outlined below:

<table>
<thead>
<tr>
<th>Sector</th>
<th>Leading Players</th>
<th>Penetration</th>
<th>Willingness to Pay</th>
<th>Success factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>E-books</td>
<td>Amazon Kindle, iTunes, Barnes &amp; Noble</td>
<td>MEDIUM</td>
<td>HIGH</td>
<td>• Creation of reading experience similar to physical</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Integrated device and content ecosystem</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Aggressive pricing</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• ‘Freemium’ model starting to work for some players, particularly those with</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>differentiated content</td>
</tr>
<tr>
<td>Music</td>
<td>iTunes, Amazon</td>
<td>HIGH</td>
<td>HIGH</td>
<td>• Single songs at low price point</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Quick search and check out facility</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Micropayments</td>
</tr>
<tr>
<td>Video on Demand</td>
<td>Netflix, Hulu, Amazon Instant Video</td>
<td>LOW</td>
<td>HIGH</td>
<td>• Large content library; low cost content</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Subscription model</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Aggressive pricing compared to Cable</td>
</tr>
</tbody>
</table>

Source: KPMG in India analysis

In India, these off-deck platforms are still relatively new and immature. However as some of the structural issues around content portability, micro payment platforms, IP, penetration and ease of use get sorted out, the potential for the industry to generate revenue is far greater than the current ad spend in digital.

“With brand advertising gathering momentum in digital, creating real engagement with users is imperative. Content is slated to play a larger role in creating meaningful experiences. Innovations like branded content offer a great opportunity for brands to not just reach, but also engage deeply with their audience – and are in turn significant monetization opportunities for the platform provider.”

- Nitin Mathur
Sr. Director and Head of Marketing (India & South-east Asia), Yahoo!

"With brand advertising gathering momentum in digital, creating real engagement with users is imperative. Content is slated to play a larger role in creating meaningful experiences. Innovations like branded content offer a great opportunity for brands to not just reach, but also engage deeply with their audience – and are in turn significant monetization opportunities for the platform provider.”

- Nitin Mathur
Sr. Director and Head of Marketing (India & South-east Asia), Yahoo!
Imperatives for successful monetization

E-books

Given its rising middle class and base of English language speakers, India is a potentially large market for e-books. In addition, there is large potential for local language publications. In a recent study by Bowker market research, 53 percent of respondents in major Indian cities reported downloading free e-books in the past six months. Publishers and platform providers see the potential for e-books to capture 50 percent of the total legal books market over the next five years.

Globally, the introduction of the Kindle in the US in 2007 played a critical role in accelerating e-book adoption. For the first time, the device provided direct mobile access to a major online store through the Kindle device. Development of a seamless user experience, a vast catalog and aggressive pricing were critical to its success.

Amazon Kindle Key Success Factors

**User Experience**
- Seamless experience; Even the wireless data access costs to download books were bundled into pricing
- Easy check out experience to encourage impulse buys

**Ecosystem creation**
- Very rapid scale up of content catalog through publisher tie ups

**Aggressive Pricing**
- Number of new books sold for a flat price of USD 9.99, many even at a loss; Classics and back editions priced at USD 1.99
- Low device prices

On a number of titles, Amazon priced aggressively, often at a loss, to encourage e-book adoption. This was facilitated by its initial wholesale pricing model, where publishers sold books to Amazon at a fixed wholesale price, and agreed to let Amazon fix the retail price.

Amazon Pricing Example, Stephen King’s Just After Sunset

<table>
<thead>
<tr>
<th>Hard Cover</th>
<th>E-Book</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amazon Retail Price</td>
<td>USD 18.48</td>
</tr>
<tr>
<td>Wholesale Price</td>
<td>USD 14.00</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>USD 4.48</td>
</tr>
</tbody>
</table>

Gross Margin:
- 24%
- 40%

Amazon Kindle, content build up

The rapid development of a content ecosystem was one of the critical factors in the early success for Amazon. Kindle was launched with a catalog of 90,000 books, and scaled up to 200,000 books in the first year. Providing users with access to a long tail of smaller titles was critical in driving adoption.

The Indian opportunity

With the launch of e-books platforms by Amazon’s Kindle in August and Flipkart’s Flyte in November, publishers in India finally have access to credible and scalable platforms for e-books. While it is still early days, the initial signs do indicate good traction. However, to ensure that the market achieves significant scale, publishers and aggregators will have to work together in a few critical areas:

- E-book sales are likely to be driven by smartphones (As much as tablets) in the next five years. Developing content, user interfaces and pricing tailored to smartphone users will be critical
- Aggressive pricing, offering a compelling price point compared to print additions; This will also help address the piracy threat
- Small ticket size content such as individual chapters, short stories and lower priced back editions; These need to be backed by micro payment models such as Flipkart’s wallet
- Digital Rights Management to enable India specific pricing is critical to enlist publishers
- Build up a large content library across English and local language titles
- High quality search and check out experience
Music
The success of the iTunes model globally has clearly demonstrated the viability of digital music at low price points. iTunes was launched in June 2003, and captured a 70 percent share of the legal downloadable music market within a year. In 2012, iTunes held 64 percent of the digital music market and 29 percent of entire retail music market in the United States. Key factors contributing to the success of the model were:

- Pay per download model, at a very low price of USD .99 per song, at a time when a number other services were building subscription based models
- User friendly software and interface critical in converting initial users
- High revenue share of 65-70 percent paid to the music labels, helped bring them on board
- Secure format through Mac based itunes music software addressed IP concerns of Music labels
- Managed to strike an initial deal with five big music labels to build a large library quickly

Growth in user content library and downloads for iTunes in initial two years

In India too, recent launches suggest a high willingness to pay at low prices points. For example, Flipkart has seen 2.5 to 3 mn downloads already in the first 12 months. While this is much lower than iTunes scale up of reaching 5 Million downloads in 3 months, it does indicate significant propensity to purchase at the INR 8 to 15 price point range for songs.

“We are definitely seeing a willingness to pay for legal music. But at low prices points (less than INR 20/-) it is critical to have robust micropayment models in place that ensure security and enable quick checkout. Further, both the record companies and online music stores have to work together to share risks, experiment rapidly and grow the market.”

- Sameer Nigam
Vice President, Digital Business
Flipkart.com

Source: NPD Group, Q2 2012
Similarly, Hungama.com has reportedly seen 22.5 mn paid transactions on its mobile site, through its INR 5 per day micropayments model. Customers are charged INR 5 a day to download five pieces of content including ringtones, videos or songs.

However, to build a sustainable model and substantial scale, the industry will have to focus on a few critical success factors:

- Quality of catalog and search experience
- Quick payments/check out (Including one click purchase, storing card details etc.), given the low ticket size of songs
- Micropayments, including models such as Flipkart’s wallet and telco billing
- In the absence of a hardware player such as Apple willing to lead losses through low prices to push hardware sales, Music companies and Platform owners need work together to enable low price points and share risk

**Print**

Globally, the print media (Newspapers/ Magazines) has lagged on the monetization front. While publications have been experimenting with combinations of free and paid models online, it is only with the emergence of the tablet (and smartphone) platforms that we are seeing meaningful monetization online. Given the print like reading experience on Tablets, willingness to pay for content is much higher.

For example in the US, 90 percent of magazines of AAM magazines now have a digital presence, up from 51 percent in 2009. 80 percent of the revenues made by these magazines are because of consumption on the iPad.

As a result, while pressures on ad revenues are sustained, many leading publications are beginning to see an increase in digital subscriptions from tablets. How successful publishers are at exploiting this trend remains to be seen.

**Implications for Indian players:**

- Based on recent developments in the west, it appears that customers are willing to pay for print content on the Tablets, as long as the quality of experience and content is differentiated
- Build niche, special interest and hyper local content which have higher monetization potential as compared to general news. For example financial / special interest publications such as the Financial Times and Economist have been much more successful at charging for content on digital.
- Explore hybrid models, using free content to generate scale for advertising, while keeping premium/ analytical content behind a payment wall
- Magazines and newspapers are valuable properties for branding. Focus on higher revenue potential brand/ rich media advertising and innovative ad formats such as sponsored sections to enhance ad revenue potential

As it stands, most Indian publishing houses are experimenting with the above to some degree. However, user paid revenues are yet to become significant.

**Video on demand**

Video online is broadly divided into two categories, short and long format video. Short format video has so far been the predominant category online with a large share of user generated content. Google’s Youtube has been dominant in this space, through an ad funded model. Globally and in India, video is one of the fastest growing advertising categories online. Advertisers see similar benefits to Television in Online Video, in terms of its utility for high impact brand advertising. As a result, there is increased focus on professional content (As opposed to User Generated Content), given the higher potential for ad revenues. Ad rates for online video can be 5 to 10 times higher than that for basic display ads. Hence, through good quality, low cost, made for digital content, meaningful advertising can be achieved for short format video online.
The second category, long format video, includes more traditional television and film content. Given the relatively low penetration of high speed broadband in India, the penetration of long format digital video content is still low in India. However, as broadband penetration increases, such services are expected to grow. There have already been a few launches of VOD services for India, many of these focused on the mobile platform. However, these are still in initial stages, and are yet to see any significant amount of traction in terms of the paid user base.

Globally, video on demand is more mature, and provide valuable insights for Indian players. Video on Demand follows several business models globally:

<table>
<thead>
<tr>
<th>Business model</th>
<th>Description</th>
<th>Leading Players</th>
<th>Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>TV Everywhere</td>
<td>Enables on demand viewing for Pay TV subscribers across devices</td>
<td>Comcast, Dish</td>
<td>LOW</td>
</tr>
<tr>
<td>Subscription Video on Demand</td>
<td>Allows access to a content catalog for a fixed subscription fee; May include ad funding</td>
<td>Netflix, Hulu, Comcast/Streampix, Redbox</td>
<td>HIGH</td>
</tr>
<tr>
<td>Transaction Video on Demand</td>
<td>Allows access to content on a pay per transaction basis</td>
<td>Apple, Amazon, Google</td>
<td>MEDIUM</td>
</tr>
<tr>
<td>Electronic Sell Through</td>
<td>Pay per transaction model where user downloads file for storage</td>
<td>Apple, Amazon, Microsoft, Walmart (WUDU)</td>
<td>MEDIUM</td>
</tr>
</tbody>
</table>

Source: KPMG in India analysis
Globally, the Subscription Video on Demand model has the largest user base and revenues.

**US Video on Demand market - Segment wise size**

The key to the success of the SVOD model has been low subscription prices. For example in the US, where monthly cable subscriptions are over USD 20, Netflix’s pricing of USD 8 per month is very attractive. However, access to low cost content is critical in order to achieve these price points. Netflix was able to do this by securing initial deals that were priced at a fraction of the cost of comparable cable deals. However, content costs have increased at a 70 percent CAGR in the last 3 years and are placing significant stress on Netflix’s low price subscription model.

**Implications for Indian players**

- Ad based monetization through short format, made for digital is the more immediate monetization opportunity through online video in India and has a good level of exploitation already.
- Broadband penetration remains a challenge to large scale adoption of traditional long format content.
- In India and globally, video advertising is one of the fastest growing advertising segments online; opportunity for content owners to benefit from this through made for digital content.

**Summary**

In categories such as e-books and music, where the model is largely established in more advanced countries, the major challenge in the Indian market will be to recreate this at price points that work, create successful micropayments models, manage the threat of piracy and deliver a superior user experience that discourages switching to pirated content.

However, for players in Print media (Magazines/Newspapers) and Video (Television/Movie), business models are still evolving globally. While players in India in the sectors can learn from global experiences, they will need to innovate to develop a sustainable model.

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**SVOD Service Provider**

<table>
<thead>
<tr>
<th>SVOD Service Provider</th>
<th>Typical Subscription Charges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netflix</td>
<td>USD 8 per month</td>
</tr>
<tr>
<td>Steampix</td>
<td>USD 5 per month</td>
</tr>
<tr>
<td>Dish/ Blockbuster</td>
<td>USD 10 per month</td>
</tr>
</tbody>
</table>

Source: Macquarie Equity Research September 2012 – “Netflix virtuous circle turning vicious”
Regulatory challenges

One of the key building blocks for a vibrant digital economy in any country is to have a robust copyright framework that allows sufficient incentive and protection to creators to commercially exploit their work. In economies, where the right legal protection framework is provided, innovation and investment has grown and in the process added significant benefit to the overall ecosystem. On the flip side, countries where there is a perceived risk of litigation around the provision of services for digital distribution of content, investment and innovation has suffered and hence long term growth of the sector has been constrained.

Historically copyright law has roots in handling and copying of content. However this relationship breaks down in the digital world, as content can only be shared and disseminated by copying it.

This raises several questions:

- How much may be copied from a copyrighted work before permission must be sought?
- Can someone who has a legitimate copyrighted work change the format in which they use it (e.g. CD to MP3)?
- Where an intermediary makes a digital copy of a copyrighted work to assist in disseminating it to legitimate users, in what, if any, circumstances must they obtain explicit permission?
- Where users are uploading data on content sharing platforms what controls are in place to ensure copyright is not being systematically violated. This is especially relevant for search, content sharing and social networking (e.g. caching, hosting and indexing) sites – all of which are key for efficient functioning of the internet.

Internationally “safe harbor concepts” are increasingly being enshrined in legislation that provide certain exceptions to copyright rules for internet intermediaries to allow them to function in this environment. While the specific legislation varies from country to country, the principles regarding safe harbour provisions in copyright regimes are similar globally:

1. Provide a broad breadth of coverage for Internet Intermediaries:
2. Put in place prerequisites for Service Providers to Claim Safe Harbors:
3. Specify legal process by which rights holders can notify platforms regarding specific infringement
4. Put in place provisions regarding the consequences of notification by rights holders

Current state of play of online copyright issues in India:

- Safe harbour concepts were first introduce in Indian Information Technology Act (via its Section 79 provisions), and updated with its amendment in 2009, however are often subject to varying interpretations by courts.
- Copyright Act was amended in 2012, including new provisions regarding limiting liability for service providers (via newly added Sections 52(1)(b) and 52(1)(c)). Implementing regulations for this still pending at Copyright Office, and provisions of amended Copyright Act being tested at courts in interim
- Copyright Act amendment also affected licensing situation in India. With changes made with regards to who holds copyright in certain works, situation unclear in many cases for online businesses seeking to engage with collecting rights societies to license musical works.

While progress is clearly being made in this space in India, there is still some catching up to do. Given that we will soon be home to the world’s second largest Internet population, these regulations could be the key to unlocking innovation and monetization in this space in India.
Radio
Renewed hope
Round up of the year that was

Revenue growth stifled as utilization levels peak

The radio industry had a muted growth of 10 percent in CY 2011 and reached revenues of INR 12.7 billion compared to INR 11.5 billion in CY 2011. The overall revenues of listed radio players exhibited a single digit growth rate during the entire year. The growth in industry’s revenues was driven by volume improvements as prices largely stayed stagnant. In certain markets, leaders have been able to raise rates slightly but the overall trend has been to expand revenue through volume enhancement and rate rationalization.

The growth in industry revenues CY 2012 was primarily driven by double digit growth in larger companies such as Radio Mirchi’s and Radio City, and also in non-metro players. ENIL and Radio City continued to grow faster than the industry in all the quarters with double digit growth in revenue which was driven by increase in volume of advertisements while advertising rates largely remained same. The growth for ENIL was led by Mirchi innovations, activations business and other innovative packages offered to the customers by the company.

The utilization levels have reached nearly 100 percent during peak season in the top eight metros putting pressure on volume based growth from metros in the near future. For non-metro players too, utilization continued to be a lever for growth – for example, MY FM’s average inventory utilization was at 95 percent in prime time followed by non prime time in the range of 75 to 85 percent.

Revenues for non-metros are growing at a faster pace

Radio in tier II cities is growing well on the back of inventory utilization improvement and increased focus on local advertisers. Revenues from non-metros grew faster than the metros on the back of inventory utilization improvement; examples of players focused on non-metros include Radio Mantra, that exhibited a growth rate of 12.5 percent in 2012 and MY FM, where Q2 & Q3 growth was 16 percent in comparison to 2011. Both MY FM and Radio Mantra operate exclusively in non-metros. The growth rate is much higher than the overall industry’s growth rate of 10 percent.

Profitability improvement – There was some profitability improvement in the industry on account of increased cost discipline. The ambiguity over the royalty issue was cleared with the statutory licensing provision in Copyright Amendment Bill, 2010 being approved by the Union Cabinet in May, 2012. A statutory license limits exclusive rights of authors and creators to control dissemination of their work, a basic principle of the copyright law. Under statutory licensing provisions, the rate card for royalty for producers and music companies will be decided by the Copyright Board. It has reduced the royalty to producers from radio to 2 percent from the earlier method based on needle hour. While a few music companies had already begun collecting royalty as per the revised rates in 2011, with the statutory licensing coming into effect, majority of the music companies are now charging reduced royalties, which has led to profitability improvement of Radio players.

The profitability continues to be hampered due to increase in electricity and employee costs.

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01. KPMG in India analysis based on annual reports of radio players and industry discussions
02. ENIL Conference Call Transcript for Q4FY12, ICIDirect.com ENIL research report 29 May 2012
03. Industry discussions conducted by KPMG in India
04. “Radio industry opposes statutory licensing drop in the Copyright Amendment B&B” published in Radio and Music on 27th April 2012
With radio penetration being as high as 70-80 percent, there is a universal acceptance of radio as a medium among listeners. However, advertisers are yet to understand the return on investment that a medium such as radio offers. They continue to invest majority of their budget on heavily cluttered media like TV and print.

- Harrish M Bhatia
Chief Executive Officer,
DB Corp Ltd. (Radio Division)

Radio – An integral part of a marketing plan

Though radio has been one of the oldest mediums in India, its true expansion only took place in 2001 when the government deregulated the medium and allowed frequencies to be owned by private players. With the advent of over 40 players in the medium and its availability in 86 of the largest cities in the country, there was a huge focus from the networks to showcase radio’s attractiveness to the advertiser and equally an interest from the advertisers to test this medium as part of their advertising mix.

While initially advertisers used the medium as a support and an add-on to larger and more traditional media like TV and print, and a frequency creator to enhance brand recall, over a period of time they have started realizing that the true potential of the medium is far greater than just as a support medium. Radio today has thus started becoming an integral part of a media plan for the following reasons;

- It is the only medium which is local, live and interactive, thus advertisers can actually create geographically localized and segmented communication stimuli for their customers, use radio to reach out to specific pockets of audiences and actually get real time responses to their communication. Advertisers can use radio to have a two way communication with their consumers and measure response to their brands while in the case of traditional media it is usually a one way and more passive communication.

- The RJs on radio by virtue of the medium’s personalized nature have a far stronger connection and emotional engagement with listeners than any other medium’s spokespeople. As a consequence RJs are very powerful influencers in the consumers mind and can be an important source of information dissemination.

- Radio is also very complementary in nature to TV advertising. In fact research proves that apart from their own promos, TV channels have found radio ads as the next significant source of building recall for their content. In fact a single source data analysis done by rating companies has shown that radio adds new audiences to a TV plan beyond a certain budget in a national plan. If 10 percent of a given TV budget is re-deployed onto radio, the effectiveness of the campaign in building awareness increases on average by 15 percent.

- Because of the complementary nature of the time when TV and radio are listened to, even on a single day it is better to use radio during the day and TV in the evening to build efficiencies in a media plan.

- Radio is also far more cost effective than print at a local level. It gets advertisers the same reach at 1/3rd the cost of print in a city.

- Increasingly a radio plus outdoor or radio plus on ground kind of marketing activation has demonstrated higher recall than using more passive media like print. Because of the fact that common people view radio as their platform and are very comfortable with the medium, they tend to respond to it far easily. ( eg A recent activity done by Radio City saw nearly 80000 auditions across 15 cities )

- Radio’s reach at a local level is higher than most other media except the GEC channels and thus demonstrates the widespread impact it can have in transmitting the advertisers’ message to consumers.

With the advent of Phase 3 where FM will become available across nearly 300 more cities, its reach will only go up exponentially. As advertisers look beyond the metros and mini metros for growth, the availability of FM in Tier-2 and 3 towns will provide a cost effective choice to them to reach out to potential consumers in these cities. More importantly, it will become available as a local medium to advertise on for thousands of retailers in these cities who today have practically no cost effective way of advertising and reaching out to buyers. Phase 3 is expected to change the nature of communication in smaller towns as well give a powerful tool to local businesses to expand and grow.

Apurva Purohit
CEO, Radio City

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Local advertising spend increases

The macro-economic challenges plaguing the overall advertising market continued to hamper the growth of radio industry as well. Advertising was driven mainly by automobile, FMCG and retail sectors while telecom and BFSI restricted their budgets. Sports, NGOs and agriculture were some of the new categories advertising on Radio.

The first three quarters saw a considerable reduction in national advertisements as the national advertisers chose to cut their ad spends in light of a slowing economy, although the growth in national advertisements picked up in last quarter of the year during the festive season.

Phase 3 will take radio to newer towns which will help the market to expand and also enable growth of radio medium as a category. The recent announcement by the Finance minister in the 2013 budget on the rollout of 839 stations across 294 cities is an encouraging development for the radio industry.

The reduction in budgets of national advertisers was partially compensated by a strong growth rate exhibited by local businesses which were somewhat insulated from slowdown in the economy – especially in Tier II and III cities. The local segment now comprises nearly 50 percent of overall advertising revenue for the industry with significant difference across major networks. For example, Radio Mirchi, local advertising stands at ~40 percent and for MY FM it is 75 percent.

Share of local advertising

Youth continue to be the primary listeners of radio

Indian Readership Survey or IRS is one of the largest readership surveys conducted in India. It also captures listenership for radio. According to IRS 2012 Q3 findings, the listenership of radio increased from 155 million to 159 million from Q1 2012 to Q3 2012 registering a growth of 6.1 percent compared to 6.4 percent growth of Television during the same period.

Majority of radio listenership comes from the age group of 20-40 years of age. As a result stations continue to focus on youth by developing youth centric programming.

<table>
<thead>
<tr>
<th>Age Group</th>
<th>% listenership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 20 yrs</td>
<td>27%</td>
</tr>
<tr>
<td>20-40 yrs</td>
<td>48%</td>
</tr>
<tr>
<td>&gt;40 yrs</td>
<td>26%</td>
</tr>
</tbody>
</table>

Source: IRS Q3 2012

The power of a billion: Realizing the Indian dream
Importance of and future of radio in growing Indian cities

Today, India is driven by the ‘growing cities’, classified by some as Tier II & III cities, as much as it is driven by metros like Mumbai & Delhi. In fact, the new economic centers of consumption are emerging in these cities, which are experiencing high urbanization and growth, the question is why? - The answer is “Aspiration”.

With India gradually transgressing from production based economy to a consumer based one, the aspiration along with purchasing power to experience superior lifestyles & global brands have increased, which has led many national and international brands looking for presence at these centers. There’s a rise in consumerism in these growth markets due to availability of consumer products & active advertising of them through various local media like Radio, Print etc.

The positive trends are visible across categories & services like real estate which has seen residential property prices appreciate in the range of 45-120 percent, while the annual turnover of top 10 FMCG companies have risen more than 40 percent from these cities. Further, rapid urbanization has enabled skill-based manufacturing sector like automobile, consumer durables, capital goods, engineering, textiles, pharmaceuticals, biotechnology and IT/ITeS to grow rapidly in these cities.

The media industry is recognizing this potential and increasingly focusing on these growth centers of economic activity. The Indian radio industry generates revenues close to INR 1300 Cr and with radio market in metros getting saturated and advertisers wanting more & new consumers to be reached; growth will emerge from these cities. In fact advertisers are gradually realising the effectiveness of radio in these cities and are giving radio more importance than any other medium.

As per IRS, there has been an increase in FM radio reach during the year for metros as well as non metros; however FM reach in non metros has grown higher than metros. People are spending maximum time listening in Radio compared to other medium as –

a. Radio is consumed across day-parts
b. There has been an increase in out-of-home listeriship.

The effectiveness of radio in these cities would be much greater than metros as the challenges here are different from metros. Radio becomes highly effective because these regions still suffer from power shortages, lower literacy levels and low internet penetrations while radio is a mobile medium and can be consumed any place-any time. Lately with increased number of FM enabled mobile handsets, the consumption of radio has further increased. Hence, Radio inevitably becomes an important & effective medium to reach such consumers and address a brand’s local challenge in their own local language in the fastest possible time.

The potential and viability of radio will grow many-fold once Phase III of FM policy is launched & the current challenges including music royalty, license period, price migration issue, new & current affairs based content are addressed. In phase 3, many new frequencies will come up, taking radio to newer towns, which will help the market to expand and also enable growth of radio as a category. However, the govt. should fix an ideal floor price, keeping the potential revenue from that particular market in mind as well as address the above mentioned challenges to ensure higher participation in the bidding process. Apart from this, we also believe networking of radio stations as per Phase III policy will result in cost reduction and would help in increasing profitability.

Finally, as the category evolves, we would see newer formats emerging offering more options to the consumer to choose from. Stations in the past have experimented with talk show, storytelling, all-English & retro genre music formats, some of which have received an overwhelming response from the listeners.

In a nut shell we can say that these ‘growing cities’ will play a more pivotal role in shaping the future of the country and radio will be the ideal medium to reach such consumers.

Harrish M Bhatia
CEO,
DB Corp Ltd. (Radio Division)

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Mobile and out of home listenership drive growth

According to IRS and RAM, people are spending more time listening to radio as compared to the time spent on other mediums such as television and print. The increased engagement with radio is because it is consumed throughout the day and also there is a consistent increase in out-of-home listenership through mobile and car stereo.

<table>
<thead>
<tr>
<th>Medium used</th>
<th>Q3’11</th>
<th>Q3’12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile</td>
<td>25.6</td>
<td>37.8</td>
</tr>
<tr>
<td>Car/Stereo</td>
<td>1.3</td>
<td>2.2</td>
</tr>
</tbody>
</table>

Source: IRS

In India due to low penetration of mobile internet, radio broadcasters have started tying up with telecom operators to offer radio services. Radio Mirchi and Big FM have already launched applications for mobile radio where a user can listen to a Mumbai radio station from any city in India. Mirchi Mobile (the VAS application launched by Radio Mirchi) is now offered by most of the Telecom companies. It has been well accepted and has 8-10 million subscribers, out of which 50 percent are active subscribers.

Sector projections

The industry is forecast to grow at a 10 percent CAGR till the Phase III stations start operations (expected in 2014). Post Phase III, the industry is expected to grow at a CAGR of 21 percent. Correspondingly, radio’s share of media ad spends is expected to increase from around ~3.9 percent currently to 4.3 percent in 2017.

Trends in the radio industry

Increased innovations in Radio

As the market conditions remain tough and the core radio business remains under pressure the radio players are increasingly investing more in innovations targeted towards driving listenership and increasing engagement with advertisers. Going forward innovations are likely to continue to play an important role in growth of the sector as rates remain under pressure over the medium term and volume expansion headroom is limited.

There has been an increased focus on bundling activations with ad solutions. E.g. Dabur Chyawanprash - Immune India was a school contact programme MY FM initiated to increase sales of Dabur Chyawanprash. Under this programme, MY FM played promos in Dhoni’s voiceover on radio urging people to stay fit by eating Chyawanprash every day. The team also visited schools and distributed Chyawanprash samples and spread awareness about the benefits of eating Chyawanprash.

Projected revenue growth

After the release of additional frequencies post phase III, radio industry is expected to see a steep growth (CAGR 21 percent). The industry will see growth from existing licenses (through increased prices in metros and increased utilization levels in non-metros), new licenses in the existing cities and through the addition of new cities as a part of Phase III. Also, the large players with extensive reach post phase Phase III may be able to charge a premium by offering a countrywide advertisement solution.

Source: IRS

Source: KPMG in India analysis based on industry interviews conducted with key decision makers at radio stations

Source: Industry discussions with leading industry players, annual reports of ENIL, RNIL, HT Media, and D B Corp Ltd and KPMG India Analysis

Source: Industry discussions with CEO of MY FM conducted by KPMG in India
The power of a billion: Realizing the Indian dream

Innovation is the key for growth of Radio

Innovations to drive listenership

**Innovations in content** – While the prime focus continues to be on Bollywood music, alternate content like reality shows, story-telling, radio plays and celebrities playing DJs has started appearing on radio stations. Some new developments were ‘40 minutes non-stop music’ during prime time by Fever FM, Karisma Kapur playing RJ on Big FM’s women targeted Big Memsaab, Nukkad Natak focusing on certain issues by MY FM and Music Legends Hour focusing on International music by music legends.

**Focus on local content and issues** – Radio derives its strength from being a medium targeted to local audiences. 2012 saw many innovations in content to engage with the regional audience. Big FM announced second edition of its ‘Big Regional Entertainment Awards’ across seven regions including Central India, Punjab, Rajasthan, Maharashtra, Andhra Pradesh and Tamil Nadu. MY FM ran an event named ‘My City My Passion’ wherein the station recognized and profiled passionate people of a particular city.

Innovations to drive advertisements

**Greater engagement with advertisers** – The clients have increasingly become more demanding in terms of pricing and also in terms of value. They are increasingly seeking an advertising solution from the radio players rather than seeking exposure to one medium. Radio players are therefore adding many product lines in their portfolio in order to work collaboratively with clients.

Radio Mirchi has launched Mirchi innovation which works along with the client to provide an advertising solution. Radio City Connect is Radio City’s full spectrum activations cell providing end-to-end 360 degree brand marketing solutions. MY FM continues to provide interesting advertising solutions to clients, e.g. MP Tourism’s campaign Hindustan Ka Dil Dekho, which the station promoted, wherein the RJ profiled the beauty of all the major historical monuments across Madhya Pradesh with live coverage of the same. MY FM also conducted DIMAT -Rocket Singh Salesman of the year where major corporates were covered to find out the Salesman of the Year.

Increasing usage of social media

Engaging with listeners continues to be the top priority for radio players in order to differentiate themselves in a crowded market. Social media is a tool that many radio players have started utilizing in order to engage with target radio audiences.

In South Africa, Jacaranda 94.2 one of the local radio stations, utilized their online presence to drive extensive monetary donation for their “Good morning Angels” initiative to change the lives of ‘real’ people with ‘real’ issues for the better.

In India, with a different page for each city, Radio One 94.3 puts up in studio pictures, guest interviews and celeb gossip on their Facebook page allowing fans to engage in a conversation with guests and RJs.

