



Media for the masses: The promise unfolds

KPMG India – FICCI

Indian Media and Entertainment
Industry Report, 2017

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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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Big Animation	Reliance Entertainment
Disney India	Sony Pictures Networks Limited
Maya Digital Studios	Star India Private Limited
Eros International	Toonz Animation
Great Indian Nautanki Company	Yash Raj Films
Green Gold Animation	Zee Entertainment Enterprises Limited
Inox Leisure	Zee Studios
NYVFXWaala	
Prime Focus India	

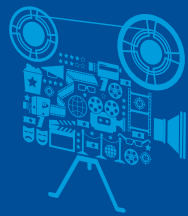
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Foreword

The year 2016 was a mixed bag for the Indian Media and Entertainment (M&E) industry. While the digital ecosystem penetrated further into the citizens' day-to-day lives and opened up new avenues of consumption and revenue, it was time for introspection for many parts of the industry.

A slow economic recovery in the U.S. and muted growth in China saw the global economy grow at a sluggish rate of 2.6 per cent, with Brexit, the U.S. election and the rise of protectionist and free trade rhetoric adding to business uncertainty. The Indian economy, nevertheless, is expected to outperform major economies with a projected Financial Year (FY) 2017 Gross Domestic Product (GDP) growth rate of 7.1 per cent, despite the speed bump caused by demonetisation.

In 2016, the Indian M&E industry grew at 9.1 per cent on the back of advertising growth of 11.2 per cent. This was aided by strong fundamentals and a steady growth in consumption, although demonetisation shaved off 150 to 250 basis points in terms of growth across all sub segments at the end the year.

Television experienced slower growth due to a lackluster year for subscription revenues, which have faced headwinds owing to continued challenges around digitisation and its intended benefits flowing through the value chain. Television advertising saw sunrise sectors, such as e-commerce, scaling back spends significantly and the event of demonetisation leading to an adverse impact across categories. However, strong long-term fundamentals driven by domestic consumption augur well for the future. Growing access to rural audiences through digitisation, coupled with content availability through increase in Free-to-Air (FTA) channels and deeper audience measurement will be a key catalyst to long-term growth, though this may have an adverse impact on distribution revenues. A solution to the tariff and interconnect orders by the Telecom Regulatory Authority of India (TRAI), which is acceptable to all stakeholders will be critical for the successful completion of the digitisation exercise.

Print continued to experience a slowdown in growth rates, as English language newspapers continued to be under pressure owing to rising users' interest in digital content. The 'Bharat' story continued to play out well for the Print segment, with language newspapers driving growth in viewership and advertising. Demonetisation also adversely impacted advertisement growth in 4Q 2016, particularly the regional dailies.

Films had a disappointing year with a near flat performance as the core revenue streams of domestic theatricals and cable and satellite (C&S) rights declined, on the back of

poor box office performance of Bollywood and Tamil films. However, revenue streams are widening with the expansion of overseas markets, increase in the depth in regional markets and a rise in acquisitions of digital content by Over-the-top (OTT) platforms.

However, some of the traditionally smaller sub-segments of the industry registered impressive growth in 2016, led by digital, which promises to be the flag-bearer of growth in M&E for years to come.

After 2004, when the Calling Party Pays (CPP) regime was implemented, India probably saw its second-largest telecom revolution with the wide launch of high-speed 4G services by operators across the country. Rising internet and broadband penetration, declining data charges, coupled with the proliferation of internet enabled mobile phones, led to data consumption levels increase manifold, driven by offers by the new entrant, Reliance Jio; which were quickly followed by major competitors Idea, Vodafone and Airtel.

This phenomenon has led to a sustained advertiser interest in digital, resulting in a strong performance by the sub-segment in 2016. Digital has also positively impacted the relatively smaller sub-segments, such as gaming and music — which registered impressive growth too. With OTT platforms continuing to see major traction, digital Video-on-Demand (VOD) and television could see harmonious co-existence for the near future, feeding off each other's strengths.

Volume improvements in smaller cities, the partial roll out of Batch 1 stations and some growth in effective ad rates led to a notable growth rate for radio in 2016. However, feeble uptake in Batch 2 of Phase 3 auctions and deferred roll out of Batch 1 stations, coupled with an adverse effect of demonetisation dampened the sentiments to an extent.

Looking ahead, the future of M&E industry indeed revolves around digital. The mobile phone, which today reaches every nook and corner of the country, manifests itself as a powerful medium to bridge the content consumption divide across socio-economic classes and categories. With the continued push by the government around digital consumption and payments, mass adoption of technology is a foregone conclusion. However, this brings with itself challenges for every sub-segment of M&E industry to innovate, to align with this change, and evolve in terms of building sustainable business models. Whether existing industry stakeholders are able to harness this potential dividend, or find themselves at the wrong end of this divide, will be the big answer to watch out for in the future.

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Introduction

The global economy has been sluggish in 2016 with a growth rate of 2.6 per cent¹, hampered by slow pick up in the U.S. economy and slowdown in growth rates in China. Political uncertainties and the rise in protectionist policies following Brexit and the Republican win in the U.S. Presidential elections further adversely impact global economic momentum and business sentiment.

In this uncertain global economic scenario, the Indian economy has been one of the brightest spots with an expected growth of 7.1 per cent in FY17² despite the late impact on account of demonetisation. Further, domestic consumption has remained strong, accounting for around 70 per cent of the Gross Domestic Product (GDP) in FY17³. In FY18, the GDP is expected to continue to grow above 7 per cent⁴, while in the long-term both, demonetisation and the Goods and Services Tax (GST) are likely to provide a boost to the country's GDP.

Strong economic fundamentals coupled with growth in domestic consumption has also aided the Indian M&E industry to maintain a growth of 11.6 per cent over the last five years. Though demonetisation adversely impacted the Media and Entertainment sector's performance in Q3 and Q4 2016, especially advertising revenue, the impact is likely to be short lived and normalcy is expected to return by Q2 2017. The long-term factors driving the future growth are expected to remain positive, with growing rural demand, increasing digital access and consumption, and the expected culmination of the digitisation process of television distribution over the next two to three years.



01. Economic Snapshot for the Major Economies, Focus Economics, 1 March 2017
 02. Indian economy to grow 7.1% in this fiscal; Dec quarter GDP numbers surprising: Fitch, Economic Times, 7 March 2017
 03. Quarterly estimates of gross domestic product for the third quarter (Q3) of 2016-17, Central Statistics Office, 28 February 2017

04. Indian economy to grow over 7% in FY18: Shaktikanta Das, Economic Times, 4 February 2017

The Indian M&E industry: Size

Overall industry size (INR billion) (For calendar years)	2011	2012	2013	2014	2015	2016	Growth in 2016 over 2015
TV	329.0	370.1	417.2	474.9	542.2	588.3	8.5%
Print	208.8	224.1	243.2	263.4	283.4	303.3	7.0%
Films	92.9	112.4	125.3	126.4	138.2	142.3	3.0%
Digital advertising	15.4	21.7	30.1	43.5	60.1	76.9	28.0%
Animation and VFX	31.0	35.3	39.7	44.9	51.1	59.5	16.4%
Gaming	13.0	15.3	19.2	23.5	26.5	30.8	16.2%
OOH	17.8	18.2	19.3	22.0	24.4	26.1	7.0%
Radio	11.5	12.7	14.6	17.2	19.8	22.7	14.6%
Music	9.0	10.6	9.6	9.8	10.8	12.2	13.0%
Total	728.4	821.0	918.1	1025.5	1156.5	1262.1	9.1%

Source: KPMG in India's analysis and estimates, 2016–17

Advertising revenues: Size

Overall industry size (INR billion) (For calendar years)	2011	2012	2013	2014	2015	2016	Growth in 2016 over 2015
TV	116.0	124.8	135.9	154.9	181.3	201.2	11.0%
Print	139.4	149.6	162.6	176.4	189.3	201.3	6.3%
Digital advertising	15.4	21.7	30.1	43.5	60.1	76.9	28.0%
OOH	17.8	18.2	19.3	22.0	24.4	26.1	7.0%
Radio	11.5	12.7	14.6	17.2	19.8	22.7	14.6%
Total	300.1	327.0	362.5	414.0	474.9	528.2	11.2%