**Internet Radio targeting the youth**

With easy availability of internet, growing adoption of smart phones and limitations of reach faced by traditional radio, online radio has now emerged as a powerful medium in India to keep the youth engaged. Internet radio is a very popular concept worldwide. With websites such as pandora, live365 and streema, internet radio has come a long way.

French-Belgian Internet radio company Radionomy has attracted more than 13 million unique listeners worldwide since its initial debut back in 2008. Furthermore, its network currently boasts more than 6,000 user-programmed online radio stations that generate more than 42 million listening hours every month.

In India, traditional radio broadcasters have begun streaming their programs online. This allows them to widen their reach beyond their signal area and increase the potential to sell to national advertisers. Radio Mirchi has four online radio stations – Meethi Mirchi, which airs modern Bollywood songs, Purani Jeans which broadcasts retro Bollywood songs, Mirchi Edge which provides music beyond Bollywood and Club Mirchi, which airs Hindi and English club mixes. Radio City also operates three online radio stations - Web Radio Live, Freedom Radio and Non – Stop IndiPop.

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There are also some independent web radio portals making their presence felt. Radio Whiskey is a pure play online radio portal. It focuses on playing unheard exclusive original music sourced from independent artists. On the other hand radiowalla is a service that offers a variety of special interest, internet radio channels for niche audiences worldwide.

Traditionally radio broadcasters have faced a challenge in providing an accurate justification of advertising spend to advertisers for the value they provide. The growth in digital media provides them a better means for monitoring and measuring their target audience – vital information to advertisers, thus providing an opportunity to customize campaigns and drive up ad rates.

Community radio to get a boost propelled by government support

Community Radio has the potential of playing an important role in the growth of a country, especially a country as large as India, by catering to local tastes and providing a platform for dissemination of news and views that resonate within a small community. As of 2012, there were approximately 126 operational community radio stations in India, out of which 78 are focussed on education, 38 on NGOs, and 10 on Krishi Vigyan Kendra (Agriculture and Farmer education).14

Community Radio is considered to be at a nascent stage in India but the government is working towards providing a fresh impetus to this movement. The government will be providing INR 1 billion in the XII Plan for propelling Community Radio forward. During the Plan period, it is proposed to set up 500 new Community Radio Stations (CRS). Out of the INR 1 billion, INR 900 million has been proposed for providing financial support, while INR 100 million is being proposed for training, capacity building and awareness activities of Community Radio Stations.

The Government is also planning steps to make these stations financially viable. Department of Telecom is considering spectrum waiver for community radio stations. Government is also planning to take steps to make the CRS more financially viable. The ministry has taken the initiative to promote the streamlining and simplification of Community Radio empanelment through DAVP thereby ensuring that the empanelled stations got a fair share of Government advertisement.

Mobile reaches where traditional radio does not

Mobile radio is trying to fill the gap of community radio stations in small towns. Mobile radio is driven by the facts that rural population has access to mobile phones and there are currently no existent FM stations or community radio which can take up regional issues.

Started in 2008-09, GramVaani (meaning voice of the village), has been building technology for community radio stations, IVR based applications and last year, launched a mobile based radio network called Goonj, which acts as a voice based social network for the bottom of the pyramid. Goonj is operating in select districts of Jharkhand state, receiving over 2000 calls a day, while GramVaani’s technology is currently being used by 2 million users across 15 Indian States, Afghanistan, Pakistan, Namibia and South Africa.

Goonj banks on the fact that the rural population has access to mobile phones and it addresses the need of taking up regional issues. The radio channel is meant for the users for self expression and gives them the ability to be heard. They have held discussions on issues like water conservation, utilization of MNREGA funds and HIV/AIDS. People also utilize this platform for showcasing talent and sharing information about current affairs.15

Drivers for Internet Radio

- Unlike traditional radio, there are no license requirements. The internet radio is therefore accessible from any part of India.
- Internet radio ‘stations’ are also accessible from anywhere in the world. This enables internet radio to target Indians who work abroad.
- Internet radio also appeals to niche audiences who want dedicated channels for a particular genre.
- Easy availability of internet, growing adoption of smart phones
- Easier to monitor and measure target audience in order to provide vital information to advertisers

Challenges for Internet Radio

- The key challenge for internet radio is the royalties payable for music streamed. The current digital pricing structure in India relies heavily on minimum guarantee payouts, on which industry players believe new businesses cannot be built.
- Though online subscription platforms have existed for a long time for music, these have not generated a large number of paid subscribers. Monetization of internet based content is a major challenge.

- Apurva Purohit
CEO, Radio City

While digital radio contributes to a small proportion of Radio City’s revenues, there has been a 100 percent revenue growth this year as the listenership response to our 4 web radio streams has been excellent.

14 “Community Radio Movement to get a boost,” published in Times of India on Feb 11, 2013
15 http://www.gramvaani.org/
Imperatives for Radio Industry Growth - A regulatory wishlist

Writing as I am after the Finance Minister has made a significant announcement on the roll out of Phase-3 of FM in the Union Finance Budget, I do so with my heart filled with a renewed hope! For the radio industry has been waiting for the promised expansion for more than 21 months now (the phase-3 policy was announced in July 2011).

The Phase-3 expansion is critical for the radio industry. There has been no expansion in private FM since the last auctions were held in Jan 2006. In the meantime, the rest of the media landscape has grown dramatically. There are tens of new TV channels, hundreds of new print editions, thousands of hoardings and many more web publishers. Radio has been fighting a battle of staying relevant in this fast changing media scenario. With the promise of more channels coming up in the metros, and new frequencies becoming available in many more new towns around the country, the radio industry is hopeful of not only surviving but thriving.

The announced policy already makes some significant changes over the previous policy. There is a provision for broadcasters to operate more than one channel in the same town which should help in consolidation, and launch of new programming formats. There is the clause on networking which should make the really small cities financially viable. There are a few more improvements as well. Why then is the radio industry not jumping with joy? Why is it that the entire industry made an aggressive plea to the Secretary I&B at a recent interaction?

The biggest shortcoming in the new policy is the auction methodology. In place of the successful Phase-2 “tendering” (one-step auction) method, the policy now prefers the 3G style “ascending” auction method. Radio players don’t like this method because ascending auctions increase license fees to irrational and unviable levels (as seen in 3G – all players are bleeding). There are a few more improvements as well. Why then is the radio industry not jumping with joy? Why is it that the entire industry made an aggressive plea to the Secretary I&B at a recent interaction?

The biggest shortcoming in the new policy is the auction methodology. In place of the successful Phase-2 “tendering” (one-step auction) method, the policy now prefers the 3G style “ascending” auction method. Radio players don’t like this method because ascending auctions increase license fees to irrational and unviable levels (as seen in 3G – all players are bleeding). At the same time, since all frequencies are sold at the same price, this forebodes a sure death of programming variety. For eg., if both channels in Mumbai go for the same high fee, how and why should the winner offer a smaller format, say English or Marathi? The only variety available today in India’s metros has come from players who paid relatively small license fees in Phase-2.

The second big problem is the Reserve Fee. Again, just like in the recent 2G auctions, the Reserve Fee (the point at which bidding starts) has been kept too high (highest bid of Phase-2). If successful, this will lead to a very high cost industry, leading to losses, shut-downs, cutbacks in marketing and hence, no growth in listenership. But in all likelihood, the auctions will fail in a majority of the 250 odd new towns where new frequencies are being offered.

My estimate is that no more than one-third of these towns will attract bidding, a scenario very similar to what the government has seen with 2G auctions. The government will then start to lower the reserve fees, but once the damage has been done, it cannot be undone.

There are other problems as well. The restriction of sourcing news only from AIR is bizarre. Most broadcasters come from large media groups and have their own sources of news. Why should they buy news from the state broadcaster?

But the biggest problem with the policy is that there simply aren’t enough frequencies being bid out in the metros. There is only 1 frequency on offer in Delhi, Chennai, Bangalore, Ahmedabad and Pune, and 2 in Mumbai. What irks the industry is that there is no reason for restricting the auctions in this manner. If only the government accepted TRAI’s recommendation of halving the channel “separation” (the gap between two channels), we could have many more channels in each city. If neighboring Colombo can have 25 stations, why can’t Mumbai and Delhi? But the ministry is taking cover behind minor technical issues for which solutions are readily available. And a few broadcasters who prefer (obviously) to face lesser competition (who doesn’t). By not releasing more spectrum, the government will harm the consumer interest the most (listeners wont get variety); but it will also harm its own interests (less license fees as a result of poor spectrum utilization). And the very broadcasters who are objecting will be the ones who will lose the most – since the renewal of their current licenses in 2015/16 will happen at the high prices set by this round of scarcity-ridden auctions. Everybody will lose, and unnecessarily so.

So the only wish the industry has from the government is to allow radio to breathe. Let it grow. Release spectrum. Adopt the right auction methodology. And have faith that radio will do more for the people than any other medium has done (radio doesn’t demand literacy; nor electricity). Is the government listening?

With the increased reach post Phase III, FM radio will have the potential for being an effective social engineering tool provided the content restrictions are relaxed.

- Uday Chawla
Secretary General,
Association for Radio Operators for India

Prashant Pandey
CEO,
ENIL

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Key challenges the industry is facing

Delay in phase III has hit the growth and profitability projections of existing players. Revival of radio industry is possible only when Phase III reforms are brought about swiftly and Industry’s concerns are addressed by the Government.

- Rahul Gupta
  Director and Project Head, Jagran Radio

Delay in phase III

In his Union Budget speech on 28th February 2013, Finance Minister Shri P Chidambaram said that the phase III expansion is likely to take place in FY 2014. There are many clauses in phase III that the industry is looking forward to. Delay in phase III is hurting the profitability and growth aspirations of players in the industry. The delay is also holding back radio from reaching out to the vast population that resides beyond tier I and tier II cities. Below are some aspects that are being adversely affected due to delay in phase III.

- Limited reach for National Advertisers
  Radio has the potential to be the media for the masses. However, the reach of private FM is limited to tier I and few of the tier II cities. The smaller tier II cities and tier III cities do not have access to private FM channels. These small cities are also likely to be growth engines of Indian economy going forward. National advertisers are increasingly targeting these customers. Given that radio is not yet developed here, a lot of advertising spend that would have gone to radio is now being diverted to alternate media like print and activations.

  Permission for content networking is likely to result in increased development of regional network models, given the potential for better cost economics. This would increase the relevance of radio for people in smaller cities.

- Slower growth of the radio industry
  The radio players are very keen to invest in the next round of growth in radio industry. There is a possibility that Government may fetch INR ~17 billion from the auction of Phase III licenses and an additional INR 7.6 – 11 billion may be infused by industry in capital expenses for starting new stations.16

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<table>
<thead>
<tr>
<th>Category</th>
<th>Average price expected per license</th>
<th>No of licenses</th>
<th>Total collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>A+</td>
<td>0.21</td>
<td>4</td>
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<tr>
<td>A</td>
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</table>

Sources: KPMG in India analysis based on Industry interviews conducted with key decision makers at radio stations

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Expected Capital requirements post the Phase III bidding

<table>
<thead>
<tr>
<th>Category</th>
<th>Cost of setting up radio station for a new player</th>
<th>Incremental cost of setting up for existing players</th>
<th>Total capex range</th>
</tr>
</thead>
<tbody>
<tr>
<td>A&amp;B</td>
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<td>0.008 - 0.01</td>
<td>5-1</td>
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<tr>
<td>C&amp;D</td>
<td>0.01 - 0.02</td>
<td>0.005 - 0.007</td>
<td>7 – 10</td>
</tr>
</tbody>
</table>

Sources: KPMG in India Analysis based on Industry discussions

Note: For calculation of range, it is assumed that there will be between 20 to 40 percent stations that will have to set up new stations in category A&B towns and these will have limited benefits in terms of existing infrastructure. In category C&D towns, it is assumed that Networking will play a major role in bringing the capital expenditure costs to reasonable levels.

Hampered profitability of radio industry

Delay in phase III has hampered the potential of the radio industry to achieve better profitability. Phase III promises favourable cost economics for the industry on two counts –

- Permission for multiple frequencies in a city is expected to be granted as part of Phase III. This could also improve the cost economics as the incremental cost for additional frequency is significantly lower than that for an independent station. There is potential for operational cost savings on staff/manpower, premises, marketing and overheads related costs. On the capital expenditure front, there is potential for savings on studio infrastructure, IT and office infrastructure as a large part of infrastructure for leading players is already in place and hence they will be able to reap the benefits of additional frequencies at limited capital expenditure in Phase III.
on for multiple frequencies in a city is expected to be granted as part of Phase III. This could also improve the cost economics as the incremental cost for additional frequency is significantly lower than that for an independent station. There is potential for operational cost savings on staff/manpower, premises, marketing and overheads related costs. On the capital expenditure front, there is potential for savings on studio infrastructure, IT and office infrastructure as a large part of infrastructure for leading players is already in place and hence they will be able to reap the benefits of additional frequencies at limited capital expenditure in Phase III.

Also, permission for networking content across categories of cities is expected to be granted as part of Phase III licensing (with a stipulation of a minimum 20 percent local content). This could help players build more cost effective models, with potential of over 20 percent savings on operating costs.

The permission for multiple frequencies is expected to result in established players looking to acquire additional stations in larger cities to build focused formats. Also, the reduction of shareholder lock-in period from 5 to 3 years and increase of license period from 10-15 years may encourage consolidation post the Phase III auctions. Consolidation is likely to enhance profitability of the players owing scale benefits accrued due to networking permission.

Key challenges of phase III

While phase III has many clauses that promise to be beneficial to the radio industry, there are certain clauses that need further clarity.

High reserve price for certain cities

The current clause for phase III reserve price states that the Reserve Price for new channels in existing FM Phase-II cities shall be the highest bid price received for that city in Phase-II. In cities which are being taken up afresh, the reserve price shall be the Highest Bid price received during FM Phase-II for that category of cities in that region.

Consequently, the reserve fee for all C category towns will be a high amount of Rs 156 Million since the relevant benchmark will be Chandigarh where it was the highest bid. Likewise, the benchmark in the South for B and C category towns will be set by Kochi at around Rs 95 Million and Kozhikode at around Rs 70 Million.

Also, Information & Broadcasting (I & B) Ministry sources have stated that in case the benchmark from phase II for a particular region is not available, then the lowest of the highest bid received in other regions for that category of cities shall be taken as the reserve price. For new cities in border areas with a population less than 100,000, the reserve price will be INR 500,000.17

Industry experts believe that these prices are very high for many cities and bidding at these levels may not be viable.

- Uncertainty on migration fees – There continues to be uncertainty on the migration fees that is likely to be charged for radio players who want to extend their licences beyond the phase II licence period. This prevents the players from predicting the future capital outflows of radio ventures thereby limiting their ability to estimate the reserve price they may be willing to pay.

- Restriction on news - Broadcasters would be permitted the carriage of AIR news bulletins on their stations as part of phase III. However, there are restrictions on the format of news and only AIR news bulletins would be allowed for broadcast. This puts further restrictions on the content differentiation and creativity of the medium.

Measurement

Measurement continues to be a challenge that is confronting the industry. Industry players and advertisers all cite the need for a robust measurement system more comprehensively covering all radio markets. However, there have been no major steps in this direction. Industry experts feel that post phase III when there are more players in the industry and also when profitability prospects look brighter, the industry may be able to make investments for developing a more inclusive measurement methodology.

Content differentiation

Given the limited number of FM channels available in various cities and high license price, it becomes difficult to shift focus away from mainstream film music. The phase III provisions of permission for multiple frequencies and permission to allow news, sports and current affairs may encourage players to come up with differentiated content. However, addition of more stations in metros will be instrumental in driving niche content provided the license fees is adjusted to encourage alternate content like classical music, regional music or old Bollywood music.

17 “Expect radio ad growth of only 10 percent in 2013” published in RadioAndMusic on 4th Feb 2013
In 2011, TRAI had initiated a process of evaluating the possibility of reducing the channel separation between two adjoining FM channels from the present 800 Khz to 400 Khz – a worldwide practice. Doing this will immediately double the number of channels in each city. Some of the leading radio stations had supported the proposal for key metros on several grounds, including expansion of FM radio revenue pie in the overall media spends and providing a diversity of content to radio consumers. However, there has been no progress on this front.

Internationally, it has been observed that higher number of radio frequencies results in differentiated and niche content being made available to listeners. The FM stations in New York City playing differentiated content substantiates this.

### FM stations in New York

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Primary Genre</th>
</tr>
</thead>
<tbody>
<tr>
<td>87.75</td>
<td>Russian</td>
</tr>
<tr>
<td>88.1</td>
<td>Jazz</td>
</tr>
<tr>
<td>88.3</td>
<td>Jazz</td>
</tr>
<tr>
<td>88.7</td>
<td>Variety Music</td>
</tr>
<tr>
<td>88.9</td>
<td>Variety Music</td>
</tr>
<tr>
<td>89.1</td>
<td>Variety Music</td>
</tr>
<tr>
<td>89.5</td>
<td>Rock</td>
</tr>
<tr>
<td>89.9</td>
<td>Variety Music</td>
</tr>
<tr>
<td>90.3</td>
<td>Variety Music</td>
</tr>
<tr>
<td>90.7</td>
<td>Americana</td>
</tr>
<tr>
<td>91.1</td>
<td>Music-Freeform</td>
</tr>
<tr>
<td>91.5</td>
<td>Variety Music</td>
</tr>
<tr>
<td>92.3</td>
<td>Contemporary Hit Radio (CHR)</td>
</tr>
<tr>
<td>92.7</td>
<td>Spanish Mexican Regional</td>
</tr>
<tr>
<td>93.1</td>
<td>Spanish</td>
</tr>
<tr>
<td>93.5</td>
<td>Caribbean Music</td>
</tr>
<tr>
<td>93.9</td>
<td>News/Talk/Public Affairs</td>
</tr>
<tr>
<td>94.7</td>
<td>Country Music</td>
</tr>
<tr>
<td>95.5</td>
<td>CHR – Rock/Pop</td>
</tr>
<tr>
<td>96.3</td>
<td>Spanish</td>
</tr>
<tr>
<td>96.7</td>
<td>Christian Contemporary</td>
</tr>
<tr>
<td>97.1</td>
<td>CHR – Urban</td>
</tr>
<tr>
<td>97.9</td>
<td>Spanish</td>
</tr>
<tr>
<td>98.3</td>
<td>Adult Contemporary (AC)</td>
</tr>
<tr>
<td>98.7</td>
<td>Sports</td>
</tr>
</tbody>
</table>

### FM stations in New York

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Primary Genre</th>
</tr>
</thead>
<tbody>
<tr>
<td>99.5</td>
<td>Variety</td>
</tr>
<tr>
<td>100.3</td>
<td>CHR</td>
</tr>
<tr>
<td>100.7</td>
<td>AC</td>
</tr>
<tr>
<td>101.1</td>
<td>Oldies</td>
</tr>
<tr>
<td>101.9</td>
<td>Sports</td>
</tr>
<tr>
<td>102.7</td>
<td>AC</td>
</tr>
<tr>
<td>103.1</td>
<td>Religion – Christian</td>
</tr>
<tr>
<td>103.5</td>
<td>CHR – Rhythmic</td>
</tr>
<tr>
<td>103.9</td>
<td>Adult Contemporary</td>
</tr>
<tr>
<td>104.3</td>
<td>Classic Rock</td>
</tr>
<tr>
<td>105.1</td>
<td>CHR – Urban</td>
</tr>
<tr>
<td>105.5</td>
<td>Rock</td>
</tr>
<tr>
<td>105.9</td>
<td>Classical – Music</td>
</tr>
<tr>
<td>106.7</td>
<td>Adult Contemporary</td>
</tr>
<tr>
<td>107.1</td>
<td>Rock AC</td>
</tr>
<tr>
<td>107.5</td>
<td>Urban AC</td>
</tr>
</tbody>
</table>

### Going forward

In union budget speech on 28th February 2013, Finance Minister Shri. P Chidambaram said that the phase III expansion is likely to take place in FY 2014. The government had in December announced the reserve price for the proposed stations. This announcement has definitely provided a ray of hope to the radio players.

The key drivers that would propel the radio going forward are release of spectrum especially in larger cities, less regulation of content, increased focus on client by devising innovative solutions and development of a robust measurement methodology.
Music
Streaming to success
Performance in 2012

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital</td>
<td>1.9</td>
<td>2.6</td>
<td>4.2</td>
<td>5.2</td>
<td>6.0</td>
<td>7.0</td>
<td>8.3</td>
<td>10.1</td>
<td>12.6</td>
<td>16.1</td>
<td>21.7%</td>
</tr>
<tr>
<td>Physical</td>
<td>4.9</td>
<td>4.5</td>
<td>3.2</td>
<td>2.6</td>
<td>2.3</td>
<td>2.0</td>
<td>1.7</td>
<td>1.5</td>
<td>1.4</td>
<td>1.3</td>
<td>-10.5%</td>
</tr>
<tr>
<td>Radio &amp; TV</td>
<td>0.4</td>
<td>0.5</td>
<td>0.7</td>
<td>0.6</td>
<td>1.4</td>
<td>1.6</td>
<td>1.8</td>
<td>2.0</td>
<td>2.3</td>
<td>2.7</td>
<td>13.7%</td>
</tr>
<tr>
<td>Public Performance</td>
<td>0.2</td>
<td>0.2</td>
<td>0.5</td>
<td>0.6</td>
<td>0.9</td>
<td>1.1</td>
<td>1.3</td>
<td>1.6</td>
<td>2.0</td>
<td>2.4</td>
<td>22.0%</td>
</tr>
<tr>
<td>Total</td>
<td>7.4</td>
<td>7.8</td>
<td>8.6</td>
<td>9.0</td>
<td>10.6</td>
<td>11.6</td>
<td>13.1</td>
<td>15.3</td>
<td>18.3</td>
<td>22.5</td>
<td>16.2%</td>
</tr>
</tbody>
</table>

2012 was the year of discovering music - consumers finally showed some indication of broadening consumption beyond Bollywood as other genres showed vibrancy. Technology enabled personalization in music discovery through various mobile and internet apps while cloud storage assisted in managing the content swiftly. Social media continued to blur borders and promote music consumption, thereby fostering talent unlike before. More and more independent artists were able to find an audience and also monetize their content, albeit in a small way. Live music performance also came into its own and provided a platform for audience engagement to both established artists as well as budding talent.

Digital tunes are now being played like never before - contributing 57 percent to the INR 10.6 billion music industry which grew 18 percent YoY. While the TRAI guidelines restricting the automated renewal of Caller Ring Back Tones (CRBT) dampened the growth momentum - achieving a 16 percent YoY growth against our expectation of 18 percent, the industry is now geared to take the digital audience to the next level by offering enhanced and affordable music services online and on mobile devices. Revenues from digital platforms are expected to gradually gain pace and grow at a CAGR of 21.7 percent over the next five years. By 2017, digital revenues will contribute 72 percent to the music industry’s revenues. This growth will be on the back of availability of faster broadband speeds and the uptake of subscription based online music services. Growth in music consumption (both online and mobile) is expected to drive the music industry to revenues of over INR 20 billion by 2017.

Performance by revenue streams

Composition of music revenues

![Composition of music revenues chart](https://www.kpmg.com/IN/en/services/advisory/industries/entertainment-media/assets/graphics/2012-performance-2012.png)

India is replicating world music industry trends. Music delivery and consumption are fast evolving on digital platforms as revenues from physical sales fade.

Change in music revenues by type (percent change forecast) 2012 v. 2011

![Change in music revenues chart](https://www.kpmg.com/IN/en/services/advisory/industries/entertainment-media/assets/graphics/2012-performance-2012.png)

The industry is moving towards a balanced growth with streaming services and device manufacturers emerging as new pillars for growth. The industry growth rates can be exponentially higher through effective implementation of the Copyright Act and settlement of the pending issues. Currently, the users are benefitting from the lack of clarity on certain provisions rather than the creators and owners of the content. To increase the growth numbers the Industry will have to come together to deploy more feet on the ground and push for great compliance of the laws.

- Shridhar Subramaniam
  President - India & Middle East,
  Sony Music Entertainment
Globally, online and mobile music revenues have witnessed strong growth rates while physical music sales continue to slide.

**Digital Sales**

Digital music revenues increased 16 percent to INR 6.0 billion in 2012. Currently at 57 percent, the share of digital music sales is expected to rise to 72 percent by 2017.

There are essentially three types of digital music content on offer legally:

- Ringtones and Caller Ring Back Tones,
- Music streaming and
- Downloadable digital music

Further, digital music is consumed either via a mobile handset or the Internet. Consumption of online music has seen consistent growth during the last 2-3 years and the mobile segment has grown rapidly. Currently, mobile contributes around 85-90 percent of total digital music consumption in India. Moreover, in 2012, mobile Internet surpassed Desktop Internet traffic in India, as per StatCounter Global stats. The explosion of Smartphones and high speed 2G and 3G connections in urban markets has largely contributed to this. Currently, there are around 40 million internet enabled smartphones and tablets in India. With the launch of new services in the industry such as Flipkart’s Flyte and Apple’s iTunes, we will see online music growing further. Such services are also expected to enhance content delivery.

**Physical music struggles for survival**

Physical music continues to de-grow in terms of sales as well as share of industry revenue due to consumers shifting to newer technology platforms (online and mobile) and continued piracy. The industry witnessed a decline of 12 percent Yo-Y in 2012 in the sale of physical music formats.

While physical music sales have been overtaken by digital music sales, the physical retail model still exists in the smaller towns and pockets of metro areas, where internet penetration is low and people still depend on physical formats like CDs for music.

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03. KPMG in India analysis
04. Industry discussions conducted by KPMG in India
Music retailers are facing challenging times with continued de-growth in sale of music. We are working towards alternate revenue streams and ways to revive sales. We are now renting out shelf to regional labels who have better understanding of the what works with the vernacular audience. We are also providing opportunity to new talent and have launched two music albums last year.

-Sanjay Karwa
CEO, PlanetM Retail

Some retailers are trying their best to retain this segment. For instance, Sony DADC Home Entertainment is setting up a new distribution system for promoting physical music in such markets. It plans to take the license from owners, determine the price, distribute and market the music in towns with population of 500,000 India.6

In developed markets too, the death of the physical format was highlighted when British music retailer HMV recently filed for bankruptcy after spending more than 90 years in business.4 HMV has succumbed to stiff competition from online retailers and digital downloading services. It had been closing stores and selling subsidiaries during the past few years, as digital music sales in the UK surpassed physical sales for the first time in the first quarter of 2012, as per the British Phonographic Industry (BPI).7 This is representative of the decline in physical sales globally.

Royalty from radio and television

The royalty from radio and television segments equaled INR 1.4 billion* in 2012, constituting 13 percent of the total music industry.

The ambiguity over the royalty issue was cleared with the statutory licensing provision in Copyright Amendment Bill, 2010 being approved by the Union Cabinet in May, 2012. A statutory license limits exclusive rights of authors and creators to control dissemination of their work, a basic principle of the copyright law. Under statutory licensing provisions, the rate card for royalty for producers and music companies will be decided by the Copyright Board. It has reduced the royalty to producers from radio to 2 percent from the earlier weighted average of INR 660 per needle hour. While a few music companies had already begun collecting royalty as per the revised rates in 2011, with the statutory licensing coming into effect, majority of the music companies are now receiving reduced royalties, which has led to a huge dent in the income of music industry from radio royalty.

Royalty revenues from television remained strong due to launch of new music channels like Khushboo TV and 9X Jalwa—both broadcasting songs from pre-2000 era and a new international music channel called SxO.8 While a few channels like Channel V have moved to reality and fiction based content, Bollywood music remains the mainstay of other music channels in India.

Public Performances

Live or recorded Indian or international music, played in public places or commercial establishments such as hotels, restaurants, bars, pubs, discotheques, shopping malls, shops, offices etc. is subject to royalty payment to the music labels, termed as public performance revenue. With the Copyright Amendment Bill in place, users are now more aware of the need to obtain licenses for public performances. Revenues through performing rights have increased by 50 percent to INR 0.90 billion in 2012, owing to a surging live events market coupled with increasing awareness. With a surge in per capita income of people and rapid urbanisation of India, there has been an ever increasing number of shopping malls, hotels, restaurants and entertainment places like pubs, gigs, concerts etc. that use music extensively. This has strengthened public performance revenue.

However, as it is very difficult to monitor payment of such license fee, there is a lot of under-reporting which is causing revenue leakage. There are still a plethora of hotels and pubs that are playing commercial music without paying the requisite license fee to Phonographic Performance Ltd (PPL). Recently, PPL has served notices to many large hotels and pubs in India, which have not paid the requisite music license fee to play music at their year-end events.

Trends

From composing quality music at home using Digital Audio Workstation (DAW) systems, selling it worldwide using iTunes, and keeping in touch with fans via Twitter, emerging technologies have had a significant impact on the way music is produced, distributed and consumed. The listening experience has been evolving with technological changes. From CDs to MP3s (MPEG-1 Audio Layer 3) to AAC (Advanced Audio Coding used by Apple’s iTunes), the audio compression techniques are getting better every day which has enabled quicker downloads and instant playback. The evolution of 3G has made streaming and downloading quicker and easier. The move to 4G is expected to further enhance this user experience. Following are some of the trends being observed by the industry:

Online music streaming becomes mainstream among Internet users

Online streaming is a major growth engine for the music industry, both globally and in India. According to Strategy Analytics, globally, online streaming revenues will grow at nearly 5 times the rate of growth for download revenues in 2012, at 40 percent versus 8.5 percent.

Yearly change in online music revenue by type (2012E vs 2011)

<table>
<thead>
<tr>
<th></th>
<th>Global</th>
<th>Western Europe</th>
<th>UK</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Streaming</td>
<td>45%</td>
<td>48%</td>
<td>42%</td>
<td>28%</td>
</tr>
<tr>
<td>Downloads</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Source: Strategy Analytics Global Recorded Music Forecast 2012

6. HMV goes bankrupt after 91 years in the disc-selling business. Engadget.com, January 2013
7. "Hindi music genre to get a new contender", Alkaap.com, July 2012
8. "9X Media's intl music channel SxO launches on 24 April", Indiantelevision.com, April 2012
10. "9X Media's intl music channel SxO launches on 24 April", Indiantelevision.com, April 2012
11. "Pay-up or face the music, PPL tells major hotels & pubs", Mxmindia.com, March 2013
* KPMG in India has revised the methodology of calculating royalty from television. The income now includes revenues earned by music industry from video licensing of content. Thus, 2012 figures are not comparable to 2011 figures.
In India, streaming provides an unprecedented option of music consumption, more so when the download model has not fully taken up and there is rampant piracy. Further, with the rollout of 3G in India, access to high-speed Internet has become cheaper and more widely available for users to stream content online.