Source: KPMG in India's analysis and estimates, 2016–17

- Television witnessed slower growth in 2016 at 8.5 per cent, primarily due to a lacklustre year for subscription revenues and a speed bump in advertisement revenue growth. Though the advertisement revenue growth at 11 per cent was steady, it was lower than last year's estimates primarily due to slower than expected domestic consumption, Broadcast Association Research Council (BARC) data recalibration and impact of demonetisation. However, strong performance of sports properties,

increased marketing spends by telecom operators on the launch of 4G services and strong performance of Free-to-Air (FTA) channels helped alleviate the pull down factors to an extent. The tepid growth in subscription revenues at 7 per cent was on the back of the stagnation in the digitisation process and the resurgence of DD FreeDish as an alternative platform to pay TV.

- Print revenue growth rates continued to register a slowdown, clocking a 7 per cent growth in 2016 as English language newspapers continued to be under pressure. Regional language newspapers though continued to show strong growth. Additionally, the demonetisation move also adversely impacted advertisement growth in the last quarter of the year, particularly for regional language publications given their greater dependence on local advertisers.
- Films had a disappointing year with the growth down to a mere 3 per cent, which actually masks a decline in core revenue streams of domestic theatricals and satellite (C&S) rights, on the back of poor box office performance of Bollywood and Tamil films. The expansion of overseas markets, increase in the depth in regional content and rise in acquisitions of digital content by Over-the-Top (OTT) platforms are offsetting this decline and expected to drive growth in the future.
- Digital advertising continued its high growth trajectory with a 28 per cent growth in 2016 to reach 15 per cent share in the overall advertising revenues, though there was a marginal impact due to demonetisation. Advertisers' interest has been captured by the continuing shift in consumption towards digital media on the back of rapid growth in internet penetration, mobile devices and falling data costs, with the launch of Reliance Jio providing an added impetus. This trend is also positively impacting the performance of gaming and music segments.
- The animation and Visual Effects (VFX) industry showcased a growth of 16.4 per cent, largely led by a 31 per cent growth in VFX industry, which grew on the back of an increase in outsourcing work and the growing use of VFX in domestic film productions. Further, the animation services and production space was also buoyed up by commissioning of new projects and focus on domestic IPs.
- The Out of Home (OOH) segment registered a slowdown in growth rate at 7 per cent primarily due to the impact of demonetisation though long-term indicators remain positive, especially in the airport, transit and ambient segments. Although billboards continue to account for the largest revenue pie, new metro lines, malls, corporate parks and the leading airports are providing a much-needed boost to the overall sector.
- Radio registered a 14.6 per cent growth led by volume enhancements in smaller cities, partial roll out of Batch 1 stations and a marginal increase in effective ad rates. However, weak uptake in Batch 2 auctions of Phase 3 and delays in the roll out of majority of Batch 1 stations coupled with adverse impact of demonetisation post November 2016 dampened the overall sentiment.



The Indian M&E industry: Projections

Overall industry size (INR billion) (For calendar years)	2016	2017P	2018P	2019P	2020P	2021P	CAGR (2016-2021P)
TV	588.3	651.0	750.9	876.8	1,014.5	1165.6	14.7%
Print	303.3	325.0	350.4	378.5	405.6	431.1	7.3%
Films	142.3	155.0	166.0	178.2	191.6	206.6	7.7%
Digital advertising	76.9	101.5	134.0	174.3	226.5	294.5	30.8%
Animation and VFX	59.5	69.5	81.2	95.5	111.9	131.7	17.2%
Gaming	30.8	37.2	44.2	52.2	60.7	71.0	18.2%
OOH	26.1	29.0	32.5	36.4	40.8	45.7	11.8%
Radio	22.7	26.4	30.7	35.9	41.5	47.8	16.1%
Music	12.2	14.0	16.3	19.0	22.1	25.4	15.8%
Total	1262.1	1408.7	1606.2	1846.7	2115.2	2419.4	13.9%