Music streaming sites have been witnessing significant growth in terms of unique visitors and amount of time spent by consumers. Online streaming music portals for Indian music such as gaana.com, dhingana.com, imusti.com and saavn.com are some of the popular players in this space in India.

Traffic: Music sites in India

Estimated daily time on site (mm:ss) (Monthly average)

<table>
<thead>
<tr>
<th>Plan</th>
<th>Audio</th>
<th>Video</th>
<th>Subscription/Registration</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD 1.99/ month</td>
<td>All songs available for streaming</td>
<td>All videos available for streaming for 1 minute each</td>
<td>Subscription Required</td>
</tr>
<tr>
<td>USD 7.99/ month</td>
<td>All available for streaming</td>
<td>All videos available for streaming</td>
<td>Subscription Required</td>
</tr>
<tr>
<td>Free</td>
<td>All songs available for streaming for 30-days*</td>
<td>All videos available for streaming for 1 minute each*</td>
<td>Registration &amp; login required</td>
</tr>
</tbody>
</table>

* After 30-days, audios and videos are limited to 1 min streaming.

Launched in 2007, iMusti.com is one of the oldest music streaming and downloading websites. Started as an Indian music destination, the website has evolved into a one-stop online platform for accessing Hindi as well as region specific content, showcasing categories such as literature, visual arts, craft, films and documentary videos.

It also has different subscription plans depending upon user needs:
While Dhingana has 10.5 million active visitors per month, Gaana.com has about 3 million unique visitors per month, as per Comscore (November 2012). By the end of 2013, Gaana expects to have 10 million active users across all platforms including recently launched mobile apps14.

Hungama.com also has 20 million users15 via various touch points.

As legal sites gain popularity and engagement soars, major brands are increasingly willing to spend on digital music websites and apps, enabling music streaming services to provide a large catalog of ad-supported music to end users for free.

Production houses and labels are also taking advantage of the opportunities offered by digital music streaming. Tips Industries Limited recently announced a partnership with Saavn. Under the agreement, Saavn received exclusive 15-day streaming rights of music for the film Race2 ahead of the official album launch. Such initiatives allow labels to create pre-release excitement and maximize impact on audiences in a cost-effective manner.

Earlier in July 2012, independent artists focused on music streaming. Discovery platform NH7 partnered with Flipkart’s owned Flyte to launch digital music downloads featuring independent music/artists. Currently, the platform manages 100 artists and claims that all of them are seeing revenue increases.

**Licensed music stores coming to age**

Until recently there were few legal sources for buying media content in India. In 2012 the Indian digital music industry saw the debut of Flipkart’s Flyte and Apple’s iTunes stores featuring comprehensive selection of local and international music from all the major labels and thousands of independent labels.

**Online music stores in India**

<table>
<thead>
<tr>
<th>Music Store</th>
<th>Price/Song</th>
<th>Price/album</th>
<th>Library Size</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>iTunes</strong>16</td>
<td>INR 7 to 15 (Most new songs priced at INR 12)</td>
<td>Starting from INR 70</td>
<td>26 million songs in high-quality</td>
<td>Purchase only possible through credit cards. Also has a cloud drive to store music.</td>
</tr>
<tr>
<td><strong>Flyte</strong>17</td>
<td>INR 8 to 15</td>
<td>Starting from INR 25</td>
<td>Over 2 million unique tracks across 55 languages and 800 genres and subgenres.</td>
<td>Users can listen to a 30-second clip before making their purchase. Music purchase from Flyte is currently restricted to users in India only.</td>
</tr>
<tr>
<td><strong>Nokia Music Store</strong>18</td>
<td>N.A</td>
<td>N.A</td>
<td>Over 4.5 million tracks</td>
<td>Nokia Music is free for a limited period (depending on the category of device, duration of the free subscription lasts for 3, 6 or 12 months), post which, the subscription is at least INR 113 per month.</td>
</tr>
<tr>
<td><strong>Hungama</strong>19</td>
<td>INR10</td>
<td>N.A</td>
<td>Over 2.5 million pieces of content including music tracks, movies, music videos &amp; dialogues, ringtones &amp; wallpapers</td>
<td>Allows full song streaming of music and videos. The store offers four different subscription plans, for example, INR 99 for 99 tracks in a month.</td>
</tr>
<tr>
<td><strong>Saregama</strong>20</td>
<td>INR 9.95</td>
<td>N.A</td>
<td>Has songs from various genres and languages. Also has old songs</td>
<td>Provides songs and albums released under the Saregama label for purchasing. Saregama’s store also has the option of delivering customized CDs. Users can opt to create their own playlists &amp; have them burned on a MP3 CD to be delivered home for INR 199 for 200 minutes (40 songs). It also has various membership plans for users.</td>
</tr>
</tbody>
</table>

**Source:** Respective company websites and digital stores

13. “How do deal: Spotify stack up against each other biz models behind free music streaming”, Timesinternet.in, July 2012
14. “Gaana mobile app to garner three fold growth”, R Gaana mobile app to garner three fold growth, Radioandmusic.com, January 2013
16. “iTunes in India, with a price puff”, Hindustan Times, December 2012
17. Flipkart.com
21. Industry discussions conducted by KPMG in India

Launched in February 2012, Flipkart’s music store Flyte achieved 2.5-3 million music downloads in its first year of operations21. As per Hungama.com, an on-demand storefront for Bollywood and South Asian entertainment content, the total number of paid downloads including mobile and web at Hungama.com touched 75 million across digital entertainment content including music tracks, music videos, movie streaming etc22.

While it would be too early to predict whether this will change the way music is consumed or purchased in India, music companies are optimistic and expect an improvement in sales and a reduction in piracy with the uptake of such stores.
Personalized applications enhance music discovery

Applications were launched as mere tools for consumption - simple programs or casual games for tablets and smartphones. However, they have grown in capabilities and relevance to the music industry. A rise in the number of low-cost smartphones has enabled young Indians to access mobile applications like never before. Smartphones are available for as low as INR 3,200. The launch of 3G services has further boosted access, and the sector is expected to witness a boom once 4G and LTE services are launched.

Estimates indicate that approximately 100 mn apps are downloaded monthly in India, and this could surpass 5 billion downloads per annum within 3 years. Nokia’s music store alone has 1.4 million songs downloaded per day.

Indian labels get an opportunity to reach audiences, due to the kind of targeting that digital platforms make possible from user data. The wealth of data supplied by digital the medium enables customization, critical in an industry where understanding the preferences and tastes of the end user is the key.

For example, Hungama.com has revamped its website to allow for better music discovery. It has introduced a new feature on the site that allows users to discover new music based on user preferences like mood, tempo, category, genre, era etc. Raaga.com has a feature which stores frequently played songs of a user.

Music in the Cloud

Music is difficult to manage, and cloud based platforms allow management of the entire catalog across different types of devices. Cloud based Music services already have a foothold globally, especially in the United States.

### Major global cloud music services

<table>
<thead>
<tr>
<th>Service</th>
<th>Description</th>
<th>Serves music (other than owned)</th>
<th>Mobile Software Supported</th>
<th>Storage Limit</th>
<th>Desktop Price</th>
<th>Mobile Price</th>
<th>Availability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Google Play Music</td>
<td>Google Play Music lets users upload their entire library to the web and stream it back. It’s currently free while in beta, and compatible with Windows and Mac OS X.</td>
<td>No</td>
<td>Android</td>
<td>20,000 songs (up to 250MB each)</td>
<td>Free</td>
<td>Free</td>
<td>US and Europe</td>
</tr>
<tr>
<td>Amazon Cloud Player</td>
<td>Amazon Cloud Drive is a web storage application launched in March 2011. A music streaming application, Cloud Player, is bundled, allowing users to play stored music from any computer or Android device with Internet access. It supports browsing music by song titles, albums, artists, genres (website only), and playlists.</td>
<td>No</td>
<td>Android</td>
<td>5GB free, up to 100GB paid</td>
<td>Free for 5GB, USD1 per GB/year</td>
<td>Free for 5GB, USD1 per GB/year</td>
<td>US, UK</td>
</tr>
<tr>
<td>iCloud</td>
<td>iCloud is a cloud storage and cloud computing service from Apple Inc. and was launched on 12 October 2011. As of July 2012, the service has more than 150 million users</td>
<td>No</td>
<td>iOS</td>
<td>25,000 songs</td>
<td>Free for iTunes music, USD25 a year for non-iTunes music</td>
<td>Free for iTunes music, USD25 a year for non-iTunes music</td>
<td>Globally via iTunes</td>
</tr>
<tr>
<td>Xbox Music</td>
<td>Cloud music service from Microsoft Corp. launched in October 2012. It features free streaming of songs from a catalog of more than 30 million songs.</td>
<td>Yes</td>
<td>Windows</td>
<td>Not yet launched</td>
<td>USD 9.99 per month for unlimited access to Xbox music library</td>
<td>USD 9.99 per month for unlimited access to Xbox music library</td>
<td>15 markets</td>
</tr>
</tbody>
</table>

---

23. ‘Mobile handset companies bet on Indian app makers’, Afaqs.com, May 2012
24. KPMG estimates based upon industry discussions
25. ‘iTunes debuts in India; download a HD movie for Rs 480’, The Hindu, December 2012
<table>
<thead>
<tr>
<th>Service</th>
<th>Description</th>
<th>Serves music (other than owned)</th>
<th>Mobile Software Supported</th>
<th>Storage Limit</th>
<th>Desktop Price</th>
<th>Mobile Price</th>
<th>Availability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subsonic</td>
<td>Subsonic differs from various cloud services as the users don’t need to upload music onto the cloud to stream it. It also streams videos and users can download music for offline play.</td>
<td>No</td>
<td>Android, iOS, Blackberry, Windows Phone 7</td>
<td>Unlimited</td>
<td>Free</td>
<td>Donation of USD20</td>
<td>Globally</td>
</tr>
<tr>
<td>mSpot</td>
<td>mSpot is similar to Google Music and Amazon Cloud Player. Unlike the others, however, mSpot can stream to both iPhone and Android, making it ideal for cross-platform families. It also has features such as lyrics searching and online radio stations.</td>
<td>No</td>
<td>Android, iOS</td>
<td>5GB free, 40GB paid</td>
<td>Free for 5GB, USD4 per month for 40 GB</td>
<td>Free for 5GB, USD4 per month for 40 GB</td>
<td>Free plan everywhere. Paid plan US only</td>
</tr>
<tr>
<td>Rdio</td>
<td>Rdio is an ad-free music subscription service. It offers an organized, vast-but-not-infinite library of popular songs for streaming to all of the users’ devices. Rdio has a desktop application that scans iTunes or Windows Media Player library and matches songs with its online Rdio library.</td>
<td>Yes</td>
<td>Android, iOS</td>
<td>Unlimited</td>
<td>Free Trial, USD5 per month</td>
<td>USD10 per month</td>
<td>US, Canada, UK, EU, Australia and New Zealand</td>
</tr>
<tr>
<td>Spotify</td>
<td>Spotify is a music streaming service offering digitally restricted streaming of selected music from a range of major and independent record labels, including Sony, EMI, Warner Music Group and Universal. Total users reached 20 million by December 2012, 5 million of them paying monthly.</td>
<td>Yes</td>
<td>Android, iOS, Windows Phone 7, Symbian, Palm</td>
<td>Unlimited</td>
<td>Free limited, unlimited is for EUR5 per month</td>
<td>EUR10 per month</td>
<td>US, UK, EU, Australia and New Zealand</td>
</tr>
<tr>
<td>SoundCloud</td>
<td>The service, which started in 2007, has 10 million registered users as of January 2012. A key feature of SoundCloud is that it lets artists upload their music with a distinctive URL. SoundCloud depicts audio tracks graphically as waveforms and allows users to comment on specific parts of the track. SoundCloud distributes music using widgets and apps.</td>
<td>Yes</td>
<td>Android, iOS, Windows Phones 7, Blackberry, Symbian</td>
<td>N.A</td>
<td>Free, Premium versions EUR29- EUR500 per year depending on features</td>
<td>N.A</td>
<td>Everywhere</td>
</tr>
</tbody>
</table>

Source: Respective company websites and digital stores
Note: Indicative list
This trend is being mirrored in the Indian market, which saw the launch of iTunes Match service in India this year. Priced at INR 1200 per annum\textsuperscript{25}, this service allows users to scan and match songs procured from other sources to iCloud and then play them on any Apple device. Even domestic music players have launched music cloud services. Hungama Music Cloud was launched in November 2012\textsuperscript{26}. The service is a joint venture between US based Catch Media Inc and Hungama Digital Media. Users can upload their music libraries and access the service from their Android, iOS, Blackberry and Windows devices for free. Sony Music India is also moving its entire video content to the cloud to cut content distribution costs and increase revenue streams for content\textsuperscript{27}.

**Social Media fuelling digital engagement**

Social networks have developed huge consumer bases, which the businesses are using to target by setting up channels and feeds to engage with customers. Moreover, music is one of the most engaging topics of discussion on social networks globally. As per the International Federation of the Phonographic Industry (IFPI), around 67 percent of social network users in 20 countries discuss music and movies ahead of community issues (46 percent), sports (43 percent) and politics (34 percent)\textsuperscript{28}.

Besides integrating their music download service with mobile applications for Smartphones, music websites are also using social media networks to leverage viral content, hoping to attract free users and converting them into paid subscribers by offering personalized content in an engaging manner. Technological innovation, coupled with creativity and innovation in marketing is playing a huge role to help these music websites stay in the game.

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\textsuperscript{25} Apple iTunes Store Finally Launched In India, Indiatimes.com, December 2012
\textsuperscript{26} Hungama, CatchMedia launch JD-Hungama Smart Cloud Music, Naka Music Connects 4, RadiosandMusic.com, November 2012
\textsuperscript{27} Sony Music India Moves Its Video Content To The Cloud, Techrepublic.in, April 2012
\textsuperscript{28} IFPI Digital Music Report 2013 'Engine of a digital world'
\textsuperscript{29} 'Flip it' over India's digital music industry, Business Line, March 2012
\textsuperscript{30} Dhirangale show traffic with social media in 2012, RadiosandMusic.com, December 2012
\textsuperscript{31} 'Tips Music's Facebook Page Hits 1 Million Fans!', RadioandMusic.com, December 2012
\textsuperscript{32} 'Dhingana drives traffic with social media in 2012', RadioandMusic.com, December 2012
\textsuperscript{33} 'Flippin' over India's digital music industry', Business Line, March 2012
\textsuperscript{34} 'Sony Music India Moves Its Video Content To The Cloud', Techcircle.in, April 2012
\textsuperscript{35} 'Apple iTunes Store Finally Launched In India', Indiatimes.com, December 2012
\textsuperscript{36} http://timesofindia.indiatimes.com/entertainment/music/music-events/Sunburn-2012-saw-over-150000-fans/articleshow/17841679.cms
\textsuperscript{37} http://timesofindia.indiatimes.com/entertainment/music/music-events/Sunburn-2012-saw-over-150000-fans/articleshow/17941679.cms

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\textsuperscript{25} Apple iTunes Store Finally Launched In India, Indiatimes.com, December 2012
\textsuperscript{26} Hungama, CatchMedia launch JD-Hungama Smart Cloud Music, Naka Music Connects 4, RadiosandMusic.com, November 2012
\textsuperscript{27} Sony Music India Moves Its Video Content To The Cloud, Techrepublic.in, April 2012
\textsuperscript{28} IFPI Digital Music Report 2013 'Engine of a digital world'
\textsuperscript{29} 'Flip it' over India's digital music industry, Business Line, March 2012
\textsuperscript{30} Dhirangale show traffic with social media in 2012, RadiosandMusic.com, December 2012
\textsuperscript{31} 'Tips Music's Facebook Page Hits 1 Million Fans!', RadioandMusic.com, December 2012
\textsuperscript{32} 'Dhingana drives traffic with social media in 2012', RadioandMusic.com, December 2012
\textsuperscript{33} 'Flippin' over India's digital music industry', Business Line, March 2012
\textsuperscript{34} 'Sony Music India Moves Its Video Content To The Cloud', Techcircle.in, April 2012
\textsuperscript{35} 'Apple iTunes Store Finally Launched In India', Indiatimes.com, December 2012
\textsuperscript{36} http://timesofindia.indiatimes.com/entertainment/music/music-events/Sunburn-2012-saw-over-150000-fans/articleshow/17841679.cms

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For instance, the website iMusti.com is offering advertisement free music for 7 days for signing up or login in through Facebook followed by a paid model if the customer wishes to continue\textsuperscript{29}. Social music streaming service Dhingana is focusing on social media marketing. It claims to have witnessed growth of more than 600 percent\textsuperscript{31} in terms of registered users in Q1 2012, mainly due to integration with Facebook. Apart from social networking features, it also offers users a personalised music recommendation service. The service allows users to listen to music their friends are listening to, create a music playlist, share it with an online community and get their feedback.

Tips Music crossed the coveted 1 million fans mark in December 2012\textsuperscript{27}, becoming one of the major entertainment brands on Facebook in India. Tips Music has a large community on Facebook and has also maintained a high engagement ratio.

Launched in April 2011, the T-Series channel on YouTube has achieved a base of one million in less than two years and has registered over 730 million video views\textsuperscript{33}. Apart from offering a wide variety of content ranging from songs, videos, audio juke boxes, trailers, etc., the channel has been building up a strong audience base on social networks like Google+, Facebook and Twitter etc. Social platforms are also helping in co-creation and crowdsourcing of content. Shekhar Kapur and AR Rahman have recently launched their highly awaited social media platform - Qyuki, which provides a platform for artists to share content, connect to people with similar creative interests, view creations from various other artists, and collaborate with them to create content.

**Live music thrives**

The Indian live events market is growing steadily. Year 2012 saw a numerous live music events in India spread across various music genres, locations and audience size. Both Indian and International artists and music festivals are popular amongst audiences, reflecting greater appreciation of different genres of music and changing mindsets leading to increased willingness to pay and enjoy live performances. India saw major performances by international artists such as Enrique Iglesias, Carlos Santana and Sean Paul.

- David Guetta, ranked amongst the top five DJs of the world by DJ MAG magazine, performed in Eristoff Invasion Festival 2012 which was organized in Pune, Delhi and Bengaluru\textsuperscript{34}.
- The American rock band Guns N’ Roses performed in India in December 2012 with tickets were priced at INR 1500 - INR 10,000\textsuperscript{35}.

Major festivals such as Sunburn and NH7 Weekender gained traction and spread to newer territories, attracting record audiences.

- NH7 Weekender, featuring genres such as Sufi, Electronic, Folk and Classical, expanded from Pune to Delhi and Bengaluru\textsuperscript{36} and performed with 80 bands at Pune and 50 bands at the newer festivals.
- Percept’s Sunburn festival expanded to Mumbai and Noida while its premier property Sunburn Goa 2012 hosted over 1,50,000 fans from across the world. The festival also tied up with YouTube to live stream the performances across 120 countries, reaching a global audience of over 1.2 million\textsuperscript{37}.
The emergence of digital platforms has provided a cutting edge tool for promoting events by targeting the right audiences.

Live events in India can be broadly classified into three categories based on cost of the event and audience size. Category I events are relatively small, characterised by limited audiences and minor artists. Category II events are medium sized events featuring established Indian artists or International artists performing for an audience base of 5,000 to 10,000. Category III events are tours or 3-4 days long with multiple artists performing live.

**Classification of live events basis investments and audience size**

![Audience Size Chart]

Source: Industry discussions conducted by KPMG in India

The entertainment industry spent approx INR 1 billion on live entertainment across events in 2012. As per industry discussions, the segment witnessed approximately 1-1.5x growth in revenues, however profitability has been impacted with most events unable to break even. Expenditure on artist costs constitute around 60 percent of the total cost of the event. It thus becomes vital for the industry to ensure that the artist connects with the audience and has a strong fan base.

**Cost Structure of an event - India**

![Cost Structure Chart]

Source: Industry discussions conducted by KPMG in India

The industry remains highly dependent on co-branding and sponsorships where the success of music events is highly interrelated with the success of lifestyle brands that are associating with the festivals and events. In a sponsorship format, sponsors comprise 60 percent of revenues while the ticket sales comprise the remainder. In an artist’s format, the ticket sales comprise 60 percent of revenues. OML’s NH7 weekender has Bacardi as a brand partner while Percept’s Sunburn has partnered with Absolut.

While there are several events mushrooming in India, few are able to break even owing to poor ticket sales. Only established properties which have created strong brands out of their annual events are currently able to generate significant collections from ticketing and merchandising. While the future of the industry is promising, not all players will survive. Success will be a function of the selection of artists, artist costs, branding, management of costs and effective marketing strategies.
Some of the major events held in 2012

<table>
<thead>
<tr>
<th>Name of the event / artist</th>
<th>Date</th>
<th>Venue</th>
<th>Description</th>
<th>Ticket Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sunburn Festival</td>
<td>December 27-29</td>
<td>Goa</td>
<td>An annual electronic dance festival</td>
<td>INR 3,450 to INR 14,950 based upon number of days</td>
</tr>
<tr>
<td>Bacardi NH7 Weekender</td>
<td>November 2-4</td>
<td>Pune</td>
<td>The annual music event had performers such as Megadeth, Anoushka Shankar, Pentagram, Hexstatic, Indian Ocean, and Shafqat Amanat Ali Khan this year. The festival expanded its presence to Delhi and Bengaluru this year.</td>
<td>INR 1,499 to INR 3,000 based upon number of days</td>
</tr>
<tr>
<td>Sean Paul</td>
<td>November 2-4</td>
<td>Delhi, Mumbai, Bengaluru</td>
<td>Part of a multi-city tour to promote albums &quot;Imperial Blaze&quot; and &quot;Tomahawk Technique&quot;</td>
<td>INR 1,950 – INR 5,950</td>
</tr>
<tr>
<td>Carlos Santana</td>
<td>October 26 and 28</td>
<td>Bengaluru, Greater Noida</td>
<td>Attracted audiences of around 3000 people. Live performances at the Vadiviar Rock‘N India in Bengaluru and at F1 Rocks in Greater Noida.</td>
<td>INR 2,500 and INR 2,750</td>
</tr>
<tr>
<td>Enrique Iglesias</td>
<td>October 17 -21</td>
<td>Pune, Delhi, Bengaluru</td>
<td>Second performance in India with a multi-city tour.</td>
<td>INR 2,500 – INR 15,000</td>
</tr>
<tr>
<td>Mahindra Blues Festival</td>
<td>February 11 – 12</td>
<td>Mumbai</td>
<td>The second Mahindra Blues Festival this year had various artists performing like Grammy award winner Buddy Guy with special guest Robert Randolph, the Taj Mahal Trio, John Lee Hooker Jr, Soulmate and Ana Popovic.</td>
<td>INR 2,500-INR 10,000</td>
</tr>
<tr>
<td>Sulafest</td>
<td>February 4 – 5</td>
<td>Nashik</td>
<td>Annual event in Nashik, Maharashtra attracting audiences of approximately 7000. 2012 saw the fourth edition of the festival</td>
<td>INR 1,800</td>
</tr>
<tr>
<td>‘Thaimanne Vanakkam’ – A R Rehman Live in Concert</td>
<td>December 29</td>
<td>Chennai</td>
<td>Indian artist A R Rahman performed at the YMCA in Nandanam</td>
<td>INR 500 – 25,000</td>
</tr>
</tbody>
</table>

2012 was a phenomenal year for the live music industry in India with performances of around 16-17 international acts. Growth has been more than double but the bottom lines have been considerably negative for most players. As the country is gearing up for the live music culture, there are some hindrances that need to be addressed for seamless execution of an event or a concert. Challenges typically faced by the industry players are scepticism of international artists, ticketing as a culture that still needs to pick up, lack of venues and licensing. Players need to focus on building properties such as NH7 Weekender and Sunburn which create an experience and strong connect with the audience.

" - Vijay Nair
Chief Executive Officer,
Only Much Louder
Independent music continues to rise

While the Indian audiences continue listening to and follow film music, recent trends in the industry indicate an increased consumption of non film music and a growing demand for independent artists.

The independent music scenario in India has changed drastically in the recent past. With music festivals emerging in country like NH7 weekender to special television format shows like The Dewarist, MTV Sound Trippin, MTV Unplugged and Coke Studio @ MTV providing a platform for the independent artists to showcase their talent.

Music labels are now embracing band management. Local bands are now stepping out of their territories and travelling across cities. Most of these independent artists are leveraging digital distribution platforms to monetize their content.

While the independent music scene in India has been largely driven by live performances, it is now a growing market online. Artistaloud, is a digital platform launched by Hungama for independent artists to showcase their unreleased music. Online retailer Flipkart’s digital store, Flyte has tied up with independent music platform NH7, to promote indie music. Flyte has also inked a deal with artistaloud.com to publish Artistaloud’s catalogue on their site. OK Listen, a digital platform has associated with approximately 75-80 independent artists and its catalogue includes around 80-85 albums which are currently on sale. The company is expecting to expand its catalogue to touch around 250-300 albums by March 2013. They have also tied up with one of the channels on Youtube - India Music Network to create and monetize the content of independent artists. They have introduced an ‘Album Card’ to assist budding artists monetize content offline. The user typically pays the band for the card after a live performance, and can use a code on the card to download music from the website.

Industry participants believe that independent artists will constitute 1-2 percent of industry revenues in coming two years.

Regional Music continues to grow

Regional markets continue to provide ample scope for growth in the M&E sector and have witnessed a rise in content consumption across media platforms. In the music industry, Hindi film music continues to rule the music charts but there has been a increase in regional music consumption too. As per industry discussions, regional music now comprises approximately 30-35 percent of the overall music pie in India. Tamil, Telugu, Bengali, Punjabi and Bhojpuri are emerging regional music markets in India.

Few music labels are also identifying and signing up popular artists in different regional music segments. T-Series has signed artists like Manoj Tiwari, Dinesh Lal Yadav and Kalpana in the Bhojpuri genre. Also, with an investment plan drawn up to USD 4 million in the Tamil Film music and further acquisition of Think Music Catalog, Sony Music has acquired a majority share in the Tamil music market.

Till two years ago independent artists were dead. But in the last two years, independent artists have really picked up. Likes of Adnan Sami, Rabbi Shergill have already become huge brands. They are topping the charts everywhere. A non-film album currently sells at almost 40 percent of what an A-starrer film album sells and will soon sell at around 60-70 percent

- Devraj Sanyal
  Managing Director, Universal Music India & SAARC

Talent will be the next creator of content. Technology is now enabling artists to digitally distribute their content. We at Hungama have been increasingly supportive of emerging talent. Artistaloud has promoted close to 350 independent artists since its inception and we work closely with record labels, radio stations, Telcos, device manufacturers and brands.

- Neeraj Roy
  Managing Director and CEO, Hungama Digital Media Entertainment

While the independent music scene in India has been largely driven by live performances, it is now a growing market online. Artistaloud, is a digital platform launched by Hungama for independent artists to showcase their unreleased music. Online retailer Flipkart’s digital store, Flyte has tied up with independent music platform NH7, to promote indie music. Flyte has also inked a deal with artistaloud.com to publish Artistaloud’s catalogue on their site. OK Listen, a digital platform has associated with

Over the last year there has been a surge of independent musicians who are creating some really good music. Leveraging the digital medium allows these artists to reach out to a much wider base of consumers, who are always hungry to get their hands on some great music. While artists tend to earn more money from live performances, sales from digital channels such as OKListen are seeing a steady rise, which is a huge improvement from earlier times.

- Vijay Basrur
  Founder, OKListen

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The power of a billion: Realizing the Indian dream

There is a growing demand for regional and niche content and we expect global growth in Punjabi, Bhojpuri, Bengali, and Marathi; and a continued strong showing by Tamil, Telugu, Kannada, and Malayalam. Devotional and Independent artists will be two key genres that drive growth in the industry in the upcoming years. Independent artists will be growth drivers for the industry as it becomes easier for these artists to distribute their content and also from new support from consumers and advertisers. Devotional content will keep growing as music preferences change and the same old classic lyrics are done with different music and instruments across languages.

- Paramdeep Singh
Co-founder and Managing Director, Saavn

The television industry is also monetizing on this segment and has witnessed the launch of music channels catering to regional music only. Complete News and Entertainment Broadcast (CNEB) and Launch Pad launched Bhojpuri international music TV channel – Hummara M56. They are also planning to enter the Punjabi market with another regional channel which will air hit Punjabi film music58. Similarly, 9X Media launched India’s first Marathi music channel, ‘Jhakas’57 while it also has a Punjabi music channel called ‘Tashan’58.

Globalization of Indian music

The emergence of digital platforms and greater channels of music discovery are contributing to expand the reach of Indian music, both in India and abroad. Apart from Hindi music, which enjoys a large following both in India and overseas, Punjabi music also has a consumer base internationally, particularly in markets such as the US, Canada and UK56. Punjabi’s folk songs and folk music have travelled to as many as 80 world folk festivals57 and international conferences in Europe, South Korea, Australia and many other countries.

The year 2012 also saw various Indian artists collaborating with international artists and creating music. Sonu Nigam collaborated with Avicii, a Swedish DJ for a new track59 while Bollywood actress Priyanka Chopra released her debut English album ‘In My City’ featuring Will.I.Am. The album sold 100,000 copies in its first week of release60.

Indian broadcasting players are also carrying Indian music to international borders. Music television channels are also looking to tap the opportunity in the unconventional markets such as Middle East etc. The youth pop music channel, MTV India was recently launched in the Middle East & North African region bringing its international footprint to 31 countries60. Entertainment Network India Limited’s (ENIL) FM radio channel ‘Radio Mirchi’ has been launched in UAE62.

Indian music also carved a niche for itself in the world of concert music, which is evident by an increasing number of Indian artists performing overseas.

Some of the major concerts by Indian artists held in 2012:

<table>
<thead>
<tr>
<th>Concerts</th>
<th>Artist</th>
<th>Country</th>
<th>Period</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>One World Concert65</td>
<td>A.R. Rahman</td>
<td>US</td>
<td>October, 2012</td>
<td>A.R. Rahman along with 20 other artists performed in front of a crowd of 27,000 people. Tickets were priced between USD 35-USD 55</td>
</tr>
<tr>
<td>Sonu Nigam Concert66</td>
<td>Sonu Nigam</td>
<td>Guyana</td>
<td>April, 2012</td>
<td>About 20,000 people attended the show</td>
</tr>
<tr>
<td>Shreya Ghoshal Live in Bahrain67</td>
<td>Shreya Ghoshal</td>
<td>Bahrain</td>
<td>April 2012 to October, 2012</td>
<td>The event took place in the grounds of the Indian School Bahrain (ISB) and the singer visited 9 cities in USA. She performed for the first time in UAE and all the tickets were sold out</td>
</tr>
<tr>
<td>Ooh La La67</td>
<td></td>
<td>USA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaam Dubai67</td>
<td></td>
<td>UAE</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

59. [Digital Dawn, FICCI KPMG in India’s Media and Entertainment Industry report, 2012](http://www.indianews24.com/March%203%2C%202012)
61. [http://www.indianews24.com/March%203%2C%202012](http://www.indianews24.com/March%203%2C%202012)
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<th>Period</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>OzAsia Festival</td>
<td>Kailash Kher</td>
<td>Australia</td>
<td>September, 2012</td>
<td>OzAsia Festival plays host to 20 performances and 73 events featuring 300 artists and presenters from various countries. UK tour along with band covered 20 cities and tickets were priced between £25 and £75. Kailash Kher has also performed in other countries like USA, Pakistan and South Africa.</td>
</tr>
<tr>
<td>UK Tour</td>
<td>Kailash Kher</td>
<td>New Zealand</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>Kailash Kher</td>
<td>UK</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Roop Kumar Rathod and Sonali Rathod</td>
<td>Roop Kumar Rathod and Sonali Rathod</td>
<td>UK</td>
<td>September, 2012</td>
<td>The artists toured 3 cities in UK</td>
</tr>
<tr>
<td>Kumar Sanu and Alka Yagnik Concert</td>
<td>Kumar Sanu and Alka Yagnik</td>
<td>Pakistan</td>
<td>June, 2012</td>
<td>The entry ticket was priced at INR 2,000</td>
</tr>
<tr>
<td>Sunidhi Chauhan Concert</td>
<td>Sunidhi Chauhan</td>
<td>Bahrain</td>
<td>October, 2012</td>
<td>Tickets were priced between BD3 and BD30 per person. Part of the proceeds from the event was given to Bahrain Mobility Centre.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>New Zealand</td>
<td>June, 2012</td>
<td>New Zealand event’s tickets were priced between USD 40 - USD 150</td>
</tr>
<tr>
<td>Shankar, Ehsaan and Loy Concert</td>
<td>Shankar, Ehsaan and Loy</td>
<td>UAE</td>
<td>June, 2012</td>
<td>The event was organised at Oman International Exhibition Centre which recently opened doors for entertainment shows after 18 years. They also performed for the first time in Australia in February, 2012.</td>
</tr>
</tbody>
</table>

Key industry challenges

Piracy

The Indian Music Industry (IMI), the umbrella organization of the music industry that is responsible for combating piracy in India, estimates that the industry faces losses of INR 200 billion every year due to copyright infringement. The International Federation of the Phonographic Industry (IFPI) estimates that around 54 percent Internet users in India access illegitimate services monthly. This represents a huge opportunity, if at least some of them can be migrated to licensed services. In March 2012, the organization obtained mandatory injunction orders from the Calcutta High Court directing 387 Internet service providers to block 104 music copyright-infringing web sites. However, the industry feels that the ruling had limited success and expects stringent action from government to eradicate unauthorized use of content.

The industry is working towards making legal and affordable music available through digital platforms which will dissuade consumers to purchase illegitimate content. Music cloud services, affordable download options, subscription models, ad-based free streaming of music are some of the initiatives which are expected to bring consumers closer to legitimate music consumption. Additionally, certain players are taking additional initiatives to legalize music consumption. T-series, for example, is issuing licenses at the cost of INR 1,000 per month to mobile retailers. The license allows a mobile retailer to legitimately transfer music to customers’ handsets. This is an initiative to fight piracy at the bottom of the pyramid.

Additional strategies to combat this issue include pursuing litigation and lobbying for tougher anti-piracy laws, garnering support from online intermediaries like mobile service providers and ISPs and spreading awareness amongst users to refrain from consuming pirated music.

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72. Factiva research
73. Factiva research
76. IFPI Digital Music Report 2013
77. The Hindu Business Line, March 15, 2012
78. Industry discussions conducted by KPMG in India
The power of a billion: Realizing the Indian dream

Pricing parity, technology and transparency are going to be the three growth drivers for the industry. We first need to have legal music available at affordable price points. Only then will consumers shift from consuming pirated music to legal stores. The next wave of growth will come from newer platforms and technology. New streaming models, download models, phone-to-phone sharing will enable better music discovery and consumption options. Players who are technologically smart and innovative will flourish. We also need to bring in greater transparency in music business. Robust cyber laws are the need of the hour.

- Devraj Sanya
Managing Director,
Universal Music India & SAARC

Digital threat to production houses
The growth of YouTube as a digital video sharing platform has allowed amateur and professional artists alike to showcase (and often monetize) their content, reaching viewers directly. This has adversely impacted the relevance of traditional production houses, who rely upon digital music for 30 percent of their revenues.79

Significant dip in revenue from Caller Ring BackTones (CRBTs)
The Telecom Regulatory Authority of India’s (TRAI) directive to service providers for obtaining a confirmation from consumers for activation and renewal of value-added services have severely impacted the industry’s digital revenues from CRBTs.

Post the TRAI guidelines in 2011, the industry has witnessed a 40-50 percent dip in CRBT revenues and a similar dip in mobile radio, video streaming and other offerings in 2011. Industry participants anticipate further declines of 60 – 65 percent in CRBT revenues once all telecom carriers comply with the TRAI directives.

The Mobile economy for the past several years gave a growth in revenues for the Music Industry. This year, driven by the TRAI directive, there has been a considerable drop in some services, such as CallerTunes etc. The paid customer base has shrunk from 80-90 million subscribers to 40 million in less than a year. There is still no clarity on next steps. There is need to develop a quality music service across devices and generate more out of mobile internet through micro transactions. Advertising driven models will not work for the industry.

- Neeraj Roy
Managing Director and CEO,
Hungama Digital Media Entertainment

One billion dollar dream of music industry - Opportunities and challenges

With proliferation of smart devices and internet penetration, the digital and online consumption is steadily increasing in the country, which today stands at second largest internet user base in the world. The real task at hand for the Indian music industry is how to grow the music business and set a real goal of a billion dollars in annual revenues to the music industry that we can achieve in the next decade.

The fifth year of flat or declining physical sales and revenues has directly resulted in a reduction of artist videos, new talent promotion, investments and job losses. The only way to revive investments in new artists and create more jobs (in music and VAS industry) is by increasing the revenues of the music business. Until few years ago, it was possible by to sell more albums and at a higher price but the steady decline in CD sales explains why that is no longer a possibility.

The current estimated value of the Indian music industry revenue is less than USD 200 million (Approximately INR 1000 crores) whereas the global music industry revenues are estimated at USD 23 billion in 2012 (as per Recording Industry Association of America). Based on the declining CD sales, physical sales will continue double-digit declines in units and even greater declines in value. The silver lining is growth of digital albums which will continue to grow in unit sales. However, gains in digital sales will continue to be eroded by declines in physical sales. Considering a modest inflation at around 9 percent a year, current revenues cannot support a sustainable music business.

Thanks to recent Copyright Act amendments placing unprecedented penalties on the content owners to negotiate a fair value for their contents, TRAI guidelines hampering the marketability of VAS content and unabated rise in internet piracy, the music business has never been more risk prone than it is today. The good news is that India is at the threshold of digital revolution and the growth curve is yet to arrive. Now is the time for the music industry to focus its efforts on developing a new paradigm for music revenue creation.

- Neeraj Roy
President,
Super Cassettes Industries Ltd

Scan the QR code to hear more from Neeraj

With permission from IFPI report 2012
Luckily, non-physical music revenue is growing and is the only kind of revenue that can support a vibrant sustainable music business over the long term. The industry needs to be bullish on the following for long term gains:

- Music synchronization license revenue is still a neglected child and needs a little pampering by music labels.
- Advertising-revenue sharing with video search platforms such as YouTube and Vevo generating growing revenue with others like Dailymotion joining the party.
- Music cloud lockers such as iTunes Match, Amazon Cloud Drive, Google Music downloads, Xbox Music and Samsung Music Hub are yet another potential revenue for the music business but each one has its own pros and cons.
- Music performance revenues is still a very under rated vertical in Indian and needs to be nurtured for long term gains.
- RBT subscriptions and streaming services remained the master of the digital economy but downloads revenues are clearly important pieces of the revenue pie going forward.
- Music streaming subscription revenues are going to be another major growth area in the future.

Proliferation of legitimate internet platforms such as iTunes, Hungama.com, Flipkart, T-Series.com and Ovi etc., which started offering licensed content for downloads to the consumers, is playing an important role in seeding the paid music eco-system. Other music streaming services namely Saavn, Dhingana, Gaana, in.com etc, although licensed by the music industry, are offering free legitimate music to the consumers but are solely dependent on ad supported revenue models and sustainability of such a model over the long term is a big question mark. Although combined music-streaming services in India may only have 3 to 4 million music subscribers today, 30 to 50 million are clearly possible in next 8 to 10 years. At 40 million subscribers at USD2/month (considering currency depreciation and inflation in next 8-10 years), the industry can nearly achieve USD1 billion in gross revenues (Approximately USD 400 million in net revenues after taxes and revenue splits with service providers) from online music subscription services alone. However, in order to sustain revenue growth in the streaming vertical, industry will eventually have to shift towards a subscription based eco-system in a planned and sustained manner as free music is a very dangerous thing and we would not like our children grow up believing music is for free.

Globally there are only an estimated 300 million music buyers in a world of 7 billion people. There are 6 billion active cell phones and 1.2 billion smart phones80. 50 million new cars hit the roads every year. How can music subscriptions be bundled into as many of these subscriptions as possible? Just an average monthly subscription of only USD2 bundled into 3 billion devices would take global music revenues to more than USD70 billion from current USD23 billion and if Indian music can garner even 1 percent share of this global market in next 8-10 years, we are home.

Before we embark upon this journey to achieve our dream of increasing pie size, a number of challenges need to be overcome. It will take an organized effort by the music industry and our technology, device and mobile service providers to make this dream a reality. All the music stakeholders from music labels, film producers, musicians and authors to singers, publishers, digital content aggregators and VAS service providers must organize now to build the business we all want.

For example, T-Series has spent last year in setting the right foundation in terms of content digitization and meta tags, training the existing teams, getting the right people on board as partners, and putting the distribution pipes in place for seamless delivery in the future. Moving ahead, some of the priorities we will be concentrating on in coming years is that what you can do once you have everything connected, every license in place: solve the problem of discovery, micro payments and what people are going to be listening to next, and making sure that they can get that social signal in a way that is meaningful, exciting, and engaging and help increase the pie size. Integration of Social Media (Facebook, Twitter) and Video Search platforms (Youtube, Daily Motion etc) with download recommendations is going to play a pivotal role in nurturing the paid eco-system in the near future and today we are at the threshold of this metamorphosis.

Building the correct and comprehensive metadata for better search and discovery is going to play the most important role for individual content owners and is the first stepping stone for the future success.

Under reporting and complete reliance on platforms for revenue data is another challenge and unless the industry adopts a more robust B2C Content Delivery Network under direct control of the content owners like the one designed by French technology platform ‘Digiplug’ for a major label in the West. Until then music industry will continue following the streaming / download platforms with a beggar’s bowl or alternatively demanding huge upfront guarantees which in turn may make survival of these services questionable leading the industry back into the rut. The Producers and Studios also need to realize the current unsustainable price for music rights which will help the music industry mitigate its risks and instead focus on increasing the pie size by channelizing investments in new technology platforms. The steep hike in music acquisition cost in recent times is only killing the goose which may lay golden eggs later.

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Online Piracy - How to effectively control the free ride

A part of the reason for music’s small proportion of India’s media economy is that popular music in India is dominated by film music, which has a short shelf life and its’ popularity or success is directly proportional to the success or failure of the film at the box office. But a greater reason is internet piracy, it is estimated 55 percent of Internet users in India access unlicensed music services on a monthly basis. The major challenge to entertainment content, whether music or films is digital online piracy, which is continuing unabated and the government has failed to control it despite having the technology, laws and infrastructure to curb it.

IMI recently obtained a favourable order from one High Court against a number of illegal sites but the joy was short-lived as another High Court diluted the order and the industry was back to square one. Whether taking legal actions against pirate online platforms is effective is not the question, the more important question is -how long the effect will last and whether it was worth the effort. Shutting down sites through legal processes may be financially and mentally draining and may not be effective because shutting down one massive piracy hub merely creates a void for another to fill.

Copyright is an essential driver in the creative process, but if that right is not respected then it is of little use. The pirate sites’ revenue model is advertising. In addition to several smaller advertisers, there are, at times, advertisements from large brands that may be displayed on these sites. Working with larger brands to raise awareness and thereby curb their ads on these sites can be a significant catalyst in reducing online piracy. Also, Internet Service Providers in some countries work closely with content owners and with law enforcement to proactively monitor and restrict pirated content – this approach must be adopted in India too. In the long term, legitimate content is likely to be a large market and it will be in the interest of the ISP to work with content owners to promote legitimate music sales.

By simply leveraging their existing relationships with brands and their PR agencies, the content and media distribution companies owning the TV & Radio networks may help to address mass scale, enterprise level commercial infringement without necessarily requiring any new legislation by simply approaching these brands and making them realize their social responsibility and how they are doing a irreparable damage to the Indian economy by advertising on these rogue sites.

One tweet or a FB post a day by main stream actors / celebrities to any of these brands is all it takes to start building awareness, but will they do it as most of them are brand ambassadors for these brands? Further, the actors and singers who have strong social media following could spread awareness amongst consumers on the importance of appreciating creative rights. The fight against piracy is a not a battle but a war for which the entire industry needs join forces. Where a collaborative approach does not work, the music industry needs to be more pugnacious in its approach to take the brands supporting pirate sites head on.

The content industry as well as their well respected institutions such as The Producer’s Guild, major media houses owning Satellite & Radio Networks all host annual award shows where many brands also advertise. This opportunity should be used to educate the corporate world about the damage they may be doing to the creative industry. The content industry associations should use their might, weight and prestige to create an award for brands who respect the creative copyright in a public forum that will enhance their brand value.

Unless otherwise noted, all information included in this column/ article was provided by Neeraj Kalyan. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India.

Themes for the future

Music publishing is the future

Music commerce in India is at the cusp of change. The Copyright (Amendment) Bill, 2012 has been passed in May 2012. This has been welcomed by writers and composers of music as it gives them ownership rights for their works. Aimed at incorporating international and WIPO (World Intellectual Property Organization) norms into existing laws, the new act specifies that the authors (lyricists, composers etc.) of underlying works and assignees (publishers) are each entitled to equal shares of royalties received for the out film use. The 2010 version of the Bill assigned copyright ownership only to producers and record labels.

Prior to this, music record companies were handling both master recording and publishing rights in India. As is the case in the West, music rights will now be split between records labels and publishers. Publishers and copyright societies will hence play a critical role in right protection and administration.

The Amendments to the Copyright Act are like an undersea earthquake: all is calm above the waters and the next moment the landscape is unrecognisable. On the one hand, the Amendments will open up untapped revenue streams for the copyright industries, spread the risks and rewards, bring greater transparency, certainty and flexibility to the licensing process; on the other hand, they will unleash a tsunami of data that can only be processed by music publishers and Collective Rights Management Societies. The early adopters will be the biggest gainers; but if you live the Amendments like a trauma then you need good external advice or you won’t be part of the new landscape.

- Achille Forler
Managing Director,
Universal Music Publishing Pvt. Ltd.

However, the current state of publishing in India is complex given a lack of proper Meta data and documentation. This makes identification of the copyright owners for proper disbursement of revenues a difficult task. There are often multiple publishers for the same piece of content. Complexity in music publishing has deepened with the introduction of a plethora of digital music platforms which need to pay music royalties.

The market for music publishing, though at a nascent stage currently, is set to grow rapidly with the introduction of copyright law amendments. Music producers are working towards incorporation of Meta tag information (such as time and date of creation, creator or author of its content, etc.). Producers and composers are continuously approaching publishers to license their works, users of these works are also adhering to copyright rules and obtaining requisite licenses. Indicative of growth expected in the segment, September 2011, Sony Music launched Sony ATV, its international music publishing business in India while Universal Music Publishing Pvt. Ltd. fully acquired Deep Emotions Publishing in 2012.

The Amendments are spot on at a time when digital technology, which has been mostly destructive for the copyright industries so far, is now giving us the tools to build a new Golden Age. The much derided political class has shown greater acumen and foresight than the copyright industries: will anyone have the grace to acknowledge that?

- Achille Forler
Managing Director,
Universal Music Publishing Pvt. Ltd.
The power of a billion: Realizing the Indian dream

Branding of content and building branded properties

Seeking to capitalize on the longevity inherent to musical content, labels and event organizers are seeking to build enduring brands around music platforms, events and services.

Several lifestyle brands are associating themselves with live music events and concerts in order to engage with target audiences and create an experiential property. These arrangements are made for long terms in order to unlock value. Brands contribute 60 percent of revenues under a sponsorship arrangement. Properties such as Eristoff Invasion, Bacardi NH7 Weekender, The Great Indian Oktoberfest, and Sunburn have built such properties for an ultimate experience.

Universal Music Group has started a ‘music launcher project’ for HP. A launcher is embedded on to all HP laptops and provides users instant access to Universal’s music catalogue. The launcher will be embedded on over 2 million devices and is accompanied by an annual subscription to the music service powered by Universal Music India. This project is currently active in about 21 countries.

Coca Cola India’s Coke Studio@MTV has established a dynamic music property that brings together diverse artists from different genres and countries to one platform and has set a benchmark for music lovers. The second season was the highest downloaded musical project across all platforms and is amongst the most successful and the highest ‘pre-booked’ album last year on Flipkart. Similarly, Bacardi India’s Dewarist, a TV show won bronze medal at Cannes Lion 2012 Awards for Branded Content and Entertainment category. The show’s official YouTube channel garnered over 1.7 million views, making it the top rated brand channel in the country at the time. Through distribution of the 10 collaborative tracks created during the show, Dewar’s India facebook page generated over 3.2 million social engagements and over 120,000 downloads.

In the near future, brands are expected to drive music properties and create an enriching experience that drives the audience and is at top of the mind for brand recall.

Adoption of new revenue models

In order to generate new revenue streams, music companies are now embracing various digital distribution models and licensing content to online music services. Major online music services companies such as Spotify, Flyte, Apple’s iTunes store and streaming sites such as Gaana.com, Saavn, Dhingana etc. generate additional revenues through licensing agreements. These include pay-per download to ad-based music streaming and paid streaming models.

Saavn is set to launch a paid subscription model in March, 2013 for its streamed music service for the Indian market. The product will initially be available on Apple’s app store with a monthly subscription fee of INR 215 after a 30 day free trial. Apps for Android and feature phones are also planned. Key features include ad-free listening, offline listening on up to 5 devices per account and allowing consumers to sync multiple devices over cellular or wi-fi data connections.

Similarly, Universal Music India has launched a division in 2012 to create brand anthems and corporate jingles which can be monetised through music sales.

Bundling music services with the services of telcos and internet service providers (ISPs) can ensure in a win-win situations for both parties. While bundling enables music services to reach mass market — leveraging telcos’ and ISPs’ established commercial footprint and billing structures — music services help telcos and ISPs to enhance their service offerings and reduce churn rates. In April 2012, Deezler, a French web-based music streaming service, partnered with T-Mobile to offer unlimited music streaming service on select mobile tariff plans in Austria.

With cost effective streaming, constant improvement of digital infrastructure and digital delivery of content – the biggest opportunities in the digital music world is yet to be unlocked. Website and application developers have to stay ahead of the technology, build trust with users on payments and use advertisers only where delivery of content is free for the end-users. The winner will be someone who can be innovative at the same time continues to engage with his customer and ensure that content cannot be pirated or downloaded illegally from their platform.

- Anand Kumar Patner, Sand Hill Counsel

Simplified music discovery to encourage consumption of newer genres

Social media platforms are enabling easier discovery of varied genres and thereby allowing artists’ exposure to larger audiences. South Korean artist Psy’s ‘Gangnam Style’, is an example of international visibility and success achieved through the social media platform. The song premiered on YouTube, crossed the one-billion views mark in December 2012 and emerged as the first ever video to break that barrier. Its success is indicative of growing interest in new genres by audiences and the emergency of music discovery as a tool to achieve greater success.

While Bollywood music continues to command a dominant position in the Indian market, the non – Bollywood music space has witnessed a considerable activity. Both regional and international music have seen a good traction among the audience. Various industry players are taking steps to encourage consumption of new genres of music.

Electronic Dance Music (EDM), a popular music genre has seen growth in audiences and leading to successful EDM music festivals in India. “Contrabass Records,” India’s first purely electronic music label, is being introduced by Universal Music India. It is a sub-label set up by Universal Music India to cater to the growing population of purely Electronic Music listeners in India.

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84 Industry discussions conducted by KPMG in India
85 Radioandmusic.com November 1, 2012
86 Radioandmusic.com June 25, 2012
87 Mediamana.com February 12, 2013

89 http://youtube-trends.blogspot.in/2012/12/gangnam-style-crosses-one-billion-view.html
90 Radioandmusic.com November 21, 2013
Growing radio and television penetration will further accelerate this trend. During 2012, we observed conversion of some of radio channels into all English music channels while the television industry observed launch of niche channels in the music category.

International music on the rise
With world’s second largest English speaking population (more than 125 million)\(^91\), India has a big audience for Western music. The growing popularity of international music can be validated by the fact that ‘Vevo’ – an online destination for International music – ranks 7th among the most viewed YouTube channels in India\(^92\). While the country is seeing a surge of demand for International music and artists, there is lack of promotion and availability of international music in comparison to other genres of music content. Many music stores are trying to bridge this gap with launch of legitimate international music destinations. While the consumption of international music on mobile is just 5-7 percent of the overall music consumption in the country\(^93\), it is expected to grow its share in the coming years.

Capturing this opportunity is digital distributor South Asian Audio Visual Network (Saavn), which has expanded its catalogue with a wide range of international music through the launch of a new product ‘Saavn English’. The company has tied up with Sony Music Entertainment and Universal Music Group to offer more than 250,000\(^94\) international songs on its website. Saavn English brings music from artists including Jay-Z, Pitbull, Shakira, and Michael Jackson, for Indian listeners. Apart from the website, Saavn also plans to launch Saavn English on mobile platforms such as iOS, Android, and Java/J2ME (Feature phones).

Another player is 9X Media Group, which has launched its latest offering in the space with an online music store for international music at www.9xo.56060.in. It has also created a WAP portal to download videos, wallpapers, ringtones and audio packs. 9XO has recently partnered with Universal Music to launch ‘GRRR!’ – a collection of the popular songs from The Rolling Stones, an English rock band, over the last five decades. It also carried out a month-long campaign celebrating the band’s legacy in India.\(^95\)

NexGTv, a mobile TV service has unveiled an English music channel called nexGTv Music. There are over 300 popular English songs on the channel, and the number is set to grow.

Conclusion
The industry is innovating and licensing every viable form of music access for consumers. The next phase of growth for the industry will be driven through providing digital music services to consumers at affordable prices, with ease and access they seek. The battles for music audiences will be fought over the Internet. Improved digital infrastructure and maturing audience tastes will catalyze growth. Players which achieve consumer loyalty through enhanced music consumption experiences will stand to benefit.

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91. Census 2001
93. http://techandcrave.com/2013/03/20/frunaments-brings-english-on-the-mobile/
Animation, VFX and Post Production
Lights, Camera, Animation!

DreamWorks
MADAGASCAR 3
EUROPE'S MOST WANTED
JUNE 8
In 2D Theatres, real 3D & Digital 3D
Outlook for the year

The year 2012 was a mixed year for the Indian animation and VFX industry. While some players witnessed healthy growth on the back of increased workflow as the industry grew globally, others struggled to keep the momentum going as the squeeze on pricing and margins increased. The performance of the animation industry was more flat, whereas VFX and post-production grew in line with the overall performance of the film and TV industry.

Domestic animated feature film releases over the past year (‘Chhota Bheem’, ‘Arjun-The Warrior Prince’, ‘Delhi Safari’, ‘Krishna aur Kans’ and ‘Sons of Ram’) did not meet expectations and this has had a detrimental effect on producer interest in the segment.

On the VFX and post-production front, 2D-3D conversion activity increased and the quality of VFX in movies and TV improved significantly. Overseas players now consider India a viable source for content and quality work at affordable pricing.

### (Amounts in INR billion)

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<tr>
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<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Animation services</td>
<td>4.8</td>
<td>5.5</td>
<td>6.2</td>
<td>7.1</td>
<td>7.6</td>
<td>12.17%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Animation production</td>
<td>3.6</td>
<td>3.7</td>
<td>3.9</td>
<td>4.2</td>
<td>4.5</td>
<td>5.7%</td>
<td>7.1%</td>
</tr>
<tr>
<td>VFX</td>
<td>2.3</td>
<td>3.1</td>
<td>4.5</td>
<td>6.2</td>
<td>7.7</td>
<td>35.3%</td>
<td>24.2%</td>
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<tr>
<td>Post-production</td>
<td>6.8</td>
<td>7.8</td>
<td>9.1</td>
<td>13.5</td>
<td>15.5</td>
<td>22.9%</td>
<td>14.8%</td>
</tr>
<tr>
<td>Total</td>
<td>17.5</td>
<td>20.1</td>
<td>23.7</td>
<td>31.0</td>
<td>35.3</td>
<td>19.2%</td>
<td>13.9%</td>
</tr>
</tbody>
</table>

Source: KPMG in India analysis

Size of Animation, VFX and Post production industry in India

![Graph showing the growth of Animation, VFX, and Post-production industry in India]

Source: KPMG in India analysis
Animation revenues include revenues from work outsourced to India (animation services), locally created animation movies and revenues earned from animation used in commercials (animation production). VFX revenues include revenues generated from shots created for producers for domestic and international movies.

**Revenue Models in Indian Animation Market**

- **Outsourcing Model**
  - Contractual deals
  - Highly popular
  - High volume, low profit
- **Co-production**
  - Companies (MNC’s) partner with an animation house for producing a movie
  - Shared risk model
- **IP model**
  - Involves all stages of production from conceptualizing to marketing of the product
  - High risk, high return

Source: Industry discussions conducted by KPMG in India

“While release of six animated movies in 2012 was a milestone for Indian Animation industry, the key to success still lies in moving Animation genre from kids to family entertainment.”

“Central government’s pro active intervention in to signing co-production treaties with animation relevant countries and encouragement for creating original animated content from India will go a long way in stabilizing the industry.”

- Ashish S K
  CEO,
  Reliance Animation

**Animated films - a large, growing market globally**

The animation-film category has expanded significantly in recent years, both in terms of releases and box-office collection. Of the top 100 grossing movies released in Hollywood in 2012, 13 were animated.

**Number of Animated Movies in top 100 worldwide collection**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Movies</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td></td>
</tr>
</tbody>
</table>

Source: www.boxofficemojo.com
Top 10 highest grossing animation films worldwide

<table>
<thead>
<tr>
<th>Rank</th>
<th>Title</th>
<th>Studio</th>
<th>Worldwide gross collection (USD million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Toy Story 3</td>
<td>Pixar</td>
<td>USD 1,063.2</td>
</tr>
<tr>
<td>2</td>
<td>The Lion King</td>
<td>Walt Disney</td>
<td>USD 951.6</td>
</tr>
<tr>
<td>3</td>
<td>Finding Nemo</td>
<td>Pixar</td>
<td>USD 921.7</td>
</tr>
<tr>
<td>4</td>
<td>Shrek 2</td>
<td>DreamWorks</td>
<td>USD 919.8</td>
</tr>
<tr>
<td>5</td>
<td>Ice Age: Dawn of the Dinosaurs</td>
<td>Blue Sky</td>
<td>USD 886.7</td>
</tr>
<tr>
<td>6</td>
<td>Ice Age: Continental Drift</td>
<td>Blue Sky</td>
<td>USD 875.3</td>
</tr>
<tr>
<td>7</td>
<td>Shrek the Third</td>
<td>DreamWorks</td>
<td>USD 798.9</td>
</tr>
<tr>
<td>8</td>
<td>Shrek Forever After</td>
<td>DreamWorks</td>
<td>USD 752.6</td>
</tr>
<tr>
<td>9</td>
<td>Madagascar 3: Europe’s Most Wanted</td>
<td>DreamWorks</td>
<td>USD 742.1</td>
</tr>
<tr>
<td>10</td>
<td>Up</td>
<td>Pixar</td>
<td>USD 731.3</td>
</tr>
</tbody>
</table>

Source: BoxOfficeMojo.com

The India story

The Indian animation industry comprises of independent animation studios like DQ Entertainment and Green Gold Animation, Indian divisions of international studios like Rhythm and Hues and Technicolor, animation divisions of large Indian houses like Tata Elxsi and Reliance Animation and several small independent studios. It is estimated that there are about 300 animation companies in India employing more than 12,000 people with nearly a quarter working as freelance animators.\(^1\)

Outsourced work remains a significant component (63 percent)\(^2\) of industry revenues. Indian players are primarily focussed on labour-intensive production and post-production activities at the lower end of the value chain although some firms are moving up the value chain. While there are a few firms with world-class capabilities, there is a need for a wider section of the industry to upscale their capabilities by focusing on creation of proprietary content; unfortunately India has so far been unable to offer a larger domestic market to support this transition. Content development and pre-production activities for the domestic and the outsourcing markets are at a nascent stage in India. However, this is expected to gain momentum owing largely to corporate e-learning programs and to universities offering degree courses in animation. This requirement for content, added to the inclination of corporates (especially in the US) to outsource custom content development, is likely to be an opportunity for animation content development companies in India.

Revenue distribution of the Indian animation industry

Growth in the childrens’ television genre and the six theatrical releases in 2012 manifested in a greater share of revenue for these segments as compared to direct to DVD content.

Revenue distribution of animation industry

Source: Industry discussions conducted by KPMG in India

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01. Economic Times 8 Jul 2012
02. KPMG in India analysis
Key developments

Animation gradually comes of age

For animation to achieve the same level of success in India as in the west, an appeal to broader audiences beyond the children’s category is needed. Increasing viewership of animation content among adults as a percentage viewership of kids’ channels indicates substantial increase in viewership for the 14+ age group category. The increasing popularity of animation content among adults is expected to be a catalyst for the domestic animation industry.