Source: KPMG in India's analysis and estimates, 2016–17

Advertising revenues: Projections

Overall industry size (INR billion) (For calendar years)	2016	2017P	2018P	2019P	2020P	2021P	CAGR (2016-2021P)
TV	201.2	225.4	256.9	298.0	342.7	394.1	14.4%
Print	201.3	215.0	233.3	254.9	276.2	296.0	8.0%
Digital advertising	76.9	101.5	134.0	174.3	226.5	294.5	30.8%
OOH	26.1	29.0	32.5	36.4	40.8	45.7	11.8%
Radio	22.7	26.4	30.7	35.9	41.5	47.8	16.1%
Total	528.2	597.3	687.4	799.5	927.7	1,078.1	15.3%

Source: KPMG in India's analysis and estimates, 2016–17

The Indian M&E industry is projected to grow at a faster pace of 14 per cent over the period 2016–21, with advertising revenue expected to increase at a Compound Annual Growth Rate (CAGR) of 15.3 per cent during the same period. However, in 2017, advertising

revenues are expected to grow at a marginally slower rate of 13.1 per cent due to the lingering effects of demonetisation and initial volatilities arising from GST implementation.

- Television is expected to grow at a CAGR of 14.7 per cent over the next five years as both advertisement and subscription revenues are projected to exhibit strong growth at 14.4 per cent and 14.8 per cent, respectively. The long-term forecast for the television segment remains robust due to strong economic fundamentals and rising domestic consumption coupled with the delayed, but inevitable, completion of digitisation. The rising share of FTA channels may, however, partially pull down the long-term subscription revenue forecasts.
- Print is projected to continue its growth at 7.3 per cent, largely on the back of continued readership growth in vernacular markets and advertisers' confidence in the medium, especially in the tier II and tier-III cities. However, rising digital content consumption is perceived to be a long-term risk to the industry.
- The Films segment is expected to bounce back and is forecast to grow at a CAGR of 7.7 per cent, as the revenue streams broaden, driven by the growing depth of regional content, expansion in overseas markets and higher contribution of digital revenue streams. However, slow growth in screen count, along with inconsistency in content quality would act as the primary limiting factors.
- Digital advertising is expected to grow at a CAGR of 31 per cent to reach INR294.5 billion by 2021, contributing 27.3 per cent to the total advertising revenues by that point. As digital infrastructure continues to develop and data costs are driven down, digital consumption is likely to become more frequent and more mainstream. The resultant growth in investment by advertisers supported by evolution of the audience measurement technology are likely to drive growth over the next five years.
- Animation and VFX is expected to grow at a CAGR of 17.2 per cent over 2016–21 largely led by the continued growth in outsourced services and the swelling use of animation and VFX services in the domestic television and film space, respectively.
- The OOH is projected to grow at a CAGR of 11.8 per cent primarily due to development of regional airports, privatisation of railway stations, growth in smart cities, setting up of business and industrial centres, and growing focus on digital OOH.
- Radio is expected to grow the fastest amongst the traditional sectors at a CAGR of 16.1 per cent, with operationalisation of new stations in both existing and new cities, introduction of new genres and radio transitioning into a reach medium.

Key underlying themes

Government driving the change

Government policies and initiatives are creating a significant and lasting impact on M&E industry, both directly and indirectly. However, implementation across the various measures have been a challenge, resulting in heart burn in the short-to-medium term.

Demonetisation — a bolt out of the blue

The Government of India's de-legalisation of high denomination currency notes led to a decline in consumption across sectors, such as Fast Moving Consumer Goods (FMCG), Auto, Banking, Financial Services and Insurance (BFSI) and Real Estate. This led to a pull back on discretionary spends on marketing and advertising, the repercussions of which were felt across M&E industry. Advertising revenues across television, print and radio suffered while the attendance at cinema halls, particularly single screens, and live events, was also impacted. It is estimated that the annual advertising growth rates for television, print and radio were adversely impacted by about 1.5 to 2.5 per cent.

However, the impact is expected to be short-lived, as since January 2017, there has been an upswing in consumption and advertising demand, although spend levels continue to remain lower than the same period in the previous year. It is expected that the spend level would be back to usual by Q2 2017.