Indian animation movies fail to meet expectations?

The success of movies such as ‘Avatar’, featuring a blend of live action and computer generated animated characters, is indicative of the latent interest amongst Indian audiences for high quality animated content. A number of animation feature films were made and released to capitalise on this (‘Arjun-The Warrior Prince’, ‘Delhi Safari’, ‘Chhota Bheem and the curse from Damyan’, ‘Makhi’, ‘Sons of Ram’ and ‘Krishna Aur Kans’). Unfortunately, these films did not live up to expectations at the box office – total theatrical collections from these movies was estimated to be less than INR 120 million (USD 2.18 million) as against collection of approximately INR 440 million of six Hollywood animated movies released in India. ‘Makhi’, was an exception, which grossed more than INR 1.2 billion; however this was more of a mainstream movie featuring both human and animated characters as the main protagonists. The lacklustre performance of most domestic animated movies was possibly due to factors such as quality as compared to Hollywood films, limited production budgets, limited appeal of traditional themes and penetration of quality screens and multiplexes in Tier II and III cities which would attract audiences to the theatres for such movies. There are no major animated feature film projects in pipeline except for ‘Chhota Bheem and the Throne of Bali’.

Moving up the value chain – Partnerships as a stepping stone

Indian studios, by collaborating with foreign studios, are now increasingly looking to create their own intellectual property rather than focus on outsourced work.

Recent co-productions between Indian and foreign studios include:

<table>
<thead>
<tr>
<th>Indian studio</th>
<th>Foreign studio</th>
<th>Film/ TV Series</th>
</tr>
</thead>
<tbody>
<tr>
<td>DQ Entertainment</td>
<td>Method Animation (France)</td>
<td>Charlie Chaplin</td>
</tr>
<tr>
<td>DQ Entertainment</td>
<td>Walt Disney Television Animation, USA</td>
<td>Mickey Mouse Club House Season 5</td>
</tr>
<tr>
<td>DQ Entertainment</td>
<td>Kodansha and TMS Entertainment, (Japan) for Colours Channel &amp; Nickelodeon Channel</td>
<td>Suraj: The raising Star</td>
</tr>
<tr>
<td>Crest Animation</td>
<td>Moonscoop</td>
<td>Octonauts</td>
</tr>
<tr>
<td>Crest Animation</td>
<td>Sony</td>
<td>Swan Princess – 5</td>
</tr>
</tbody>
</table>


* Industry discussions conducted by KPMG in India
TV channels driving demand
While channels such as Disney, Nickelodeon and Cartoon Network, expanded their presence, there were also new launches, for example following the launch of Sun Group’s regional language kids channel Kochu TV in late 2011, Discovery also launched their kids channel Discovery Kids. Turner Network forayed into the live action original productions space in India with shows such as ‘M.A.D’ which continue to be popular and the second season of animated series ‘Kumbh Karan’. As children’s channels are driven by animation content, this drove animation studios to produce more content, including original Indian content. Owners of comic strip intellectual properties are also trying to leverage these to create animated episodes for various TV channels.

Animation in TV advertising on the rise
The Indian television advertising industry is projected to command a 38.26 percent share of the advertisement industry pie in 2013. The digitization of the Indian cable industry is likely to be the catalyst for the launch of several new channels in the next 2 years. This, coupled with the growing popularity of animated characters in advertising is expected to boost the industry. Animated characters in advertising can help break through ‘celebrity clutter’ and also be a cost effective way of straddling cultural nuances across markets.

Licensing and merchandising on the rise
Licensing and merchandising is another revenue stream being explored by animation studios. Many popular animated characters are now entering Indian homes in the form of novel merchandise. Examples of such licensed merchandise include ‘Jungle Book’ apparel and accessories for babies, kids and teenagers through DQ Entertainment, ‘Roary the Racing Car’ toys through Zapak, ‘Chhota Bheem’ merchandise from Green Gold, etc. 8

Key challenges

Content and creativity
Thus far, Indian animated content has largely consisted of reworks of traditional mythological content with limited focus on compelling story telling. The few Indian animation films that have attempted to explore other themes have met with limited commercial success. Thus technical quality has taken precedence over content. The industry needs 1-2 successes of original films and content in order to spur interest in this category.

Costs vs Revenue
The average Indian animation movie budget is limited - less than 1 percent of the budget of a typical Disney-Pixar film (such as Ratatouille). While audiences expect animation content to conform to international standards, few are willing to pay high ticket prices. The economics of animation films in India are therefore unviable in the absence of large audiences.

Talent
There is a paucity of high quality skilled manpower in the animation area. Moreover, there are only a few universities such as Birla Institute of Technology, Bharati Vidyapeeth University, All India Council for Technical Education (AICTE) and credible training schools offering degree courses and training in animation. Although Indian studios meet technological standards and are capable of providing quality output to Hollywood studios, there is significant room for improvement in terms of technical experience and expertise.

Lack of incentives and government support
The industry would benefit considerably from government support through measures such as reservation of a certain number of hours of domestically produced content on channels, ‘must-carry’ clause for children’s channels and tax benefits and treaties. Incentives and tax benefits have been a major driver for the growth of the animation and VFX industries in Canada, Korea, Philippines and Indonesia and Indian industry clearly needs Indian government support.

Fragmented market
The industry is highly fragmented with a large number of small studios carrying out low-end work. One of the largest producers-DQ Entertainment, has a market share of 13-15 percent. There is a need for consolidation in the industry to effectively compete with larger companies in other countries.

The AVGC sector has been actively lobbying for some much needed and long overdue policy intervention. We need to have co-production treaties with countries like Canada and France; in the absence of such treaties Indian companies are not even in the consideration for global co-production deals. Local kids content production for domestic consumption needs to be given a boost by setting up TV and Film Funds, providing tax incentives and starting a Terrestrial Kids Channel. All these initiatives form a part of a systemic approach to build a robust industry which has strong revenue from domestic as well as international markets. This is an accepted models which have served other countries well.

Infact other Asian countries like China, Singapore and Malaysia have already taken these policy decisions and have today outpaced India in terms of growth and industry size.9

- Munjal Shroff
Director & CEO,
Graphiti Multimedia Pvt. Ltd.

04. KPMG in India analysis
05. Industry discussions conducted by KPMG in India
Indian Animation Industry has gone through a lot of highs and lows in the last decade. A lot of companies have struggled to carry on while a few have done well. With a boom for local Animation content on TV, the future should be bright for Indian Animation Industry. Its also time for the public broadcaster to come up with Kids Channel. I recommend that this kids channel focus mostly on Pre-school age group (0-4 years). The programs should address the educational and recreational needs of the pre-schoolers in an entertaining way, in order to prepare them for the world in an age-relevant way.

- Rajiv Chilaka
Founder & Managing Director, Green Gold Animation Pvt. Ltd.

Looking ahead
There is indeed scope for animation companies to grow in India. Animation is no longer a ‘sunrise’ industry, it has begun expansion in different directions primarily due to factors such as growth of the overall M&E industry, the potential newer consumption segments like education and gaming, and the recognition of India as an outsourcing destination. Business models too are changing, at present, many Indian companies are graduating from traditional outsourcing to a co-production model. Besides this, custom content development is expected to grow into a larger segment, going forward.

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</thead>
<tbody>
<tr>
<td>Animation services</td>
<td>7.6</td>
<td>8.5</td>
<td>9.8</td>
<td>11.1</td>
<td>12.5</td>
<td>14.0</td>
<td>13.0%</td>
</tr>
<tr>
<td>Animation production</td>
<td>4.5</td>
<td>4.9</td>
<td>5.4</td>
<td>6.0</td>
<td>6.7</td>
<td>7.6</td>
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<tr>
<td>Total</td>
<td>12.1</td>
<td>13.4</td>
<td>15.2</td>
<td>17.1</td>
<td>19.2</td>
<td>21.6</td>
<td>12.3%</td>
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</table>

Source: KPMG in India analysis
VFX in India

The VFX industry, a rapidly evolving segment in India, is estimated at approximately INR 7.7 billion and can be broadly classified into the following verticals — movies, TV shows and advertisements. As the segment is still at a nascent stage and domestic consumption remains limited, with mainly low-end work being carried out in India, there is considerable dependence on outsourced projects from the US and the UK. However, the domestic market is now witnessing bigger budget film releases and ad campaigns, for which players have increased spending on VFX so as to provide an enhanced visual experience for viewers. The segment registered 35 percent growth over 2008-2012 and is expected to grow approx 20 percent CAGR to reach INR 19 billion in 2017.

Key trends

VFX budgets

On average, Indian movies have limited budgets for visual/special effects. In India VFX budgets are considerably below international benchmarks, even as a percentage of production costs. The VFX budgets for Hollywood movies range from USD 3 million to USD 9 million, which could cover the cost of an average Indian movie. However, VFX budgets for Indian movies, including regional cinema, are showing an increasing trend and are expected to boost the segment. Also, spends by the advertising industry on VFX have been increasing.

Outsourcing of VFX work to Indian studios

While outsourcing of animation to Indian studios has a relatively longer history, outsourcing to Indian companies of visual effects/post-production/3D conversion work of Hollywood films has gained ground in recent years. The movie “Life of Pi” changed the way VFX is employed in films, it has not only consolidated the belief that VFX can be used as more than just a gimmick, it has also managed to captivate audiences worldwide with imagery of oceans, realistic animals, etc. Almost 40 percent of the visual effects work was done out of Asia, primarily India and Malaysia. This was a landmark film for the industry and the region in many ways which hopes that the quality of work will be a catalyst for the growth of the industry in India. To do work for Hollywood productions, however, requires constant investment in people and technology and the larger studios would need to ensure sustained investment over the short term in order to reap benefits over the long term. Also, there is a dearth of artists with advanced VFX skills, reflecting in high recruitment and training costs.

Testing overseas shores

To overcome the challenges of limited domestic demand and residual skepticism of production studios in the US or the UK in outsourcing work, many dominant players in the VFX space (Tata Elxsi, Prime Focus, Reliance etc) have established overseas offices in order showcase their capabilities and service clients better.

3D conversion market

Hollywood is witnessing a surge in the production and popularity of 3D films. Over the past three years, half of the top 20 grossing films in the U.S. were released in 3D.

Number of Hollywood 3D films released

As the team leader @ Technicolor India, 2012 leaves no room for doubt that India has ascended to the top of the pyramid when it comes to CG Animation/VFX productions. MPC’s Life of Pi, Prometheus and Skyfall; DreamWorks Dedicated Unit’s -Madagascar 3 and Rise of the Guardians; Technicolor Animation’s services in Mattel’s Barbie & the Pink Shoes, and award winning episodic work for Nick on Kung Fu Panda and Teenage Mutant Ninja Turtles – is proof enough!

- Biren Ghose
Country Head,
Technicolor India

Source: KPMG in India analysis and industry interviews conducted by KPMG in India
To create a 3D film, film-makers can either shoot films in 3D or shoot in 2D and later convert to 3D at the post-production stage. The latter approach is preferred as shooting in 3D is expensive, time-consuming and has limited flexibility and greater complexity in editing and adding VFX at the post-production stage.

In 2012, ‘Star Wars I’ and ‘Titanic’, were re-released in 3D, generating box-office collections of USD 45m9 and USD 54m9 respectively. This indicates that there is a potential for 3D re-releases of older hits, especially given the relatively low conversion costs involved. After the release of ‘Avatar’ in 2009, the number of 3D digital screens exploded worldwide from 3,80010 in 2008 to approximately 43,00010 in 2012. Also, in 2012 a deal was signed between China and US allowing 14 foreign made movies into China every year which is a 70 percent increase in the current quota of 20 films.10 However, to qualify for the list the movies have to be in 3D or Imax technology.

Example of Leading studios in India undertaking 2D - 3D conversion of Hollywood movies

<table>
<thead>
<tr>
<th>Prime Focus</th>
<th>Legend 3D</th>
<th>Stereo D</th>
<th>Rocket Science 3D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Green Lantern</td>
<td>Alice in Wonderland</td>
<td>Titanic re-release</td>
<td>Michael Jackson’s This Is It,</td>
</tr>
<tr>
<td>Clash of the Titans</td>
<td>The Green Hornet</td>
<td>Gulliver’s Travels</td>
<td>Gulliver’s Travels</td>
</tr>
<tr>
<td>Star Wars I</td>
<td>Transformers: Dark of the Moon</td>
<td>The Green Hornet</td>
<td>The Chronicles of Narnia: The Voyage of the Dawn Treader</td>
</tr>
<tr>
<td>Immortals</td>
<td>Priest</td>
<td>Jackass 3D</td>
<td>Dawn Treader</td>
</tr>
<tr>
<td>Men in Black 3</td>
<td>Top Gun (re-release)</td>
<td>John Carter</td>
<td>Hoodwinked Too! Hood vs. Evil</td>
</tr>
<tr>
<td>The Chronicles of Narnia: The Voyage of the Dawn Treader</td>
<td></td>
<td>Thor</td>
<td>Immortals</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Captain America: The First Avenger</td>
<td>Harry Potter and the Deathly Hallows</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The Avengers</td>
<td>Conan the Barbarian</td>
</tr>
</tbody>
</table>

Source: Anand Rathi research report - India Media and Entertainment, August 2012

9. www.boxofficemojo.com
10. Business Insider
11. www.businessweek.com, February 2012
Post Production: The future of entertainment

The post production segment is poised for stupendous growth as Indian filmmakers discover the magic of digitisation. Technology has revolutionised the very process of filmmaking, especially at the post-production stage. This has given rise to a plethora of digital labs and studios in India catering to new age editing, Digital Intermediate (DI) and other digital processes.

The sector is currently estimated at INR 15.5 billion and is expected to grow at a CAGR of 16 percent by 2017. Key contributors to growth are established segments such as DI and also newer ones such as Restoration and Conversion. Additionally, the digital revolution has made the video editing work flow process quicker, from time-consuming (tape to tape) linear video editing to online editing suites and to computer hardware and video editing software such as Adobe Premier®, Final Cut Pro®, as well as incorporation of Cloud technologies for storage and technology/software access.

The post production segment has moved focus from analogue to new age digital processes. Colour correction via telecine on tapes for edit has replaced the traditional rushes printing process in the processing lab. The Steenbeck method of editing analogue rush prints in a linear manner has given way to film editing on non-linear software-based systems such as AVID/FCP. DI processes have moved up from 2K resolution to 4K resolution for greater detail and quality. The final deliverables for film outputs have increased from only analogue 35mm prints to Digital DCPs, High-Definition tapes and web deliverables and 35mm prints. The production and post production stages are also converging. Today, it is possible to shoot an entire film/sequence on a set without actually being on location in, say, another country. This does involve a considerable amount of planning involving VFX crews at the pre-production stage with relevant software. Mobile Data Management systems for digital camera acquisition, On Set DITs (Digital Imaging Technicians) and VFX pre-visualisation will gain more relevance.

The road ahead

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<tbody>
<tr>
<td>VFX</td>
<td>7.7</td>
<td>9.3</td>
<td>11.1</td>
<td>13.4</td>
<td>16.1</td>
<td>19.2</td>
<td>20.1%</td>
</tr>
<tr>
<td>Post-production</td>
<td>15.5</td>
<td>17.8</td>
<td>20.5</td>
<td>23.8</td>
<td>27.8</td>
<td>32.6</td>
<td>16.0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>23.2</strong></td>
<td><strong>27.1</strong></td>
<td><strong>31.6</strong></td>
<td><strong>37.2</strong></td>
<td><strong>43.9</strong></td>
<td><strong>51.8</strong></td>
<td><strong>17.4%</strong></td>
</tr>
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</table>

Source: KPMG in India analysis

Although the outlook for the Animation, VFX and Post Production Indian industry is positive, capitalising on future potential will depend upon the industry’s ability to deal with present challenges and government support, a critical factor for animation given competition from other countries.

The opportunity for this segment lies in tapping the growth potential of the market through expansion beyond traditional markets and segments into areas like education, introduction of local content guidelines by the government, better training of manpower and measures to promote greater awareness which will benefit all stakeholders involved.

"India has grown exponentially, as the global VFX hub, providing world class technocreative work. To continue this momentum of growth, and deliver high quality creative services, the industry must invest in training the immense talent pool that’s available to the VFX industry in the country. The effort to nurture and build creative talent will then become a critical differentiator for India, vis-a-vis other countries providing similar services."

- Merzin Tavaria
Co-Founder and Chief Creative Director, Prime Focus

India has grown exponentially, as the global VFX hub, providing world class technocreative work. To continue this momentum of growth, and deliver high quality creative services, the industry must invest in training the immense talent pool that’s available to the VFX industry in the country. The effort to nurture and build creative talent will then become a critical differentiator for India, vis-a-vis other countries providing similar services.
India ascends global stage with Animation and VFX

Biren Ghose, Country Head
Technicolour India

It’s been 85 years of the Oscars and yet we have had fully animated movies as a category awarded only since 2001. In the short film category however, there have been winners from animation for several decades. This shows the emerging recognition of this genre as a relatively recent phenomenon - Disney and Miyazaki excepted! When it comes to large scale productions, be it in Argo [Oscar winner for Best Picture 2012] that was shot in Turkey while they meant to depict Iran in 1979 [not a single shot was filmed there whereas one sees seamless digitally created Iran impeccably incarnated in several shots across the US Embassy, etc. thanks to the power of CG]. Similarly, Skyfall, where the climactic sequences are all intended to be in Scotland [remember Glencoe and the frozen loch etc.] - all this was actually shot in London and digitally recreated substantially including by our artists in Bangalore and London.

There are always questions about how to commend the value of artistry that goes into high-end visual effects development work. The world’s leading conceptual artists including matte painters in major movies are often seconded from VFX companies and are “deputed” to feature film productions as lead artists. Their skill in traditional illustration fused with the latest digital technology helps them handle concepts for characters, vehicles, motion graphics, environments and FX, and they can be diverse using multiple stylistic approaches.

Just look at what we have to show for ourselves in India. Life of Pi won the VFX Oscar and two studios that worked on the film - Rhythm n’ Hues and MPC - both having used a substantial number of their team members in India.

At Bangalore, we have executed projects across a veritable who’s who of the full CG animation global titites such as Kung Fu Panda; The Penguins of Madagascar; Fanboy and Chum Chum and the Teenage Mutant Ninja Turtles. In Visual Effects [VFX] India’s contribution to Hollywood movies is well known - the last two Harry Potters [Part 1 and 2]; Pirates of the Caribbean; Percy Jackson; Life of Pi; Skyfall; Prometheus have all used India talent. This has been enabled as larger studios have extended their pipelines and proprietary tool sets and software to India. In parallel, local animated productions such as Chhota Bheem; Delhi Safari and Arjun have also hit the big screen in India and overseas. VFX is a strategic lever for the big films of the year. Take the several hundreds of shots across all top grossers like EK Tha Tiger; Dabaang 2; Jab Tak Hai Jaan; Houseful 2; Bol Bachhan; etc. - all these productions have found increasing value addition in and have relied on VFX technology for helping extend the director’s ‘reach’ and allowing for that high quality ‘polish’.

The Indian animation and VFX entertainment industry has evolved rapidly in a very short span of time. Yet Indian production studios and production talent have had the privilege of working with global majors like Disney, WB, DreamWorks, Sony, ViacorryNick, BBC, Cartoon Network, EA, Fox, Rockstar, Square Enix Ubisoft and Zynga among several others. The industry has gained rapid momentum and is set to witness a boom in the future.

India has been in the animation industry for only 12-14 years as compared to many other countries that developed local and/or international businesses over the last 35 to 50 years. If we go back 5 to 7 years, the industry was a meagre 2 to 3 percent of the total Indian M&E revenues. That share has now increased and will go to almost 10 percent of the total India M&E sector in the next 6 to 7 years. The potential is even greater and these predictions are constrained by the ‘production readiness’ of the Indian talent in CG.

The demand for animation services in India is growing at a swift speed owing to the increase in hi-end TV shows - this sector will [in my belief] grow at about 15+ per annum. Productions like Kung Fu Panda, Sherlock Holmes, How to Train your Dragons and Teenage Ninja Turtles have set a very good precedent for this segment and well-known ‘players’ like Technicolor’s MPC have made India their strategic base for scaling their business in terms of number of projects. India is one of the key drivers for MPC’s productions. They are also located in other cities like London, Vancouver, New York and LA. Sony Imageworks; Digital Domain in which Reliance MediaWorks now has a strategic stake, Prime Focus [which has grown inorganically through M&A] and others will all help contribute to a local growth of well over 20-25 percent CAGR. What will add to this growth strongly is the revived domestic India box office and more big budget Indian films that are using large amounts of CG/VFX. The adoption and investment in VFX by the Indian product houses has therefore gone up tremendously. International movies have also done extremely well in India [Mission Impossible’s USD 11 million is now a know statistic]. This has resulted in the overall growth in content, and as a consequence of this plus the growing broadcasting and advertising commercials business, the post production work is poised for a sharp demand estimated at about 18 to 20 percent p.a. These several segments complemented by CG in the gaming business and the growth of the world of apps and potentially the second screen makes digital productions in India a potentially even higher growth arena, not only domestically but also in regions like South East Asia, Middle East and certain parts of Africa.

I must point out that the big ticket syndrome in VFX and animation [by revenues] is still the international business of services, co-productions and captive centres driving double digit growth for shows from international world majors and independents.

I anticipate that one of these days a film made in English and Hindi and with world class CG animation and VFX will do what ‘Crouching Tiger’ & ‘Life of Pi’ have done till date.

Unless otherwise noted, all information included in this column/article was provided by Bihren Ghose. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India.
Out of Home Advertising
Displaying resilience
Outlook for the year

Innovations take place when one keeps a close eye on evolving needs that are on the verge of being articulated in the market. Some of the fundamental questions that lead to innovation are - What do clients desire? What is possible with technology? What is viable in the market place?

2012 witnessed brands across industries actively experimenting with something new, something more creative and appealing - 3D cutouts of Amitabh Bachchan on mobile vans for the TV show Kaun Banega Crorepati, travel site Expedia’s launch campaign, a tailor made car of scrap at the Mumbai airport for Volkswagen, Cycle to light up the Mysore Palace by Vodafone, and the mall mountings for Spiderman on UTV Action, to name a few. These innovations not only attracted eyeballs but made lasting impressions as well.

However, 2012 was an uncertain year for the Indian outdoor advertising industry, which had its share of highs and lows. Brand owners spent approximately INR 18 billion\(^1\) in 2012 on Out-of-home advertising which approximates 5-6 percent of advertisement spends.

Rural consumption increased in most product categories – fast moving consumer goods (FMCG), consumer durables, insurance, two-wheelers, etc. While 50-60 percent of the outdoor budget was consumed by Mumbai and Delhi alone a few years ago, there appears to be a marked shift to the Tier II and III cities - the top 10-12 markets’ spend has over the last few years reduced from 80 percent to 60 percent\(^2\). This trend is expected to continue.

Last year however was marred by a significant slowdown of GDP growth rate in India, resulting from domestic factors as well as slowing growth in Europe and China. As the outlook for overall growth continued to stay muted, advertisers cut their spends significantly or directed them towards other media.

### OOH Industry Size (INR Billion)

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<tbody>
<tr>
<td>Outdoor</td>
<td>11.65</td>
<td>13.98</td>
<td>16.08</td>
<td>13.67</td>
<td>16.50</td>
<td>17.75</td>
<td>18.23</td>
<td>7.75%</td>
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Source: KPMG in India analysis and industry interview

> \( ^1 \) 2012 has been a disappointing year, increased fragmentation and a lot of impractical regulations that impede business have taken their toll on this medium in the last one year. This is especially true in Mumbai and Delhi which together account for a huge majority of total spends that this medium sees. Bangalore also has its usual bout of annual problems with the regulations and steep increases in fees. Digital everywhere else continues to languish because of advertiser’s reluctance to share space in view of only so much of exclusive space being available to them in the same location or in the same vicinity.

- Indrajit Sen
  Executive Director - IOAA and Promoter-Director, Media, Analytics & Design P Limited

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01. KPMG in India analysis
02. Industry discussions conducted by KPMG in India
Key sectors

Unlike in 2011, when 76 percent of Out of Home (OOH) media consumption was concentrated amongst four industry sectors, 2012 saw increased contribution from other industries such as auto, retail, white goods and real estate.

Contribution of various sectors to the OOH Industry

Although revenues from telecom had dipped in first half (H1) 2012, the category gained momentum with a slew of new tablets and laptops device launches in the market, especially in the festive season of second half (H2) 2012. FMCG also bounced back with 14 percent growth in the sector, contributing significantly to outdoor this year in comparison to earlier years. However, there was a significant decline in the Financial Services sector. Considering the local presence and strategic importance of outdoor media, it may be best suited for local brands and it is expected that sectors such as food and beverage, education, small format retail and jewellery will contribute to growth going forward.

Source: Industry discussions conducted by KPMG in India
The transit OOH business in India, especially in airports and metros, has experienced rapid growth over the past few years. Brands such as Hyundai, Tata Photon, Intel, ING Vysa, Microsoft and others have been prominent. With various airport modernization and new metro projects in the pipeline, this format is expected to outpace other segments with a CAGR of 11 percent. Formats such as airport OOH are well placed with a well-defined environment and, a target audience which can be profiled more accurately.

Reflective of this trend, two stations of the Rapid Metro Rail Gurgaon line ('RMGL') will be branded as Vodafone and Micromax stations as the two telecom companies have entered into a memorandum of understanding with the operator, RMGL, for a full fledged branding exercise.

New channels such as bus shelters, LED billboards and street furniture are not being leveraged as widely in India as they are in other countries, where they form as much as 30 percent to 40 percent of the total industry. This is primarily attributable to poor infrastructure and the absence of a secure environment (fear of theft or vandalism). Limited customization of content to suit the medium is another obstacle currently.

A step in the right direction

In the union budget for 2012-13, the then Finance Minister, Shri Pranab Mukherjee announced that ‘selling of space or time slots for advertisements other than advertisements broadcast by radio or television’ will be exempt from 12 percent service tax. While this service tax exemption freed budgets for spending on campaigns, the industry did not reap benefits due to impacts of the economic slowdown.

Another positive development was Media Research Users Council’s ('MRUC') announcement of India Outdoor Survey (IOS) next edition. Along with IOS, IOAA’s announcement of ADEX as well as inventory availability information online will help build confidence in the medium as well as increase use of OOH not as residual media, but planned media.

The resurgence of media owner-led solution business has been another noticeable industry move. All major media owners are now focusing on direct clients. Also, there is emerging consciousness amongst media owners to limit on bidding for unviable tenders – eg. participation in Amritsar, Guwahati Airport tenders was poor as the reserve price was ambitious.

• Key challenges

  - Lack of unified common measurement platform hampering the industry
  - Apathy of civic agencies towards outdoor media.

Reliable research is crucial for the OOH industry, but the measurement system has not taken off as intended. MRUC’s announcement of the next edition of IOS and indications of a couple of private parties also taking this up, appear to be steps in this direction.

There have been widespread calls for tangible steps to taken by civic agencies to ‘promote’ outdoor media and not to ‘control’ it. Despite heavy license fees and taxes, permissions from various authorities and lack of clarity on regulations continue to create operational challenges for the industry.

The power of a billion: Realizing the Indian dream

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- Lack of adequate security measures

One of the major challenges facing the industry is the lack of security measures, particularly in the street furniture and transit media formats. This not only delays campaigns and creates execution challenges in these mediums but also adds to the overall cost.

The silver lining

With Foreign Direct Investments (FDI) in retail gaining approval from the Central Government, there is expected to be a spurt in the retail business spend in advertising. Therefore, OOH will also garner a fair share of the advertising pie, as the medium is very well suited for the retail business. This factor will also help retail communications firms and specialised shopper marketing agencies to grow roots in Indian markets.

The integration of OOH advertising with other media has led to an increase in its relevance. This has resulted in an ‘integrated media’ approach being adopted both by advertisers and media houses.

The upswing in spends by brands in retail communications has benefitted the OOH industry. For example, a retail chain, Pantaloon India, struck a deal with the radio network Big FM - to air its programs in stores across the country. Big Bazaar has a monthly in-store magazine - My World, store window displays, ads on walls, floors, ceiling-high banners, kiosks to run promotions for advertisers, television screens and, more recently, piped-in radio stations. This assists the OOH segment, which is still at a nascent stage, to improve its share in the overall OOH ADEX pie. As these kinds of integrated campaigns and innovation takes hold, OOH has immense potential in terms of customer involvement, interactivity and last mile conversion in the future.

Also, the trend is visibly moving beyond traditional arterial roads to a more demographically targeted destination-based planning that is mapped with target group movements. With increasing working population and changing lifestyles, people are spending more time outdoors leading to exponential growth of the transit medium. This medium delivers greater frequency cost-effectively, making it attractive to planners. Further, businesses going beyond borders and cheaper air travel has translated into more avenues for targeting upwardly mobile audiences on the go. Local transit media is also welcoming branding and interactiveness around communication exercises.

Digital to drive OOH growth in India

Digital out-of-home (DOOH) refers to dynamic media distributed across place-based networks in venues including cafes, bars, restaurants, health clubs, colleges, arenas and public spaces. DOOH networks typically feature screens, kiosks, jukeboxes and jumbotrons. DOOH also includes stand-alone screens, kiosks, and interactive media found in public places.

Global Advertisers, an outdoor agency, analysed industry data, interacted with industry experts and carried out research to conclude a series of predictions:

- Digital sites will not simply replace static sites, but will create additional levels of consumer reach.
- Two broad OOH sectors will emerge: Broadcast and Targeted. The Broadcast segment will include large numbers of well-positioned static sites and premium digital sites. The Targeted segment will include national networks of digital sites capable of time-flexible distribution and real-time reactive campaigns.
- The deployment of national digital poster networks in proximity to retail locations and the integration of day-part flexibility: real-time planning and new audience-based trading systems will unlock the potential to drive ‘smart’ retail promotional marketing.
- OOH will develop a symbiotic relationship with mobile marketing and internet based campaigns, opening up new revenue streams. Content will play an increasing role in OOH media and billboards are likely to become a distribution point for digitized news and entertainment content.

Rather than being a disruptive force, digital technology is expected to create enormous opportunities for Out of Home media.
Looking ahead

It is expected that the OOH industry will move up the value chain and will no longer be seen as a mere residual category. MRUC has embarked on a new IOS, so that the outdoor industry can prove to brands that their investment yields result from outdoor media and it doesn’t remain just emotional acceptance of outdoor. This coupled with the IOAA’s announcement of ADEX and online data of assets across markets will help improve the credibility of the OOH media.

Further, e-commerce companies have recently been showing a lot of interest in OOH advertising. They seem to have realized that to reach a wider audience, especially consumers with limited access and/or exposure to the internet, they need to be ‘in the face’ through effective use of OOH.

Flash mobs will also gain popularity in the market as brands will use this as a means of engaging with youth, though the extent of their success will depend on whether they are able to get permissions from the local government bodies.

Another gradually emerging trend is the treatment of the out-of-home media segment as an independent medium, with specifically created ads and as opposed to adaptations from the print or TV content. This will help improve stickiness and better leverage for this medium.

Activation is also gaining popularity and importance as a medium, especially with the spurt in the number of malls. Moreover, in Tier II and III cities, activation provides a totally new experience, attracting potential customers to experience products before they invest in them.

These trends will emerge in 2013 and beyond. If the industry builds upon the gathering momentum, makes strategic investments and stays committed to improving trade practices, OOH in India will quickly become a ‘must-have’ for both global and local advertisers.

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Source: KPMG in India analysis

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I am looking forward for a great 2013. A year where I want to see two seasons of Diwali, one in Q2 and the other in Q4. The OOH space may not see some great shakes and moves in terms of new options/media coming up. If the industry were to go ahead and have a intended 7 per growth it will be a good news for the year. Telecom and Automobile should keep the trend in OOH going with few new launches. I am very hopeful for retail and government/tourism departments to play a positive role for 2013. Here is wishing every one a positive innovative year ahead.

- Mandeep Malhotra
  President,
  DDB Mudra Max
OOH Industry: Trends and Outlook

The Market
Overall, 2012 was a mixed year for advertising industry including OOH with advertisers demonstrating caution in the first half followed by increase in spends in the second half. Global economic conditions like ‘fiscal cliff’ in US and Eurozone problems also impacted the industry. Mid term changes in policy by Indian Govt. in some key sectors improved the business confidence and provided the much needed boost in second half.

Future Trends
1. Integration of Mobile with OOH
The change in customer demographics has impacted the outdoor business with the increasing use of technology to influence purchasing decisions. The integration of mobile in the OOH industry is a rising trend with increasing penetration of smart phones in India. For example, brands like Allen Solly successfully launched a campaign to target the young technology savvy audience through a twitter powered billboard. This is very much in line with the global trends.

2. Rise of Digital OOH
One of the key drivers of growth for the OOH industry growth is digital advertising. The successful execution of digital by Times OOH at Delhi Airport has proved the acceptance of digital media in Indian markets. At the Airport, 13 percent of the revenue is contributed by digital in second year since its inception. The cost of screens is the other core factor weighing heavily in media owner’s investment decision making. Average cost of LED components have been falling steadily in recent years. Investment in digital poster and digital creative teams will make the integration of technology the driving force for growth across the Out of Home sector in the future.

3. Demand for integrated solutions and innovations
Customers of late have become more demanding and are seeking solutions and opportunities for engagement than just plain vanilla outdoor sites thereby realizing more value. Innovations have also led to improvement in the ROI for the customers. In order to achieve this, companies have built capabilities to meet client expectations. Some of them have created cross functional teams to take the marketing objective from concept to reality.

4. Rise of new categories
The category pie of the overall business in OOH has changed with some of the existing categories like M&E and new categories like e-commerce gaining momentum. Brands like FlipKart and Go Ibibo have reached out to their target audience through this medium.

This year can be remembered for the large number of premium brands trying to increase their share of wallet. Reputed fashion & lifestyle brands like Chanel and premium automobile brands like Porshe, BMW targeted Indian audiences with successful activations at the airports.

5. Need for analytics in OOH
OOH medium which traditionally lacked reliable measurement tools, is undergoing change as customers now demand ROI. Internationally, various organizations have used technology driven analytics tools to justify ROI to clients. OOH media owners and media planners will need to make investments in order to make this medium more accountable & measurable.

Future outlook
Indian OOH industry is undergoing rapid changes with growth of transit segment. Investment in infrastructure projects through public private partnership models have given a flip to airports, metros and highway projects. The infrastructure players are also demanding consolidation of media to maximize value.

Unlike other media, in FY’14, outdoor transit will continue to be dependent on the top six metros with more than 70 percent contribution of the business from these cities. This will however change in the future as the battleground for brands shifts down the top strata. With demand for large investments in future projects, the barriers to entry in outdoor industry are increasing. This is leading to an increase in the share for the organized players.

Overall, the outlook for Indian OOH industry in FY’14 is positive with higher growth forecast than FY’13. It would primarily be led by Digital & Transit segments.

Unless otherwise noted, all information included in this column/ article was provided by the author. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India.
Overall, 2012 was a disappointing year for the industry. For the first time in several years, growth in revenues eluded this industry last year. Two old bugbears of this business continue unabated – lack of scalability and sustainable operations. Obviously, pressure is on to find viable growth paths.

There are, however, significant silver linings in this otherwise not-so-happy scenario. First and most important of these is the concrete dialogue that has started between the AAAI and the IOAA to establish a standard operating procedure that governs all transactions between media and agencies. This is expected to close by mid-2013 with consensus amongst all stakeholders and create a reliable and more transparent business environment. This, then, will foster increased trust from advertisers and go long way to restoring growth. The second is an old one – a fresh attempt to create metrics is progressing in a more systematic way with involvement of all stakeholders. The main difference this time is the acknowledgement by all concerned that metrics are a desperate need of the hour. This change in attitudes should result in a product accepted by all concerned and actually put to use.

Two other critical aspects of the business - regulatory affairs and quality of manpower - continue to be major issues with no clear solution. Impractical regulations that impede business continue to be enacted. With no attempt to officially involve the industry in policy formulation, governance issues will not be smoothened out or be beneficial for all concerned ie authorities, the medium and advertisers. Thus, an opportunity to create much more employment as well as ensure sustenance for the industry, is simply being wasted. A recognition of this issue and well thought out directions from central government authorities is perhaps the best way out – but that cat is yet to be belled !

On the issue of manpower quality, Outdoor Advertising is not, of course, the only industry to suffer – but, amongst the entire media & advertising fraternity, Outdoor definitely appears to be the last priority amongst fresh entrants, talented or otherwise. Both industry training opportunities as well as companies that encourage knowledge and skill upgradation and research are practically nil. This actually has started a downward spiral that ultimately results in poor or negative revenue growth across the industry – as advertisers and potential advertisers demand better services in every department – planning, creative, operations, maintenance, audits, reporting – and even the biggest names fall short in their deliveries. When it comes to attracting better talent – it’s the old chicken and egg story – which came first – better services or better revenues? Fortunately, however, some of the larger companies are now realizing these to be first steps to solve the basic issues of scalability and sustainability. We sincerely hope they succeed and in the process drag the rest of the industry out of simply blundering ahead to a more organized and planned future.

End of the day, the broad consensus is that Outdoor advertising should see around 7 percent growth in 2013. This is based on launch plans of the leading categories of users – BFSI, Automobiles, Real Estate, Media & Entertainment as well as Mobiles Phones & Services. Usage in upcountry markets are also significantly up – reflecting the drive by marketers to grow market shares in tier 2 and 3 cities. This is likely to see increased investments in these areas by established players. Besides, during 2013 – 14 major new transit locations are expected to open up – metros in Bengaluru, Hyderabad, Chennai and even Mumbai, new airport terminal in Mumbai as well as other cities – so the acquisition and tender related activities are expected to be vibrant this year. The impending elections should also see significant spends during second half of the year. So – despite all the current gloom, the prognosis is for an exciting year ahead.
Convergence
Waiting for bandwidth
The International Telecommunication Union says that “There is no universal definition of convergence, although generally it is understood to mean the ability of different networks to carry similar kinds of services (e.g., voice over Internet Protocol (IP) or over circuit switched networks, video over cable television or Asynchronous Digital Subscriber Line (ADSL) or, alternatively, the ability to provide a range of services over a single network, such as “triple or quadruple play.”

From a M&E perspective, convergence results in offering content in its various forms (like print, radio, television, films, gaming, music, etc) through wired and wireless digital networks and making it accessible to customer devices such as cell phones, tablets, PC’s, PDAs etc. Convergence is also being witnessed from telecom service providers venturing into the M&E industry. For example telecom operators have ventured into satellite distribution of television channels, MSOs offer internet services to their subscribers, music producers have launched YouTube channels, etc. In summary, the boundaries between players in hitherto distinct industries are getting blurred, enabled by regulations, technology, a converging infrastructure, common consumers and device capabilities. Convergence affects and impacts the industry as a whole and has the potential to transform the M&E industry as we understand it today.

The Indian telecom industry has witnessed a phenomenal growth rate with wireless connections growing from less than 10 million in FY 2002 to about 900 million by Sep 2012. Although growth in mobile connections has slowed down in the last few quarters, penetration levels have crossed 100 percent in large cities. Operators have thus intensified efforts on revenue growth by focusing on data and value added services. Riding on high expectations for broadband growth, operators in India paid over INR 100,000 Crores for 3G & BWA spectrum in 2010. The telecom industry will be keen to derive a return on this investment by expanding their basket of offerings and nudging their way into the M&E space.

Source: Mergermarket, Bloomberg, Venture Intelligence accessed on 24th January, 2013, KPMG in India Analysis

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Primary drivers for convergence in India

Penetration of broadband
Increase in broadband speeds for both wired and wireless services is one of the key enablers to drive convergence. The National Telecom Policy 2012 has increased the minimum broadband speed from 256 Kbps to 512 Kbps with a further increase to 2 Mbps by 2015. But this mandate still pales in comparison to developed countries. An increase in internet speeds is enabling growth in content consumption across all media. As internet download speed increases further, it would be possible to consume live TV and movies through mobile networks.

Device capabilities
High end devices capable of streaming high quality video and music online are increasingly available to consumers at an affordable cost. A combination of increase in smartphone penetration and mobile internet will drive user behavior towards consuming more content wirelessly. Today consumers can view different types of content such as movies, music, news, classifieds etc on a single device through a single network.

Digitization technologies
Advanced music and video compression techniques result in smaller file sizes and easy sharing over the Internet despite lower bandwidth. The film industry, for example, has utilized mobile apps that are available as individual movie apps as well as movie aggregator applications. Aggregator apps such as Nautanki.tv provide on demand online movie streaming over multiple devices. Nautanki.tv serves 10 million 5 minute videos per day to a base of 3.5 million unique IPs across 68 countries.

Favorable regulations and policy
New and updated government regulations and policies over the past few years have enabled convergence of technologies and services. Two prominent indicators are:

- The Cable TV Act which was modified in 2008 permitting telecom service providers to provide IPTV services
- The National Telecom Policy (NTP) 2012 also recognizes the importance of convergence and has been framed to enable seamless delivery of converged services.

Convergence will provide challenges and pose questions to the existing ways of doing business while throwing up new opportunities for delivering content and engaging customers.
Connecting (with) the consumer

In the backdrop of convergence there is a raging debate between industry players, analysts and observers on the impact of a converged world on telecom, media and other industry sectors. The key questions is, “who owns the consumer; one camp supports the provider of access and technology while the other camp supports the provider of content?” Both camps have their reasons, but only time will tell when and where a shift in the balance of power will occur.

One camp is of the opinion that telcos may be relegated to providing connectivity alone. It believes that telcos are asset heavy infrastructure providers with a long capex cycle that focus on technology as a differentiator to improve customer experience. Media companies on the other hand have a focus on type and quality of content as a differentiator to compete. Media companies will proudly declare their audience viewership statistics while telco’s tout each other on broadband connectivity and coverage statistics. This camp believes that consumers are more inclined to pay for customized content and not so much for higher speed alone. While the amount of bytes flowing through the world has increased multi-fold over the past decade, the revenues of telco’s have not kept abreast. For example, a movie might be 1GB in size, and cost INR 50 to download, but the consumer values the contents of the movie and not its size. Furthermore, over-the-top technology and mobile applications utilize the telco’s data connection to stream content and services directly to their consumers. They don’t need any tie-up or revenue sharing arrangement with the telco. While telcos struggle to change their perception from being pipeline providers, the Apple iTunes Store has increased its revenues manifold. In summary while telcos spend the bulk of the money to lay the infrastructure, upgrade technology and provide better access to consumers, content aggregators and owners reap the benefits of that investment.

The other camp believes that telcos in several geographies have moved beyond being providers of a bandwidth to the consumer. They have a large established subscriber base and have tied up with content aggregators, thus shifting the balance of power to themselves. For example, Indian telecom operators retain 60-70 percent of VAS revenues, while content aggregators and owners are left to split the rest*. By providing the last mile of connectivity, they bring content to the consumer through back-end tie ups. Consumers have one point of payment, service fulfillment, and a variety of M&E services channeled through the telco. By maintaining a stranglehold on the consumer and controlling the payment gateway, they keep the bulk of revenues. With the possibility of 4G services being launched widely in India in the medium term, telcos could be the one-stop shop for fulfilling the Information, Communication and Entertainment (ICE) needs of a consumer. Furthermore, advertisers contribute significantly to the total media industry revenues. If 4G players are able to offer a value proposition to segment these consumers, create a compelling value proposition at an affordable price point, and split the advertising revenue pie, they may infringe into the space enjoyed exclusively by media companies today.

Future possibilities – Google disrupts the status quo

In this section we look at an innovative and disruptive business model from Google that has the potential to alter the consumption and distribution of media services in the US.

In the middle of last year Google announced a simple value proposition to US consumers based in Kansas city. Pre-register for USD 10 and sign-up to get fiber to the home at an astounding 1Gbps speed (about 100 times faster than prevailing Internet speeds) that can fulfill your information, communication and entertainment needs. If enough people in your neighborhood sign-up, Google will install fiber and offer you services at a fixed monthly fee.

In the first week of launch, the early adopters signed up and the offer went viral. Peer pressure began to build as neighbors who were interested, campaigned to others in their locality to try the offer. The value proposition of having a high speed home that is Wi-Fi enabled, has crystal clear full channel HDTV, 1TB storage on Google drive (cloud), network boxes, Nexus 7 tablet and remote, TV box, storage box for content, no data caps and other optional add-ons from one of the most trusted brands in technology at USD 120/month was too hard to ignore. More customers signed-up. With daily statistics by neighborhood being displayed, pockets of the city gradually turned from red to yellow to green. Within a few months most of the localities where the offer was made had signed-up. Given the high success and scale, Google has offered to wire up public schools, libraries and other common areas of interest at no additional cost. The expected impact on existing telcos, cable companies, advertising and distribution models, movie theaters, etc who have operated in these localities for decades is disruptive to say the least.

The domino effect of this effort is now beginning to show. Tech startups have flocked to Kansas City given the high speeds now available, creating a culture and industry that did not exist. True to Google’s mission of “organizing the world’s information and making it universally accessible and useful”, the Google Fiber project is a beneficiary of Convergence that could transform the M&E industry. While other broadband players in Kansas City are now forced to rollout out next generation networks to retain subscribers, Google might well move on to other cities forcing the competition along with it.

04. http://www.livemint.com/Industry/Ftm64F0VLaLMKVi7cnDDnGjM/Mobile-VAS-companies-turn-to -global-markets-for-survival-.html
05. https://fiber.google.com/about/, KPMG in India analysis
Conclusion

Mobile services in India had a slow uptake during the initial years of its launch. Over a period of time, a self-fulfilling cycle of a maturing ecosystem, regulatory interventions, increased competition, and drop in prices led to the rapid increase in the subscriber base across the country.

Although the acceptance of 3G services in India may not have lived up to initial expectations, it is interesting to note that mobile data traffic increased by more than 50 percent in the first half of 2012. In fact, data traffic on 3G networks increased by 78 percent compared to 47 percent on 2G networks. The Nokia-Siemens Mbit report further reveals that the recent tariff reductions in 3G services have resulted in doubling 3G data traffic month on month. It points out that affordable, high-speed broadband availability encourages heavy data consumption.

While fiber connectivity to homes may be a distant reality in India, the impending rollout of 4G services across the country throws up interesting possibilities. The speeds offered by these services may not be comparable to that of fiber, but it still gives 4G operators a handle to change the dynamics of the telecom and the media industry. Significantly higher speeds drive the pace of innovation and change as has been witnessed over the past decade.

An offshoot of convergence is that the volume, velocity, variety and value of data will continue expanding at a rapid pace. This is “Big Data” and presents an opportunity to discover, adapt and utilize the information to better understand and serve consumers. Large telco’s and media companies will find it increasingly useful to tap Big Data solutions to analyze consumer behavior and preferences. Telecom operators have already begun leveraging big data by converting it into actionable information. Globally, operators are deploying predictive analytics to make proactive uses of the data flowing through their network. It helps them improve quality of services, measure and analyze customer activities, launch campaigns, understand reasons for dissatisfaction and capture trends in consumer preferences early. It helps personalize content and hear the voice of the consumer across multiple sessions of engagement.

Which M&E industry players build long lasting enterprises that grow with this explosion of digitized content remains an open-ended question. But those that stay closer to their customers, analyze and understand them better in real-time, embrace digitization and innovate are more likely to stay ahead of the pack in a converged world.

Google fiber case study

Google fiber is a recent example of an innovative go-to-market strategy combined with a high speed FTTH offering that could change the way traditional cable, internet and content provider industries currently operate.

Google fiber is capable of providing a 1Gbps connection along with HD TV at an affordable price point. It will enable its users to access the same digital content on multiple screens (Netbook, HDTV, and Tablet). It opens up a new world of possibilities.

Google has tied up with several content providers in the ICE sectors to offer a wide array of on-demand services.

**Getting fiberized**

Consumers pre-register for USD 10, vote for their connectivity. When votes for a particular neighborhood reach a minimum threshold then the neighborhood gets fiberized. The user can then opt for individual subscription plans.

**Innovative go-to-market strategy**

**Key marketing strategies include**

- Simple but powerful value proposition that went viral within weeks
- Access to high speed internet (100Gbps), HD TV at low price, with lots of freebies
- Latent peer pressure within neighborhoods ensured increased pre-registrations
- Round the clock updates on status, number of sign-ups with color coded progress displayed on the web
- Provided free internet connectivity to local schools and libraries if the neighborhood is selected for Google fiber network. Projected it as a community initiative which will boost the local economy thus getting faster civic clearances for laying the fiber network across the city.
The digital shift

Influence of digital channels across all stages of purchasing

- Identification of Need
- Seek Information
- Evaluation
- Purchase
- Consumption
- Feedback

Drivers of convergence

- **13%**
  - Of web traffic comes via mobile – more than double last year

- **37%**
  - Growth in the number of global 3G subscribers in the past year

- **1.5 billion**
  - Smartphones and tablets will be installed globally by mid 2013 – overtaking laptops and PCs

- **450 billion**
  - Estimated number of business transactions on the internet, B2C and B2B, per day by 2020

- **35 zettabytes**
  - Amount of data in the world by 2020

- **30%**
  - Of global population which is online

- **5.4 billion**
  - Big data in USD Trillion

- **4870**
  - Social No. of accounts in millions

- **3132**
  - Cloud In USD billion

- **1.2**
  - Embedded Systems In USD Trillion

- **2.4**
  - Mobile handset shipment in Millions

- **85**
  - Tablet shipment in Millions

- **354.1**
  - Augmented reality in USD Millions

Increasing influence of digital channels

- The social commerce market is forecast to reach **USD 30 billion** by 2015
- Leading global retailers are spending between **20-25 percent** of their advertising budget on social media channels
- Mobile technologies can be used to cut the cost of a financial transaction by up to **80 percent**
- Nearly **90 percent** of top global banks use social networking to achieve customer engagement

Source: Six converging technology trends, KPMG in India - Nasscom report 2013
Technology
Changing the game
An extract from Six converging technology trends, KPMG in India - Nasscom report 2013
Technology

We have identified six trends viz. big data, cloud, social media, mobility, embedded systems and augmented reality which will have a logical maturity that inevitably brings them together.

Big data

Every year, companies and individuals generate billions of gigabytes of data. Data, which properly analyzed and used in time, can emerge as an unbeatable competitive advantage. Enterprises need to recognize the prospect big data represents and should adapt their IT strategy to capture such opportunities. Big data can help retailers predict buying decisions of shoppers; it can help banks weed out fraudulent transactions; while governments can use big data to provide services directly to their citizens.

Cloud computing

The undeniable power of cloud computing to foster innovations and improve productivity is now accepted by both IT vendors and their customers. While the financial services and government sectors are mostly moving to a private cloud model due to information security concerns, other industries like healthcare and retail have adopted public cloud. Moreover, their existing infrastructure has helped telecom players to emerge as providers of cloud computing, leading to erosion in boundaries between IT and telecom vendors.

Social media

A social media strategy has become a must for all enterprises, be it banks, retailers or the government. With over one billion individuals logged on to various social networks, people are now using social media for advice on what products to buy, where to shop and even regarding what firms they want to work with. While most enterprises use social media for their customer service function only, many firms have now started using social media in tandem with their sales and marketing functions. This in turn enables firms to use data generated by the customers effectively to service their larger pools of customers.

Mobility

Mobile devices have changed the way people access digital content. Smartphones and tablets have brought rich, digital content to the fingertips of consumers. Mobile banking has emerged as one of the most innovative products in the financial services industry. Shoppers are increasingly using their mobile devices for everything from browsing to comparing to buying products. Governments are also reaching out to their citizens, using mobile devices as an efficient channel. Enterprises must also jump on to the mobility bandwagon, and ensure that their applications are mobile ready.

Embedded systems

The decreasing cost of embedded systems has made their presence ubiquitous across the business landscape. Embedded systems like RFID chips have revolutionized supply chains for retailers. Embedded systems are also having an impact in the healthcare industry, where hospitals attach smart chips to patients to keep track of their entire medical regime.

Augmented reality (AR)

Over the past 24-36 months, augmented reality has moved from the world of science fiction, to our everyday lives. The spread of smartphones and tablets gave rise to the spread of location-based augmented reality applications, and now everyone from retailers to healthcare providers have embraced augmented reality. Augmented reality enhances the customer experience, and enables enterprises to add a fourth dimension to their products.
Digital consumerism is also impacting the way companies use technology. Increasingly, the core business platform is no longer the only source of information and insights. Additional solutions based on disruptive technologies are being integrated on to the core platform. This has led to a significant increase in the level of insights firms have about their customers. We are already witnessing micro-segmentation of customer and products and services being tailored at an individual’s level. The coming decade will only see a rapid increase in this transformation.

IT vendors will need to change the way they are structured to deal with these trends. They need to be nimble, and think on their feet. Rather than being bureaucratic organizations, IT vendors will need to create internal startups that will work on adopting these trends. They will also need to look at an inorganic strategy to add to their capabilities in some of these areas. This will also have the added advantage of bringing in talent that will act as a force of disruption in these organizations.

Going forward, IT vendors should seek to work closely with their customers to stay abreast of the latest technological developments, and come up with solutions that can take advantage of the convergence of these technologies. They should seek to use customer input more diligently while innovating / developing solutions and products. The emphasis should be on tapping inputs from various channels, mediums and devices and using these as critical inputs for new solutions and incremental innovations. Industry bodies can also play a vital role in this, and increase awareness about these technological trends.
Rise of the digital consumer

The advent of technology has empowered the consumer like never before. The rising presence and reach of the internet, coupled with the prolific growth of smartphones, tablets and related technologies, has provided consumers with unmatched access to information on the go, thereby helping them make informed purchasing decisions.

The adoption of digital media is redefining consumer mindsets, patterns of purchase and decision making. This, in turn, is transforming consumer behavior. The rapid pace at which digital media is being adopted is also expected to propel growth in the use of consumer technology.

Effects of digital channels on purchase decisions

A convergence of various factors — a growing social media user base, the rising presence and reach of smartphones, and the intensifying consumer demand to connect — is increasingly changing the buying behavior.

Today, digital channels play a pivotal role at each of these stages. A simple expression of interest on a social channel or the analysis of consumption patterns can help businesses understand what a consumer may purchase and when in the near future. Based on such information, targeted marketing programs can be developed and be made available via different digital channels that could help influence consumers’ purchasing decisions.

A simple comparison engine has made the evaluation of alternatives more cut-throat. Customers can evaluate a product on the basis of any feature or metric. Moreover, with the advent of technologies such as augmented reality and artificial intelligence, consumers have the opportunity to virtually experience a product before actually purchasing it.

Channels through which products can be purchased have evolved too. Online transactions, purchases through mobile-optimized websites and smartphone applications (apps) are on the incline.

Consumer feedback on products through comments on forums, social media and review sites has created the need for heightened monitoring; positive feedback can generate immense goodwill, but negative feedback can spiral into a full-blown PR crisis.
The next big opportunity

In a short span of time, digital channels have come a long way, from just providing information (websites) to interacting with consumers (blogs, forums, social media) and providing an actual purchase experience AR. There is no doubt that technology is rapidly reforming the way businesses interact with customers. The rise of digital consumers who shop online, seek recommendations and interact with brands presents a tremendous opportunity for companies.

Thus, an in-depth understanding of customer behavior online and their purchasing preferences has become essential. Customers live in an integrated online-offline world, so companies need to aim for suitable presence on digital channels. New information and communication technologies are constantly emerging, altering purchasing patterns. While it may currently be difficult to predict when and which of these new platforms/technologies will become mainstream, it is essential to analyze their potential impact on consumer behavior.

Several companies are already creating digital strategies for their brands; however, many fail to produce the expected business outcomes and value through such initiatives, as these channels and technologies are being perceived in silos. A holistic and integrated strategy encompassing consumers, the enterprise ecosystem and channels is the need of the hour to cater to evolving demands and behavior. The effective use of such channels can help increase sales by monetizing demand, improve the effectiveness of marketing campaigns, enhance product development, drive multi-channel commerce and, above all, strengthen consumer engagement.

The diagram above shows the interplay between digital consumerism and disruptive technologies. The increasing adoption and usage of technologies by consumers is fueling the growth and maturity of technologies and vice versa. This phenomenon is the key driver for convergence of new age technologies. In the following section, we discuss six technologies that KPMG in India thinks will bring about a tectonic shift in the business-consumer ecosystem.

"A Digital Consumer expects a seamless, consistent experience regardless of hardware or software. They also want relatable, intuitive and intelligent technologies enabled on their devices. Going forward, we will see a multitude of devices that will continue to get smarter, more power-efficient and more intuitive. Very soon devices will respond to voice, gestures and moods, and will interact with each other to provide more value and intelligence to the digital consumer."

- Kumud Srinivasan
President, Intel India

"Digital Media in no longer just a mere spoke in the wheel; but the very axe that can drive the wheels of a marketing campaign. We, as a company, are very clear that Digital Media is here to stay in a huge huge way! Which is why we have complete cross-functional teams support to further the digital momentum of the company.

At Shoppers Stop, we don't retrofit 'digital' into our existing campaigns. Rather, we create specific content for digital media; and sometimes even use offline mediums to supplement these campaigns. Whether it is developing Augmented Reality campaigns, the most Fashionable Facebook Profile picture contest, #SSTweetStore, exclusive mobile apps, and much more; each such element receives its due digital diligence."

- Kumud Srinivasan
President, Intel India
Six trends that could shape the future

While technologies such as big data and cloud have been dominating the imagination of enterprises for the past couple of years, new disruptive trends like augmented reality and social media have only now started having a tangible presence. As per their studies, leading analyst firms have estimated that the maturity curve of these technologies is to increase at a rapid pace over the next decade, with big data and cloud estimated to reach a market potential of tens of billions of dollars.

1. Big data

Digitization has made significant strides in recent years — racks of documents and piles of files have been replaced with zettabytes of data stored in the servers of data warehouses. Trends such as the growing use of mobile devices and social media networks are generating considerable amounts of data both structured and unstructured.

As per a 2011 analysis, every day, the world creates 2.5 quintillion bytes of data — so much that 90 percent of the data in the world today has been created in the last two years alone, and even this volume would have been surpassed by now.

Analyzing this, big data is likely to become a key basis of competition, underpinning new waves of productivity growth, innovation, and consumer surplus by 2020.

2. Evolution of the cloud computing model

No trend has had as much impact on the world of information technology over the past decade as Cloud computing. Looking past the current industry hype surrounding it, cloud computing is a sustainable, long-term paradigm and the successor to previous mainframe, client/server, and network computing eras.

3. Rise of social media

Regarded merely as a hub for high school and college students just a few years ago, social media now exerts tremendous influence over the way people around the world — of all ages — get and share information. The implications for business are immense.

Global cloud computing market, in USD billion

Underpinned by both technology and economic disruptions, the cloud will fundamentally change the way technology providers engage with business customers and individual users as it is a key driver for mobility and big data.
4. Dominance of mobility

The surging popularity of smartphones and tablet computers has created ripples across the computing industry. As industry players continue to shift their focus from traditional to mobile computing, a significant change is on the horizon.

The global market for smart connected devices—a combination of PCs, smartphones, and tablets—reached 267.3 million units shipped in the second quarter of 2012 (2Q12), a 27.4 percent increase y-o-y and a 2.8 percent q-o-q improvement.

Both consumers and business buyers around the world continue to harbor an aggressive appetite for such devices, adding to the already large collection of devices that are still in active use. Rising focus on the mobile web platform is affecting a number of business aspects, including ecommerce spending and online advertising.

5. Beyond pure-play hardware & software: towards embedded systems

Embedded systems range from portable devices such as digital watches and MP3 players, to large stationary installations like traffic lights. Medical equipment is continuing to advance with more embedded systems for vital signs monitoring, electronic stethoscopes for amplifying sounds etc. With technology erasing the boundaries between hardware and software, embedded systems are expected to bring the new wave of change.

6. Augmented reality

AR offers a live view of a physical, real-world environment whose elements are enhanced by computer-generated sensory input such as sound, video, graphics or GPS data. The spread of smart mobile devices has led to rapid growth in AR. Against the backdrop of steadily increasing processing power the future holds significant potential for AR, with applications in a wide range of segments, from agriculture and architecture to education and medicine. Several technology firms have also jumped on to the AR bandwagon. For instance, Google has introduced Google Glasses™ to tap the potential of this technology.

Aruna Jayanthi
CEO, Capgemini, India

Connectivity, content and communication are drivers enabling business change today. Social media, mobile, cloud, and big data are major themes that are forcing organizations to change the way they service changing customer demands and behavior patterns. We have seen that data-driven companies are able to monitor customer behavior and market conditions with greater certainty, and react with speed and effectiveness to differentiate from competition.

Also, the adoption of cloud is increasingly taking a truly strategic role in an organization. The cloud has rapidly established a new benchmark in terms of how easy, quick and flexible solutions should be available to the business and it puts the alignment between business and IT from a whole new perspective.
Cloud, Mobility, Social and Big Data will impact all industries, bringing in new products and business models, similar to what Internet did over the last 20 years. Companies are looking at taking advantage of these trends to drive growth and accelerate their innovation agenda – to provide superior customer experience, reduce time to market or drive efficiencies.

- Kris Gopalakrishnan
  Executive Co-Chairman,
  Infosys

The level of technology adoption in India has grown immensely. A lot of that has got to do with India’s economic development as a powerhouse of talent, creators of some of the world’s successful business empires, hotbed for new technologies and start-ups, entrepreneurship, heightened growth in social and mobile among enterprises and consumers alike, and a tech-savvy, anxious young population which will enter the workforce. Technology is empowering a whole new wave of innovation and growth that is aiding businesses to gain and sustain a competitive edge. We see this change taking root in industries as diverse as banking, telecom, e-governance, retail, e-commerce, professional services among others. The end-focus of course is on delivering greater value to the customer. Technological advancements around big data and social media analytics are allowing businesses to create and deliver products that are uniquely designed to meet the needs of an individual customer.

- Sandeep Mathur
  MD,
  Oracle India
Deal Volume and Value in 2012
Consolidating for scale
The year 2012 saw overall Mergers and Acquisitions (M&A) and private equity funding in India totaling approximately 1,000 deals with a value exceeding USD 49 billion.1

Deal activity in the M&E sector witnessed a significant uptrend, with 35 transactions with a reported value in excess of USD 1.5 billion, versus 42 transactions valued at USD 1017 million in 2011 and 27 transactions valued at USD 693 million in 2010. The growth in the Indian M&E industry has continued to be driven by favorable demographics, consumer acceptance of new media platforms and relaxation of FDI regulations across several sub sectors.

Deal activity in the Indian M&E industry was primarily driven by the following trends:3

- Growing importance of regionalization: regional broadcasting networks and print publishers have witnessed interest from national players who are focusing on growing their regional portfolios and developing localized content.

- Digitization of C&S households: both cable and DTH operators have and will continue to evaluate various fund raising options as well consolidate with regional MSO’s and LCO’s as digitization is implemented throughout the country, which will result in transparency of subscriber ownership.

- Industry consolidation: select verticals, such as the film exhibition industry, witnessed deal activity with strategic and private equity players consolidating the industry to cement market leadership.

While the overall number of deals resulting from M&A and private equity funding saw a decline from 2011, the M&E sector saw a significant increase in deal value, attributable to few high value transactions. Marquee transactions in 2012 include Network 18 Media and Investments’ acquisition of Eenadu TV for USD 395 million, Sony Corporation’s acquisition of a 32 percent stake in Multi Screen Media Limited and Aditya Birla Group’s acquisition of a 27.5 percent stake in Living Media India Limited for a reported USD 70 million. Several private equity funds have made investments in the sector, with the most notable being L Capital Asia, making investments in film and TV production and theatres and Providence Equity Partners, making an investment in the cable business.

### Trend of investments in M&E (Investor type)

<table>
<thead>
<tr>
<th>Year</th>
<th>Value (USD mln)</th>
<th>No. of deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>683</td>
<td>27</td>
</tr>
<tr>
<td>2011</td>
<td>1017</td>
<td>42</td>
</tr>
<tr>
<td>2012</td>
<td>1541</td>
<td>35</td>
</tr>
</tbody>
</table>

Source: Mergermarket, Bloomberg, Venture Intelligence accessed on 24th January, 2013, KPMG in India Analysis

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1. GT deal tracker, 2012
3. KPMG in India Analysis
Going forward, the key themes driving transactions in the M&E industry will be consolidation within the industry, particularly national players entering regional markets, relaxed FDI norms and capital raisings through private equity or IPOs, for expansion plans.

Television

Television, the largest segment of the Indian M&E industry, constituted a significant portion of the overall deal value, with high levels of interest from strategic and private equity players. Consolidation has been a key theme for transactions in the sector, with national players looking to scale up presence in regional markets, and regional players looking to capture their local markets. Increasing digital addressability and relaxation of FDI norms in the sector will continue to drive deals going forward in this industry, which is expected to grow at a CAGR of 18 percent driven by growth both in subscription and advertising revenues.

Broadcasters derive approximately 65 percent of their revenues from advertising. Going forward, digital addressability will help boost subscription revenues and reduce dependence on advertising. Broadcasters with strong channel bouquets and those which can aggregate niche audiences will continue to see advertiser and investor interest in the near term and also benefit from the imminent digitization of the distribution landscape.

The television broadcasting space witnessed significant deal activity, the most notable being Aditya Birla Group’s acquisition of a 27.5 percent stake in Living Media India Limited, a majority shareholder of TV Today Network Limited. Major broadcasters, in their quest to become true national networks, are shifting their focus towards regional growth by launching/acquiring new channels and developing localized content in order to develop broader portfolios. Notable acquisitions in the regional space include Eenadu TV and Vissa Television Network both Telugu, being acquired by Network 18 Media and Investments and Raj Television respectively.

News Corp chose to exit its non-core businesses in India by selling its investment in Star News (stake acquired by the ABP Group) and Hathaway Cable & Datacom Limited (stake acquired by Providence Equity Partners) Additionally, as part of their overall strategy, News Corp acquired ESPN’s 50 percent stake in their Asian joint venture ESPN Star Sports. This could be an indicator that similar to international markets; India is heading towards an oligopoly in sports broadcasting.

The TV Distribution segment has historically been plagued by a number of inefficiencies which are impediments to value creation. These, hopefully, will iron themselves out as the TV value chain realigns because of digitization and FDI. There have, this past year, been notable transactions in this space which include the acquisition of a 1.14 percent stake in DEN Networks by Reliance Strategic Investments Limited, the investment arm of Reliance Industries Limited, and the acquisition of a 90 percent stake in Digicable Network by the Sahara Group.

The distribution landscape in India is dominated by large conglomerates such as Tata, Zee, Reliance, Sun, Videocon, ADAG and the Hinduja Group which have the ability to consolidate or raise funds from the capital markets in order to build their business. Similarly, in the cable business, we expect significant consolidation coupled with fund raising activity to carry out large scale expansion plans to meet digitization timelines and to keep up with competition.

Print

India is still one of the few growing print markets in the world and is expected to sustain its growth rate and create value for the next decade, supported by strong underlying fundamentals such as growing literacy rate, emergence of local centric businesses, low PC penetration, absence of pan Indian players (except BCCL) and a huge vernacular market.

Transactions in the print space have been largely driven by existing players looking to expand regional/language dominance as also by strategic deals where corporates from outside the industry and private equity have taken stakes in companies. However, deal activity in this space has been tempered due to valuation issues, coupled with lack of desire of smaller players to exit.

To maximize cross synergies across platforms, and reach out to consumers at different touch points, DB Corp Limited chose to acquire the remaining shares of its two subsidiaries, I Media Corp (providing integrated internet and mobile interactive services) and Synergy Media Entertainment Limited (radio broadcasting services). Notable private equity deals in this space include Everstone Capital’s acquisition of a 35 percent stake in S. Chand Group, and their bolt on acquisition of Vikas Publishing House.

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06. KPMG in India Analysis
06. Aditya Birla Group acquires stake in Living Media India, Business Standard, May 19th, 2012
07. KPMG in India Analysis
08. Venture Intelligence accessed on 24th January, 2013
09. Mergermarket accessed on 24th January, 2013, D B Corp to buy remaining shares in two un Rs 23.97 cr, Financial Express, December 5th, 2012
10. Venture Intelligence accessed on 24th January, 2013
Going forward, deals in the print industry will be driven by expansion and consolidation plans of the large players, who may choose to raise funds through the private equity route, or IPOs. However, challenges in terms of valuation expectations, and many promoters’ mindset of not letting go of control even at the expense of growth, may prove to be impediments to M&A activity in the sector.

Radio

In 2010, the Copyright Board approved a revenue sharing arrangement between radio broadcasters and music companies, leading to significant cost savings in royalty payments made to music companies by radio stations. While payments were earlier being made on a per needle hour basis, this has been changed to an advertising revenue sharing model. This ruling is considered as a step towards improving the financial health of radio stations, which have been largely making losses until now, prior to the roll out of the Phase III FM auction.  

Regulatory changes such as relaxation of FDI limits, granting permission to own multiple frequencies in a city and the permission to air news and current affairs hold the key to the growth of this segment. In the near future, relaxation of regulatory hurdles is likely to facilitate active interest from large international private equity players and global radio majors.

Films

The film exhibition segment witnessed significant deal activity, with high levels of interest from strategic and private equity players. Top players in this segment have made acquisitions and consolidated their business to achieve market leadership.  

L Capital and Multiples private equity acquired 15.82 percent stake each in Gurgaon based multiplex major PVR Cinemas for a combined amount of USD 58 million. Part of the money raised was used to acquire Cinemax India Limited. PVR acquired a 69.27 percent stake in Cinemax India Limited from the promoters, and made an open offer for an additional 26 percent for a combined amount of USD 119 million. This transaction made PVR the largest multiplex chain in the country including multiplex chain Fame India Limited. After the acquisition of Hungama Digital Services by expansion and consolidation plans, specifically to tap the latent potential in the fast growing regional markets. Players in the television segment, broadcasting and distribution, may witness significant transaction activity to fund their growth ambitions in order to maximize the opportunity presented by large scale digitization of cable. Additionally, larger advertising companies and media houses may continue to acquire smaller, fast growing companies in the digital space, to develop or further strengthen their capabilities.

Advertising agencies and digital media

Acquisitions in advertising have been dominated by the Big 5 players acquiring local agencies, with high levels of interest in digital media, to strengthen their presence in the emerging area. Notable transactions include WPP’s acquisition of Hungama Digital Services, Dentsu’s acquisition of a 51 percent stake in Taproot India, Publicis Groupe’s acquisition of Indigo Systems and Technology and Interpublic’s acquisition of Interactive Avenues.  

Going forward, digital advertising agencies may look for acquisitions abroad due to a highly crowded and relatively small domestic market.

The on deck platform, offered by cellular service providers, may see limited interest with the increased penetration of smart phones and competition from application providers on for iOS and android operating systems.

Last year we saw Gruner + Jahr AG & Co’s acquisition of SeventyNine Private Limited, an India based operator of mobile applications and advertisement distribution platform, a space where we expect increased transaction activity. Mobile advertising is expected to witness high levels of interest from international strategic players looking to enter or expand their presence in the Indian market. Personalization, immediacy, interactivity and cost effectiveness make this a viable platform for advertisers, and a high growth area for the networks.

Other notable deals

The Sun TV Network won the Hyderabad franchise of the Indian Premier League amidst the controversial termination of cash strapped Deccan Chargers. They will pay a fee of under USD 16 million per year, which is significantly lower than what the Kochi and Pune franchises were sold for two years ago.

Samara Capital Partners acquired a 77.5 percent stake in NewsWire 18 Ltd, a financial data and news agency, for USD 16.5 million, from Network 18, who have chosen to monetize noncore assets.

In the animation sector, Standard Chartered Private Equity acquired a 19.7 percent stake in Prime Focus Limited, an Indian company providing creative and technical services to media companies, for USD 36 million. Going forward, we believe that Indian animation and gaming companies are likely to seek capital infusion to acquire technology, develop content and retain people. Also, incumbents will seek to complement their existing portfolios and technologies through acquisitions in India and overseas.

Outlook

Companies in the Indian M&E industry are currently poised for substantial growth, organic as well as inorganic. Among the larger media houses, we expect deals to be driven by expansion and consolidation plans, specifically to tap the latent potential in the fast growing regional markets. Players in the television segment, broadcasting and distribution, may witness significant transaction activity to fund their growth ambitions in order to maximize the opportunity presented by large scale digitization of cable. Additionally, larger advertising companies and media houses may continue to acquire smaller, fast growing companies in the digital space, to develop or further strengthen their capabilities.

Over the last 5 years, the media industry has not only become more integrated with the mainstream of business, but also learnt how to be better organised for scale. The financial investment community has responded very positively to this, and I expect an exponential growth in investment into this sector.

- Naineesh Jaisingh

Managing Director & Global Co-Head, Standard Chartered Private Equity
### Key transactions in 2012

<table>
<thead>
<tr>
<th>Month</th>
<th>Target</th>
<th>Acquirer</th>
<th>Stake (%)</th>
<th>Deal Value (USD mn)</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>M&amp;A</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>Eenadu TV</td>
<td>Network 18 Media &amp; Investments Limited</td>
<td>100%</td>
<td>395</td>
<td>TV Broadcasting</td>
</tr>
<tr>
<td>April</td>
<td>NaiDunia Media Private Limited</td>
<td>Jagran Prakashan Limited</td>
<td>100%</td>
<td>44</td>
<td>Publishing</td>
</tr>
<tr>
<td>April</td>
<td>Star News</td>
<td>ABP TV Private Limited</td>
<td>26%</td>
<td>Undisclosed</td>
<td>TV Broadcasting</td>
</tr>
<tr>
<td>April</td>
<td>Endemol India Pvt. Ltd</td>
<td>CA Media</td>
<td>49%</td>
<td>Undisclosed</td>
<td>TV Broadcasting</td>
</tr>
<tr>
<td>May</td>
<td>Living Media India Limited</td>
<td>The Aditya Birla Group</td>
<td>27.5%</td>
<td>70</td>
<td>TV Broadcasting</td>
</tr>
<tr>
<td>June</td>
<td>Multi Screen Media</td>
<td>Sony Corporation</td>
<td>32%</td>
<td>271</td>
<td>TV Broadcasting</td>
</tr>
<tr>
<td>June</td>
<td>Hungama Digital Media</td>
<td>JWT</td>
<td>51%</td>
<td>10</td>
<td>Digital Media</td>
</tr>
<tr>
<td>August</td>
<td>Digicable Network (India) Pvt. Ltd</td>
<td>Sahara India Pariwar</td>
<td>90%</td>
<td>52</td>
<td>TV Distribution</td>
</tr>
<tr>
<td>November</td>
<td>Cinemax India Limited</td>
<td>PVR Limited</td>
<td>95%</td>
<td>119</td>
<td>Theatre</td>
</tr>
<tr>
<td>November</td>
<td>ESPN Star Sports Limited</td>
<td>News Corp</td>
<td>50%</td>
<td>Undisclosed</td>
<td>TV Broadcasting</td>
</tr>
<tr>
<td>PE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>March</td>
<td>Hathway Cable &amp; Datacom Ltd</td>
<td>Providence Equity Partners Inc.</td>
<td>17.5%</td>
<td>71</td>
<td>TV Distribution</td>
</tr>
<tr>
<td>April</td>
<td>Amar Chitra Katha</td>
<td>Future Ventures</td>
<td>9.2%</td>
<td>Undisclosed</td>
<td>Publishing</td>
</tr>
<tr>
<td>October</td>
<td>Prime Focus Limited</td>
<td>Standard Chartered Private Equity</td>
<td>19.7%</td>
<td>36</td>
<td>Animation</td>
</tr>
<tr>
<td>August/</td>
<td>PVR Limited</td>
<td>L Capital Asia, Multiples</td>
<td>31.6%</td>
<td>58</td>
<td>Theatre</td>
</tr>
</tbody>
</table>

Source: Mergermarket, Bloomberg, Venture Intelligence accessed on 24th January, 2013

Media and Entertainment sector participants are seeing three key trends; consolidation, expansion capital for digital rollout and need to grow both organically and inorganically particularly in regional markets. Consequently we expect significant PE and M&A activity in the sector over the next 24 months.

- **Rajesh Jain**
  Partner - Corporate Finance, KPMG in India
Tax and Regulatory
Two steps forward…
The Indian Finance Minister presented the Finance Bill 2013 on 28 February 2013. There are a few proposals in the Budget which are relevant for the M&E sector from a taxation angle. On the indirect tax front, the Finance Minister accepted the request of the film industry and the exemption from service tax in respect of copyright in cinematographic films granted last year has been withdrawn. However, the exemption continues in respect of films for exhibition in theatres. Another proposal impacting the distributors of TV channels is increase in customs duty on set top boxes from 5 percent to 10 percent.

On the direct tax front, while the headline corporate tax rate has remained unchanged, the rate of surcharge, if taxable income exceeds INR 10 crores, has been enhanced from 5 percent to 10 percent in case of domestic companies and from 2 percent to 5 percent in case of foreign companies. Further, the domestic withholding tax rate in case of payment of royalty and fees for technical services to non-residents has been increased from 10 percent to 25 percent. This could have significant impact in relation to payments made for acquisition of content, transponder hire charges, etc. in cases where the tax treaty benefit is not available. The Government also deferred implementation of the General Anti-Avoidance Rules (GAAR) by two years to FY 2015-16, providing a much needed respite to tax payers.

The announcement of the roll out of Phase III of radio licensing is a welcome move that will be a catalyst for growth of the radio industry. The industry has been awaiting this for a while and the new stations will enable radio to be a much more viable medium for advertisers looking for a broader reach.

In a welcome move on the regulatory front, the Government, through issue of Press Note 7, has raised Foreign Direct Investment (FDI) limits / liberalized the FDI norms for investment in the broadcast carriage services industry such as Direct-To-Home (DTH), cable TV and also clarified the foreign investment policy in Mobile TV.

The Government has also cleared the Copyright (Amendment) Bill, 2010, which expands the definition of ‘copyright’ and introduces a system for statutory licensing to protect owners of literary or musical works. The amendments now enable artists to claim lifelong royalty for their works. The Government has also taken several measures to ensure ‘digitization’ of cable television.

Industry participants anticipate that several tax issues discussed below are likely to be resolved by the Government in the near future.

**Film industry**

- **Key tax issues**
  
  **Deduction of expenses**

  The Income-tax Rules, 1962 (Rule 9A and 9B) permit deduction of expenditure incurred on production of films / acquisition of distribution rights therein either in the first year of release or over a period of two years, based on when the copyrights / distribution rights in the films are exploited or the date of release of the film.

  There are several ambiguities surrounding the applicability of Rule 9A / 9B including whether it extends to satellite, music, home video and other rights in addition to theatrical rights, whether it is directory or mandatory, whether it overrides all other provisions of the Income-tax Act, 1961 (IT Act), (for example whether the deduction of expenditure under Rule 9A / 9B is allowable irrespective of whether it is capital or revenue in nature, whether tax has been deducted at source or not), deductibility of expenses which are not covered by Rule 9A / 9B, etc.

  A Government circular or clarification on the above aspects would help dispel this uncertainty.
Recent developments

- **Service tax on services of actors and technicians**
  Actors and certain technicians who were not liable to service tax thus far, now fall within the purview of service tax and are liable to service tax effective 1 July 2012 upon introduction of the negative list regime of service tax.

- **Temporary transfer, permitting the use or enjoyment of copyright in cinematographic films**
  Licensing of copyright in cinematographic films formed part of the Mega Exemption Notification under the negative list regime and was exempt from service tax. Finance Bill 2013, with effect from 1 April 2013, proposes to restrict service tax exemption to copyright in cinematographic film only for films exhibited in cinema hall/theaters. Therefore, if enacted, licensing of copyright in cinematographic films (other than exhibition in cinema hall/theaters) will be subject to service tax, effective 1 April 2013. Accordingly, CENVAT credit on inputs/input services, not attributable to theatrical revenue, will be available for set-off against output service tax liability. However, there will still be CENVAT credit loss to the extent the same is attributable to revenue earned from exhibition of cinematographic film in cinema hall/theaters.

- **Levy of service tax on distributors/sub-distributors/exhibitors of movies**
  Producers, distributors, sub-distributors, and exhibitors of movies enter into different kinds of arrangements for exhibition of movies. These arrangements are either entered into on a principal-to-principal basis (where the movies are exhibited by the exhibitor on his own account) or on behalf of the distributor/sub-distributor/producer or on a revenue-sharing basis.

  The Service Tax authorities issued a Circular in December 2011 which clarified that the levy of service tax would not depend upon the nature of such arrangements but upon the nature of the transaction involved. Thus, service tax was applicable on the exhibition of movies by the exhibitor, regardless of whether the arrangement with the distributors was on a principal-to-principal basis or on behalf of the distributor/sub-distributor/producer or on a revenue-sharing basis. This had the impact of taxing the activity of movie exhibition and the tax was ultimately passed on to viewers by way of increase in ticket prices.

  Further, effective 1 July 2012, licensing of copyright in cinematographic films was made exempt from service tax. Accordingly, revenue earned from exploitation of copyrights in cinematographic films was exempt from service tax.

However, Finance Bill 2013, with effect from 1 April 2013, proposes to restrict the service tax exemption only to licensing of copyright in cinematographic films for exhibition in cinema hall/theaters.

The above-mentioned Circular categorically mentions that the arrangements mentioned in the Circular will apply to similar situations across all the taxable services. Hence, the applicability of said Circular will have to be evaluated in all types of revenue sharing arrangements other than the ones pertaining to licensing of copyright in films for exhibition in cinema hall/theaters.

Judicial decision

- **Services provided by overseas entities in connection with making logistic arrangements for shooting of different films of taxpayers outside India**
  Recently, the Mumbai Tribunal in the case of *Yash Raj Films Pvt Ltd* (“Yash Raj Films”) held that the services provided by an overseas entity in connection with making logistic arrangement for shooting of different films of the taxpayer outside India were in the nature of commercial services and not FTS.

  The production unit of Yash Raj Films used to shoot films abroad and avail services required in connection with shoots from various overseas providers. Services mainly included arranging for extras, arranging for security, arranging for locations, accommodation of cast and crew, obtaining necessary permissions from local authorities as well as arranging for makeup of the stars, insurance cover, etc.

  The Tax authorities contended that payments made by Yash Raj Films to the overseas service providers were in the nature of FTS and Yash Raj Films was required to deduct tax at source from the said payments.

  The Tribunal held that the nature of services rendered by overseas service providers to Yash Raj Films such as, (i) arranging for shooting locations (ii) obtaining necessary permits for the assessee (iii) arranging shipping & custom clearances (iv) arranging for ‘extras’, shooting equipment, meals, transport etc. (v) rendering help in obtaining visas (vi) arranging for makeup of casts (vii) coordinating for necessary licenses, cannot be treated as technical services under section 9(1)(vii) of the IT Act. Such services are in the nature of commercial services and amount to business profit for the service providers, not chargeable to tax in India in the absence of any Permanent Establishment (“PE”) in India of the service providers in India.

KPMG in India’s comments

This is a welcome judgment for taxpayers availing of logistic arrangement services in overseas jurisdictions, as such services will not attract withholding tax in India. Withholding tax in India on such services would have resulted in additional costs to taxpayers in case of not paying ‘net-of-tax’ contracts, more so when overseas service provider does not have Indian Permanent Account Numbers (PAN). Local logistic service providers should also be exempt from withholding tax under section 194J of the IT Act.
Broadcasting industry

Key tax issues

- **TDS on various payments by TV channel companies**
  
  TV channel companies make significant payments to software production houses towards production of TV programs. They also pay placement / carriage fees to DTH operators, multi system operators and various cable operators towards placement / carriage of the channels. The channel companies are of the view that such payments attract TDS under section 194C of the IT Act at the rate of 2 percent. However, the Tax authorities contend that such payments are liable for TDS at 10 percent on the ground that the payments are towards technical services / royalty. This has resulted in protracted litigation.

  A suitable clarification by the Government to the effect that tax needs to be deducted on the above payments at the rate of 2 percent and not at the rate of 10 percent is much needed to put the above controversy to rest.

- **Taxation of Foreign Telecasting Company (‘FTC’)**
  
  The two primary sources of revenue for FTCs are income from sale of advertising airtime on the TV channel and subscription revenues.

  **Taxation of advertisement revenues**

  Under the IT Act, advertisement revenues of FTCs are taxable in India in case FTCs have ‘business connection’ in India. In case an FTC operates from a country with which India has a tax treaty, the advertisement revenues would be taxable in India only if the FTC has a permanent establishment in India.

  The taxability in such cases is only on the income which is attributable to the PE / operations carried out in India. The circumstances in which the FTCs constitute a PE / business connection in India and the determination of income attributable to such PE / operations carried out in India, continues to be a contentious issue between the FTCs and the Tax authorities.

  FTCs generally appoint agents in India for marketing advertisement airtime slots. Agents also facilitate collection of advertisement revenues from advertisers and its remittance abroad.

  The Tax authorities contend that the agent of the FTC, who concludes contracts on behalf of FTC or secures orders wholly or almost wholly for FTC in India, constitutes its PE in India.

  The Bombay High Court (HC) in the case of SET Satellite (Singapore) Pte. Ltd. has held that where an FTC has an Agency PE in India (i.e. PE on account of its agent), a payment of arms length remuneration by the FTC to its Indian agent extinguishes its tax liability in India. A similar view has been taken by the Delhi HC in the case of BBC Worldwide Ltd. with the matter now pending before the Supreme Court.

  **Taxation of Subscription revenues**

  Subscription revenues are generally collected by the Indian distributors and subsequently paid to the FTCs. FTCs are of the view that the payment for grant of distribution rights is not for any copyright and hence, is not in the nature of royalty (taxable on gross basis at a specified rate). FTCs have been taking a view that the payment is in the nature of business income and is not taxable in India in the absence of a PE in India.

  However, the Tax authorities hold a divergent view and contend that the subscription revenues are liable to tax as royalties. The issue is pending adjudication at appellate levels.

- **Taxation of Transponder charges**
  
  Broadcasting companies make payments for transponder charges. The Tax authorities contend that payments made towards transponder charges are in the nature of royalty. However, in the case of Asia Satellite Telecommunications Co Ltd (Asia Sat), the Delhi HC has held that such payments do not constitute royalty and are not liable to tax in India.

  With a view to override the above decision, the definition of royalty under the IT Act has been amended vide the Finance Act 2012 to bring within its ambit payments made for transmission of signals by satellite. However, non-resident taxpayers can continue to take the benefit of tax treaties entered into with India to contend that such payment is not in the nature of royalty under the treaty and hence not liable to tax in India.

Recent developments

- **Service tax on services of actors and technicians**

  As is the case in the film industry, actors and technicians who were not liable to service tax in the Broadcasting industry thus far, will now fall within the service tax net and are liable to service tax effective 1 July 2012.

- **Taxability of broadcasting charges earned by foreign broadcasters**

  Hitherto, service tax payable on selling of airtime slots, subscription revenue, etc earned by foreign broadcasters was discharged by agents of these broadcasters in India. The agents were defined as deemed broadcasters and were accordingly made liable to service tax. Thus, any charges that were collected by Indian agents or representatives with respect to broadcasting by the foreign broadcasters were liable to service tax in the hands of the Indian agents or representatives under the taxable service category of ‘broadcasting services’.

  However, under the negative list regime, effective 1 July 2012, the service categories are done away with and accordingly, the definition of taxable service pertaining to broadcasting services and definition of broadcasting agency or organization no longer form part of the service tax law. In view of this, instead of the Indian agent or representative, the foreign broadcasters (for the broadcasting services provided in India), will now be liable to obtain service tax registration in India and discharge the service tax liability on these activities.
Service fee earned by Indian agents of foreign broadcasters
Typically, an Indian agent collects advertisement and subscription revenue from customers in India and remits this to foreign broadcasters after retaining a service fee. This service fee retained by Indian agent was also subject to service tax.

Thus far, this led to taxation of the same service fee twice, firstly as part of the revenues collected by the Indian agent from the customers and secondly as service fee. However, it was argued that if the service fee retained by Indian agents qualified as export of service, then service tax should not have been levied.

Now, under the negative list regime, the Export of Services rules have been replaced by the Place of Provision of Service Rules, 2012 (POPS). One of the conditions for a service to qualify as an export is that the place of provision of service must be outside India. The place of provision of service for an intermediary agent is the location of service provider. Since the broadcasting agent/representative, in this regard, is an agent who arranges or facilitates provision of service from the foreign broadcaster to the recipient of broadcasting services, and is located in India, the place of provision of service is within India and accordingly one of the conditions to qualify as an export is not fulfilled. Hence, service tax will be leviable on the service fee received by the Indian agent/representative. Effective 1 July 2012, foreign broadcasters without a presence in India will now be liable to register in India and discharge the service tax liability on subscription revenue, advertisement revenue, etc. earned for the services provided in India; further the service tax on service fee recovered by the agent will be available as credit to such broadcasters, subject to conditions prescribed under the CENVAT Credit Rules, 2004.

Transponder hire charges
For the purpose of providing services, broadcasters hire satellite transponders. In cases where licensors (of transponders) are located in India, service tax on the hire charges recovered from the broadcasters is discharged by the service providers in India (i.e. the licensors). However, in cases where licensors are situated outside India, the liability to discharge the service tax falls on the service recipient in India on a reverse charge basis.

Thus far, the service tax authorities have been seeking to levy service tax on Indian service recipients, i.e. the broadcasters, on such transponder hire charges. However, Indian broadcasters contend that such services can at best be covered under the taxable service category of “Supply of Tangible Goods services” in which case, as the transponder is located outside Indian territory, this should be exempt from service tax in India. This conflicting position resulted in protracted litigation with the service tax authorities.

However, effective 1 July 2012, Import Rules have been replaced by POPS. As per POPS, service tax will be applicable on import of services only if the place of provision of service is taxable territory (i.e. whole of India other than the state of Jammu & Kashmir). The place of provision of services in case of transponder hire service will be determined based on the location of service recipient i.e. broadcasters. Since Indian broadcasters are located in taxable territory, transponder hire charges paid by them will be liable to service tax in their hands. Hence, the ambiguity prevailing in the erstwhile regime has been dispelled.

Judicial decision
Payment for acquiring satellite rights of films is ‘royalty’, liable to withholding tax
The Chennai Tribunal recently dealt with the issue of withholding of tax from payments made for acquisition of satellite rights in the case of Shri Balaji Communication Ltd (‘Balaji Communication’). In this case, Balaji Communication had made payment for acquiring “satellite broadcasting” rights of films and programs without deducting any tax on the grounds that this was towards exhibition of cinematograph films, covered under the exclusion to the definition of the term ‘royalty’.

The Tax authorities contended that tax needs to be deducted under section 194J of the IT Act as these payments were in the nature of royalty.

In this regard, the Tribunal observed that as long as the transfer is of any right relatable to a copyright of a film or video tape which is to be used in connection with television, the consideration paid would be royalty. Accordingly, it held that Balaji Communication was liable for withholding of tax and failure to do so would attract disallowance of expenditure under the IT Act.

KPMG in India’s comments
There was some doubt as to whether the exclusion in the definition of royalty for sale, distribution or exhibition of cinematograph films applies only to acquisition of rights for theatrical distribution/exhibition of cinematograph films or also to acquisition of satellite rights of a film. The Tribunal has clarified that the exclusion does not apply to acquisition of satellite rights. Thus, in terms of this decision, payment for acquisition of satellite rights of film will be treated as royalty.

Payment by TV broadcaster towards hiring charges for transponder does not amount to royalty
The Mumbai Tribunal in the case of B4U International Holdings Ltd (‘B4U’) has held that payment made for transponder hire charges would not amount to royalty.

In this case, B4U made payments to a US company towards transponder hire charges. The Tax authorities held that such payments were in the nature of royalty. The Tribunal referred to the decision of the Delhi HC in the case of Asia Satellite Communications Co. Ltd wherein the Delhi HC had held that such payments do not constitute royalty. The Tribunal also held that the retrospective amendment to the definition of royalty in the IT Act (introduced by Finance Act, 2012) had no effect, as the provisions of tax treaty between India and USA would prevail over the IT Act. The Tribunal held that under the tax treaty, the payment would not amount to royalty.
Thus, it was held that B4U was not liable to deduct tax at source from the payments made to the US company and consequently, there cannot be any disallowance of the payment under the IT Act.

KPMG in India’s comments

Despite retrospective amendments to the definition of royalty, the above decision has held that payment made for transponder hiring charges is not in the nature of royalty under the tax treaty. This is a welcome ruling which will help avert protracted litigation on the issue.

DTH industry

- **Key tax issues**
  - Withholding tax on discount on sale of Set-top-boxes (‘STBs’) / Recharge Coupon Vouchers (‘RCVs’)
    
    From an income tax perspective, an issue arises vis-à-vis applicability of withholding tax on the amount of discount given to distributors on the sale of STBs / RCVs. The Tax authorities are of the view that discount on sale of STBs / RCVs is in the nature of commission, subject to withholding tax at the rate of 10 percent under section 194H of the IT Act. However, the industry is of the view that the discount is not in the nature of commission and hence, section 194H is not attracted thereon. This view is supported by the recent decision of the Supreme Court in the case of Ahmedabad Stamp Vendors Association where stamp vendors had bought stamps from State Government on discount. The tax department claimed that the vendors were ‘agents’ of the State Government and the discount was nothing but ‘commission or brokerage’, liable to withholding tax under section 194H. The Supreme Court held that tax need not be withheld on the vendor’s discount since it is not in the nature of commission or brokerage. The ratio of this decision should equally apply to discount given to distributors for sale of STBs / RCVs.

    It would benefit the industry if the Government releases a suitable clarification that discount on sale of STBs / RCVs is not in the nature of commission / brokerage and not subject to withholding tax, so as to avoid unnecessary litigation across the DTH sector.

- **Dual levy of tax on DTH service**

    The DTH industry is subject to variety of taxes on various transactions, such as Value Added Tax (‘VAT’) on sale of STBs, Service Tax and Entertainment Tax on subscription revenues, etc. Customers are charged STB installation charges and activation charges, on which service tax is being levied. Providing DTH services is the predominant objective of DTH operators. Therefore, to build their subscriber base, a majority of DTH players have shifted from the model of selling STBs to the customers to providing the STBs on entrustment basis, without charging any consideration for the same. While there should be no VAT applicable on such a transaction effected without consideration, the VAT authorities of various States are seeking to levy VAT on such transactions on the ground that the installation and activation charges recovered from the customers include the price of STBs.

    This leads to double taxation of the same consideration (i.e. VAT and Service Tax) thereby causing significant damage to the industry.

    Since installation and activation charges are service revenues and service tax is being levied on these, the same should be kept outside the purview of VAT.

    - **Taxability of RCVs**

    Taxability of RCVs for subscriptions has long been a matter of dispute, particularly around whether this qualifies as a good or a service.

    The industry has been adopting a position that the RCVs are in the nature of actionable claims and cannot qualify as goods. Moreover the intrinsic value of the same is insignificant and the same is used in the course of provision of services. However, the VAT authorities of various States have been seeking to levy tax (VAT as well as Entry tax) on such RCVs on their face value, treating them as goods.

    While there are judicial precedents which have held that RCVs do not qualify as goods, it would benefit the industry if the Government released a clarification and made suitable amendments to VAT schedules, so as to avoid litigation across India.

- **Recent developments**

  - **Imports duty on STBs**

    Pursuant to Finance Bill 2013, import of set-top-boxes have become costlier, with effect from 1 March 2013, since the Basic Customs Duty on import of the set-top boxes has been increased from 5 percent to 10 percent. An increase in duty at the critical phase of the digitization process may impact set-top-box penetration and add to the financial burden of DTH and Cable companies.

Music industry

- **Key tax issues**

  - **Deductibility of cost of music rights**

    Deductibility of acquisition costs of music rights has been a controversial issue. Issues arise whether such costs are entitled to depreciation (at the rate of 25 percent on written down value basis), or are in the nature of revenue expenditure deductible in the first year or to be amortized over the period of license.

    The Mumbai Tribunal in the case of Tips Cassettes & Record and the Calcutta Tribunal in the case of Gramophone Company of India held the view that payment for acquiring music rights are in the nature of acquiring raw material and hence deductible as revenue expenditure. Given that it is a timing issue, it would help the cause of the industry and avoid litigation if the Government can issue a circular / clarification confirming this position.

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05. CT v Ahmedabad Stamp Vendors Association – 25 taxmann.com 209 (Supreme Court)
06. Tips cassettes & Record Co v ACIT – 82 (TD) 641 (Mumbai Tribunal)
07. Gramophone Co. of India Limited v DCIT – 48 (TD) 145 (Calcutta Tribunal)
Digital Media/ Out of Home (‘OOH’) industry

- Service tax implications for sale of space or time slots for advertisements
  Selling of space or time slots for advertisements, other than advertisements broadcast on radio or television, forms part of the negative list of service tax regime. Accordingly, selling of space or time slots on digital media i.e. internet or selling of hoarding space should not be liable to service tax, irrespective of who the service provider or service recipient is and the mode of consideration.

- Withholding tax on payment of banner advertisements on a portal
  From an income tax perspective, an issue arises as to whether payments made to foreign companies for uploading and display of banner advertisements on their portals is liable to tax in India. Recently, the Mumbai Tribunal in the case of Pinstorm Technologies Pvt. Ltd. v ITO – 24 taxmann.com 345 (Mumbai Tribunal) has held that such payments are not taxable in India.

In the above case, Pinstorm had made a payment to Google Ireland Ltd. (Google Ireland) for uploading and display of the banner advertisement on its portal and claimed this as advertisement expenditure. While making the payment, no tax was deducted at source by Pinstorm on the ground that the amount constituted business profits of Google Ireland and in the absence of any PE of Google Ireland in India, the amount paid was not chargeable to tax in India. However, the Tax authorities held that payment made to Google Ireland by Pinstorm was chargeable to tax in India as ‘fees for technical services’ or ‘royalty’ and hence, tax ought to have been deducted at source from the payment made to Google Ireland.

The Tribunal relied on its earlier decision in the case of Yahoo India (P) Ltd. where on similar facts, it was held that the banner advertisement hosting services did not involve use or right to use by the taxpayer of any industrial, commercial or scientific equipment belonging to Yahoo. Uploading and display of banner advertisement on its portal was entirely the responsibility of Google Ireland and Pinstorm was only required to provide the banner advertisement to the foreign company for upload to Google Ireland’s portal. Pinstorm thus had no right to access the portal of the foreign company and there was no use of any industrial, commercial or scientific equipment belonging to Yahoo. The Tribunal held that the banner advertisement hosting services were not taxable in India.

Radio industry

- Key tax issues
  - Deductibility of License fees
    Radio broadcasters are required to pay license fees (one time entry fee and recurring annual fees) to the Government as per license terms. The issue arises as to whether such fees are in the nature of revenue expenditure to be claimed as deduction in the year in which they are incurred or are in the nature of capital expenditure, entitled to depreciation. Since the annual license fee is payable for each year of operation, it should be allowed as revenue expenditure. Further, the one time entry fee should be allowable as a deduction over the period of license. However, another view is that the payment for the one time entry fee could be treated towards license acquisition, specifically covered as an intangible asset, eligible for depreciation at the rate of 25 percent. This is likely to be an area of dispute between the taxpayer and the Tax authorities. The Government could issue a circular or clarification on this aspect so as to curtail potential litigation.

- Service tax on sale of advertisements
  From a service tax perspective, selling space or time slots for advertisements other than advertisements broadcast on radio or television forms a part of the negative list. Thus, the sale of space or timeslots on radio is liable to service tax. The leading players in the industry are of the view that inspite of the fact that radio is a cost free and easy medium of mass communication, the aforesaid benefit of exclusion from the levy of service tax is not granted to radio industry which is an unfair treatment to it. The Government may consider extending the benefit to the radio industry as well.

Sports

The importance of sports in the country has increased over a period of time with various international sports events being conducted in India (such as Cricket, Golf, Formula One, and other events). Taxation of sportspersons and foreign teams participating in such sporting events for example, taxability of participation fee received by sportspersons, advertisement and sponsorship income earned by the participating teams, attribution of income to Indian operation, etc is a vexed issue. Clarity on the issues faced by the sector coupled with certain tax incentives would contribute towards the development of sports in the country.

Other Issues impacting the M&E industry

- Clear roadmap for implementation of Goods and Services Tax (GST)
  There seems to be no clarity as to the exact date of implementation of GST. The introduction of GST would go a long way in reducing the tax costs of the industry, as credit for taxes paid on purchase of goods would be available for set off against taxes payable on services and vice versa.

KPMG in India’s comments

Online advertising on internet search engines has become an important advertising and marketing tool for the present day business. This is a welcome ruling for those taxpayers who make payments for online advertising on the portal of a foreign company.
Further, the problem of dual taxation (i.e. levy of service tax as well as VAT on certain transactions) is expected to be sorted out with the implementation of GST. Therefore, the industry expects that the Government will release definitive timelines and steps for the implementation of GST at the earliest.

Also, the industry expects that other applicable indirect taxes such as entertainment taxes will be subsumed into a potential GST. If the levy of entertainment tax is kept out of GST, it would be particularly unjustifiable in States such as Maharashtra, where the rate of entertainment tax being levied on films is relatively high. Therefore, entertainment tax should form part of the GST.

The Finance Minister, vide Finance Bill 2013, has taken a step forward towards implementing GST by setting aside a sum of INR 90 billion towards the first installment of the balance of CST compensation for States.

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### Value Added Tax and Service tax on Copyright

The Union Budget 2012-13, had exempted the licensing of copyright in cinematographic films from service tax. However, according to the film industry’s request, in Finance Bill 2013 the Finance Minister has proposed to restrict the benefit of the said service tax exemption to licensing of copyright in cinematographic film for exhibition in a cinema hall / theaters with effect from 1 April 2013.

Separately, the Government of various States have made ‘copyright’ liable to VAT, treating the same as intangible goods.

Therefore, the dual levy of Service tax and VAT on the same transaction/consideration pertaining to copyright in cinematographic films continues which needs to be addressed by the Government.

### Mandatory Permanent Account Number (‘PAN’)

The Finance Act (No. 2) of 2009 mandated a higher withholding tax rate of 20 percent in case of payees (i.e. recipients of income) not having a PAN, by introducing section 206AA in the IT Act. This provision also impacts payment made to non-residents.

With the changed dynamics of the industry, the involvement of non residents in the industry has increased to a great extent. While non-resident technicians assist in film production, a lot of content is also procured by broadcasters from foreign parties.

Most of the above contracts with non residents are ‘net of tax’ contracts i.e. taxes are borne by the payer. In case of one-off payments, non residents typically cannot be expected to apply for Indian PAN at the time of receiving the payments from residents (i.e. when tax deduction has to be made). This has given rise to a situation, where even if the appropriate rate of tax deduction at source (in terms of the provisions of the IT Act or the applicable tax treaty) is much lower, taxes are withheld at a higher rate (in absence of PAN). This has led to a significant increase in the overall costs of doing business for the Indian entities.

Considering the above situation, the Government could consider measures to address this.

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### Tax Residency Certificate (‘TRC’) mandatory to avail tax treaty benefit

The Finance Act 2012 has introduced section 90(4) in the IT Act which makes it mandatory for non-resident taxpayers to obtain a TRC containing certain prescribed particulars from their respective countries in order to claim the benefit under the tax treaty.

The Central Board of Direct Taxes (CBDT) issued a circular in September 2012 prescribing the information that the TRC should contain in order to avail tax treaty benefits. Based on a plain reading of the provision, it appears that if the TRC does not contain any of the prescribed information, the benefit of tax treaty may not be available. It needs to be appreciated that the Tax authorities of the respective countries have their own internal procedures / format for issuing the TRC to the tax residents of their country and it may or may not contain all the information prescribed by the Indian Government. If the treaty benefit is denied for want of any of the prescribed information in the TRC, it will cause undue hardship to the tax payers.

Hence, the Government should release an appropriate clarification addressing the above issue, so that the treaty benefit is not denied to the residents of other countries because certain information is not mentioned in the TRC.

Further, Finance Bill 2013 proposes that for a non-resident to claim tax treaty benefit, submission of TRC containing prescribed particulars is necessary but not sufficient condition. This amendment is proposed to be retrospective from financial year 2012-13. This has raised concerns among the non-resident taxpayers that even in the cases where a valid TRC is furnished, the Tax authorities may go beyond such TRC and make further inquiries to analyse the claim of treaty benefit by the non-resident.

To address such concerns of the taxpayers, the Government immediately issued a press release clarifying that TRC will be accepted as proof of residency and necessary amendments will be made in the law to address the above issue.

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### Withholding tax rate on royalty and fees for technical services enhanced by Finance Bill 2013

Finance Bill 2013 proposes to enhance the basic withholding tax rate on payments by a resident to non-resident towards royalty and fees for technical services from 10 percent to 25 percent on gross basis. This will have significant impact on payments made for acquisition of content, transponder hire charges, etc. and therefore, enhance the cost of doing business, especially where the tax is to be borne by the Indian party. However, there is a silver lining here, given that a lower withholding tax rate under tax treaties can be applied, provided the non-resident obtains an Indian PAN and a TRC containing the prescribed particulars.

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Transfer Pricing (‘TP’)

With the increase in cross-border transactions across the globe, the scrutiny by the Transfer Pricing authorities of such transactions undertaken between related parties has also increased manifold. Hence, it is imperative for companies to have a robust TP policy in place to support the pricing of cross-border transactions between related parties. The Indian TP regulations require a taxpayer to undertake ‘international transactions’ with ‘associated enterprises’ on an arm’s length basis. Further, the regulations mandate the use of one of the six prescribed methods as the most appropriate method for the determination of the arm’s length price. From a compliance perspective, the regulations prescribe maintenance of mandatory documentation by taxpayers on an annual basis in relation to their international transactions and also cast a compliance obligation on the taxpayers, which involves filing of annual transfer pricing certificate (known as Accountant’s Report) with the Tax authorities disclosing details of such transactions in a prescribed format.

The increased cross-border activity coupled with the peculiarities of the nature of transactions undertaken in the M&E industry poses several practical challenges in establishing the fact that the transactions undertaken between related parties are at arm’s length. The sections below provide an overview of TP related issues faced by the M&E industry.

- Key Transfer Pricing issues
  - Comparability for unique transactions
    The Indian TP regulations provide that the comparability of an international transaction with an uncontrolled transaction should be judged with reference to:
    - The specific characteristics of the property transferred or services provided in either transaction;
    - Functions performed, taking into account assets employed or to be employed and risks assumed, by the respective parties to the transactions;
    - The contractual terms (whether or not such terms are formal or in writing) of the transactions which lay down explicitly or implicitly how responsibilities, risks and benefits are to be divided between the respective parties to the transactions;
    - Conditions prevailing in the markets in which the respective parties to the transactions operate, including the geographical location and size of the markets, laws and Government orders in force, costs of labour and overall economic development and level of competition and whether the markets are wholesale or retail.

In view of the above mentioned parameters, if the nature of international transactions entered into between parties in the M&E industry are analyzed, it can be seen that they are unique and peculiar and are not comparable to those undertaken in any other industry, mainly on account of the nature of assets or intangibles being traded between the parties. The following examples will help better understand the scenario. An Indian channel company purchases film rights from a related party situated abroad. However, the price paid may vary significantly for various films and would depend on factors such as whether a film is being telecast on television for the first time, the timing of telecast, etc.

Similarly, in the case of an Indian company which owns a channel being telecast in a foreign country and which grants advertisement rights on a revenue split basis to related parties abroad, the proportion of split may vary significantly depending upon various economic and commercial factors in different years.

Given the unique nature of transactions undertaken, this poses peculiar challenges from a benchmarking perspective. Firstly, it is usually difficult to gather information from the public domain on similar independent transactions undertaken in this industry. Secondly, even if some data is available on certain similar transactions undertaken between unrelated parties, they can seldom be used for benchmarking the related party transactions because of material differences between the two transactions being compared. For example, in case theatrical rights of a forthcoming movie are proposed to be sold by a media house in different overseas jurisdictions, some of which may have their own subsidiaries located overseas, various commercial factors play an important role in arriving at an appropriate arm’s length benchmark for the transaction such as market perception of the theatrical rights being sold and value ascribed to movies involving differing stars, casts in different locations, timing of transaction, credentials of the transacting parties, advertisement and publicity involved, etc. On account of such factors, the determination of the arm’s length price of a transaction with related parties poses serious difficulties despite data being available for similar transactions undertaken with unrelated parties. This is because it is difficult to quantify the impact of all these different factors in numeric terms so as to facilitate necessary adjustments that may be required to be made to uncontrolled transactions to render them comparable to controlled transactions.

- Difficulty in application of prescribed methods
  The Indian TP regulations have prescribed five methods under law (as prescribed by the CBDT for the purpose of determination of the arm’s length price, viz., (1) Comparable Uncontrolled Price Method (2) Resale Price Method (3) Cost Plus Method (4) Profit Split Method and (5) Transactional Net Margin Method. Further the law enables CBDT to prescribe any other method. On May 23 2012, the CBDT has notified the ‘Other method’ vide a Notification and Rule 10AB has now been inserted in the Income-tax Rules, 1962 (the Rules). Rule 10AB describes the other method as “any method which takes into account the price which has been charged or paid, or would have been charged or paid, for the same or similar uncontrolled transaction, with or between non-associated enterprises, under similar circumstances, considering all the relevant facts.” This Rule has come into force from financial year 2011-2012 onwards.
With the introduction of the ‘Other method’, the taxpayers may have a little more flexibility to use tender documents, third party bids, proposals, valuation reports, standard rate cards, price quotations and commercial and economic business models etc. to demonstrate arm’s length intent. The application of the ‘Other method’ would be particularly helpful in cases where the application of the other five specific methods is not possible due to difficulties in obtaining comparable data due to uniqueness of transactions such as intangible transfers etc.

Proper documentation specifying the reasons for rejection for non-application of the other five prescribed methods and the appropriateness of the ‘Other method’ based on the facts and circumstances of the case should be maintained by taxpayers in case of application of this ‘Other method’. Being a new method, one needs to wait and watch its application by the tax payers and its acceptance by the revenue authorities.

**Recent developments**

- **Introduction of Advance Pricing Agreements (APAs)**

  With a view to address the increasing TP litigation in India, the Indian Government through the Finance Act 2012 introduced APA provisions with effect from 1 July 2012. The arm’s length price as determined under the APA provisions will be valid for a maximum period of 5 consecutive years unless there is a change in the provisions or the facts having bearing on the international transaction. With the introduction of detailed rules providing a framework for the APA regime in India in August 2012, the APA program is seen as one of the more positive amendments introduced by the Finance Act 2012, which should assist taxpayers to obtain certainty on their crucial transfer pricing matters, if they so desire. If properly implemented, APAs would provide certainty on tax issues of covered transactions during the APA term. In relation to the M&E industry, the option of APAs can be explored in case of complex and high value transactions or where the company is already undergoing TP audit scrutiny and hence would be selected for audits again or where the company needs financial certainty with regard to future tax implications. APAs would reduce the need for documentation and costs associated with audit and appeals over APA term and facilitate TP planning. Double taxation can be avoided in case of Bilateral/ Multilateral APAs.

- **Scope of TP expanded to include ‘Specified Domestic Transactions’**

  Finance Act 2012 included ‘specified domestic transactions’ under the ambit of TP (including procedural and penalty provisions). This has been done with the aim of preventing an erosion of the tax base. Thus, the applicability of TP regulations (including procedural and penalty provisions) have been extended to transactions between domestic related parties where tax holiday is claimed under chapter VIA, Special Economic Zones, etc. and payments (expenditure) to domestic related parties. The above shall apply in cases where the aggregate amount of all such domestic transactions exceeds INR 50 million (approximately USD 1 million) in a year. This amendment will come into effect from financial year (FY) 2012-13 onwards.

  “Specified domestic transaction” in case of a taxpayer means any of the following transactions, not being an international transaction, namely:

  - Expenditure in respect of which payment has been made or is to be made to persons/entities referred to in section 40A(2)(b);
  - Any transaction referred to in section 80A;
  - Any transfer of goods or services referred to in section 80-IA(8);
  - Any business transacted between the taxpayer and other person as referred to in section 80-IA(10);
  - Any transaction, referred to in any other section under Chapter VI-A or section 10AA, to which provisions of section 80-IA(8) or 80-IA(10) are applicable;
  - Any other transaction as may be prescribed by the CBDT.

  Affected taxpayers would now be required to structure their TP policies based on sound business rationale and commercial substance and also maintain robust underlying documentation to enable them to successfully defend their transfer prices during a TP audit.

- **Enlargement/ Clarification of definition of ‘International Transaction’**

  The term ‘international transaction’ has been retrospectively amended by the Finance Act, 2012 to include guarantees, any debt arising during the course of business (for example, credit period on outstanding receivables), business reorganizations or restructuring, irrespective of whether the same has an impact on current year’s profits, income, losses or assets. Intangible properties have been defined in great detail to include marketing intangibles, human assets, technology related intangibles, location related intangibles, customer related intangibles, data processing, engineering, customer, contract, goodwill related intangible assets and also includes methods, programmes, systems, campaigns, surveys, studies, forecasts, customer lists, etc. or any other similar item that derives its value from its intellectual content rather than its physical attributes.

  This expansion will impact transactions to be analyzed from a transfer pricing perspective in the industry, especially in view of intangibles being exhaustively defined. Proper transfer pricing analysis would have to be carried out for all kinds of intangibles being transferred/licensed from one entity to another in view of this amendment.
Conclusion

Given the overall set-up of the industry, it would be ideal for the Government to consider the difficulties of the industry players and issue guidelines that enable taxpayers to adopt the newly introduced ‘Other method’ properly to support their TP policies as well as enable them to explain the economic dynamics of their industries that in many cases would help explain the pricing and the results of transactions entered into between related parties. Separately, it is incumbent upon taxpayers to proactively undertake planning analysis of their complex international transactions and maintain robust documentation to support the arm’s length price of their international transactions. The introduction of APAs is a positive step for the taxpayers and can be explored as an option in case of companies having complex/high value transactions after conducting a proper cost benefit analysis, as it would provide them with certainty and would help such taxpayers to plan their strategies in a better manner.

- Judicial decision
  - Transfer Pricing adjustment in relation to advertisement, marketing and sales promotion (AMP) expenditure is permissible. Recently, the Delhi Special Bench of the Income-tax Appellate Tribunal (the Tribunal or Special Bench) in the case of LG Electronics India Private Limited1 (LG India) held that Transfer Pricing adjustment in relation to advertisement, marketing and sales promotion (AMP) expenditure incurred by LG India for creating or improving the marketing intangible for and on behalf of the foreign Associated Enterprise (AE) is permissible. It also held that the said function can be construed as provision of service by LG India to the AE for which, earning a mark-up in respect of AMP expenditure incurred for and on behalf of the AE, is appropriate. While arriving at the cost of the service, the Transfer Pricing Officer (TPO) relied on AMP ratio of certain comparable companies (Bright Line Test). The TPO proposed to disallow the excess expenditure incurred by the taxpayer over and above the bright-line. The Dispute Resolution Panel (DRP) not only confirmed the action of the TPO and also directed the Assessing Officer (AO) to impute a mark-up on the costs disallowed by the TPO.

  The Special Bench of the Tribunal observed that –
  - In the display of brand in the advertisements coupled with proportionately higher AMP spend by the taxpayer indicated an oral or tacit understanding between LG India and its foreign AE regarding brand promotion and therefore, the same was in the nature of an ‘international transaction’.
  - It further observed that by incurring excess expenditure, LG India had provided services to its AE which owned the brand, requiring justification of arm’s length price thereof.
  - The Tribunal also approved the use of mark-up on the costs incurred for providing services by LG India. In this regard, the Special Bench observed that the Bright Line Test is simply a tool to ascertain the cost of the international transaction of provision of service and approved the use thereof.
  - While dealing with the issue of the constituents of the Bright Line, the Special Bench observed that the expenditure incurred directly ‘in connection with’ and not ‘for promotion of’ sales, should not be put in the same basket as AMP expenditure. Therefore, bonus/commission paid to dealers/sales agent does not constitute AMP expenditure.

KPMG in India’s comments

The Special Bench ruling has laid down certain guiding principles on the vexed issue of AMP expenditure, though in view of dissenting order of one of the Members of the Three Member Special Bench, the scope for further litigation does not seem to have reduced.

It would be worthwhile for the foreign broadcasting companies operating through Indian AEs incurring AMP expenses to have proper contractual arrangements in place with detailed analysis and proper segregation of the rights and obligations of parties concerned. Further, it shall also be necessary to demonstrate the consonance of the functions carried out and the risks undertaken by the counterparties with the contractual terms.

While the litigation on the matter of AMP spend and consequent creation of marketing intangible will most certainly continue, in light of the Special Bench decision it would be advisable for the Indian entities to proactively analyze not only the quantum but also the nature of AMP expenses and maintain details and documents in this regard.

Tax incentives and Tax planning:
  - Special Economic Zones (‘SEZ’)
    The SEZ regime in the country allows tax breaks to eligible entities on export earnings for a period of 15 years (in a phased manner). Hence, entities engaged in content development, animation, etc. for exports abroad, may explore setting up units in a SEZ to claim tax holiday benefits. It is pertinent to note that with effect from 1 April 2011, SEZ units are liable to pay Minimum Alternate Tax (MAT) at the rate of 18.5 percent (excluding surcharge and education cess) on book profits. Nonetheless, the income tax saving (the difference between normal tax liability and MAT liability), concessions in other indirect taxes, lower cost of operations in SEZs, etc make the SEZ route an ideal mode of doing business for export oriented entities.
  - Intellectual Property Rights
    The possibility of tax planning by separating production and distribution rights in films may be explored in certain cases. An offshore special purpose vehicle may retain and exploit the distribution rights (including satellite broadcasting rights, audio and music rights, video rights, etc.) overseas, in a tax effective manner. Such planning would need to be carefully evaluated depending upon the business model and in compliance with the Transfer Pricing provisions as also the Controlled Foreign Company (CFC) rules proposed to be introduced in the Direct Taxes Code.
Key regulatory updates

FDI in the broadcasting sector

As per Press Note 7 (2012 series) issued on 10 April 2012, the Government raised the existing foreign investment limits / liberalized the FDI norms in various key activities in broadcasting sector. Previous and the revised FDI limits in relation to broadcasting sector are tabulated below:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Previous FDI (%)</th>
<th>Revised FDI (%)</th>
<th>Means of Entry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broadcast Content Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Terrestrial broadcasting (FM Radio)</td>
<td>26%</td>
<td>26%</td>
<td>Government approval</td>
</tr>
<tr>
<td>Uplinking of ‘news and current affairs’ TV channels</td>
<td>26%</td>
<td>26%</td>
<td>Government approval</td>
</tr>
<tr>
<td>Uplinking of non ‘news and current affairs’ TV channels / down linking of TV channels</td>
<td>100%</td>
<td>100%</td>
<td>Government approval</td>
</tr>
<tr>
<td>Broadcast Carriage Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Teleports (setting up of uplinking HUBs / teleports)</td>
<td>Upto 49 percent</td>
<td>74%</td>
<td>Upto 49 percent- Automatic route</td>
</tr>
<tr>
<td>Direct-to-home (DTH)</td>
<td>-Government approval</td>
<td>49 percent to 74 percent -Government approval</td>
<td></td>
</tr>
<tr>
<td>Cable networks (Multi-System Operators (MSOs) operating at national or state or district level and undertaking upgradation of networks towards digitalization and addressability)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mobile TV</td>
<td>No specific policy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cable Networks (MSOs not undertaking upgradation of networks towards digitalization and addressability and local cable operators (LCOs)</td>
<td>Upto 49 percent</td>
<td>49%</td>
<td>Automatic route</td>
</tr>
</tbody>
</table>

Source: Consolidated FDI Policy - Circular 1 of 2012 issued by Department of Industrial Policy and Promotion

• FDI for uplinking and downlinking TV channels will be subject to compliance with the relevant up-linking or down-linking policy notified by the Ministry of Information & Broadcasting from time to time.

• The Foreign Investment limit in companies engaged in the aforesaid activities shall include, in addition to FDI, investment by Foreign Institutional Investors (FIIs), Non-Resident Indians (NRIs), Foreign Currency Convertible Bonds (FCCBs), American Depository Receipts (ADRs), Global Depository Receipts (GDRs) and convertible preference shares held by foreign entities.

• In view of national security concerns, the Press Note has also detailed out multiple security conditions which have to be fulfilled by the companies in addition to the respective sectoral conditions. Primarily, these conditions involve mandatory requirement of key executives of the Company to be Indian citizens, security clearance of foreign personnel and observance of certain provisions relating to Infrastructure/ Network/ Software related equipment and monitoring/ inspection/ submission of information by the broadcasting companies.

KPMG in India’s comments

The increased FDI limits / liberalization in FDI norms in respect of broadcasting sector would improve accessibility of broadcasting services, up-gradation of networks towards digitalization and addressability across the country, and also bring in international best practices in this key sector.

Conclusion

The M&E sector has tremendous growth potential and prudent fiscal legislation would help it to perform at its full potential. While the Government has taken certain steps to address some of the issues affecting the industry, it may help the cause of the industry if the Government can take further steps to resolve the issues highlighted in this Report so as to enable the Indian M&E sector to reach new heights and become truly global.
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