GST to rationalise taxation across M&E industry

The GST, which is expected to be implemented by the central government in FY18, is likely to streamline the multiple incidence of taxes currently being levied by both the central and state governments. While the introduction of GST is likely to have varied levels of impact across the various media segments on an overall basis, M&E industry is expected to be a net beneficiary. This is primarily due to availability of input credits across the board and inclusion of entertainment tax within the ambit of GST.

However, GST rules are complex and particularly the move from a place of production-based taxation to destination-based taxation would require change in operating models to optimise the impact of GST. Further, adherence to compliance would also require multiple changes in an organisation's IT and reporting systems. It is expected that in 2017, there would be an initial adverse impact on advertising spend as organisations across the board struggle with the implementation of GST. However, in the long-term, with the formalisation of the economy and widening of tax base, there could be a positive impact on the country's GDP and consequently on advertising spends.

Cable digitisation — the saga continues

The ongoing cable digitisation is bringing a paradigm shift in the overall operations of the television sector; however, constant delays in Set-Top-Box (STBs) supply, seeding and challenges pertaining to addressability, gross billing, per subscriber billing, and roll out of packaging remain a major concern amongst the stakeholders. It is now expected that digitisation would be largely completed in 2017 with related benefits flowing through gradually, though at a slow pace based on historical indicators.

The Telecom Regulatory Authority's (TRAI's) guidelines on Tariff and Interconnect in 2016 (draft) and 2017 (final), are expected to alter the operating dynamics between stakeholders. The implementation of these guidelines, in a form acceptable to all stakeholders, would be key to Average Revenue per User (ARPU) uptick and to improve industry profitability. However, currently, given the ongoing litigation around the matter, the future outlook is uncertain.

Radio auctions — stop, start, stop

The announcement of Phase III radio auctions was welcomed by the industry given the potential for significant growth in radio listenership and reach. However, the auctions have not met their intended objectives with most operators concentrating on adding frequencies in the major cities. High reserve prices in comparison to the market potential in the smaller cities have resulted in low interest levels, leading to a large number of unsold frequencies in category B and C cities.

Surge in digital consumption compelling existing players to take a hard look at their business models

The burgeoning mobile internet and smartphone penetration has given rise to an alternative screen for media consumption in this country, which is still dominated by single television households. The roll out of 4G by major telecommunication companies and the resultant price wars have resulted in the reduction in data tariffs, which have further given an impetus to users to be online and interact on digital platforms. The government and private initiatives around public Wi-Fi, greater emphasis on broadband roll out by multiple system operator (MSOs) are also likely to deepen the scope of digital consumption.

The free data period by Reliance Jio during September 2016 to March 2017 has resulted in significant increase in both mobile internet

users⁵ and data usage. This is likely to have the following long-term effects:

- Although internet users and usage may fall, once Jio goes in pay mode, it is likely to lead to a new normal for the industry, which would be higher than September 2016 levels as users become more habituated to online consumption.
- Resultant price wars have led to a significant fall in data costs from about INR250 per GB⁶ pre September 2016 to INR10 per GB⁷ currently, with pressure on data prices expected to continue.⁸
- With the growth in mobile internet users, the viewership base of digital content has become more 'mass' and content platforms will now need to revise their strategies accordingly.

Consequently, the advertising spends on digital have shown a robust growth and are expected to continue their growth trajectory at a rapid pace with a CAGR of 30.8 per cent until 2021.

The OTT Video on Demand (VoD) services have also seen an upsurge in the last one year. The year saw the entry of global OTT video leaders, such as Netflix and Amazon Prime, as well as the launch of major broadcast network backed platforms, such as VOOT (Viacom 18) and OZee (Zee TV). Other platforms — Hotstar and Sony Liv — consolidated their offerings by launching premium services and a dedicated kids channel, respectively. Telecommunication platforms also joined OTT game with syndicated content offerings on the likes of Jio Apps, Airtel Wynk, etc. Further, mobility has been a primary driver for social media usage, with mobile accounting for about 32 per cent of the overall social media ad spend in India in 2016.⁹ Mobility has also caused a shift in the Indian music industry towards digital consumption, with curated digital music growing on digital platforms.

However, monetisation models are currently limited and economic models are still evolving. Further, the absence of a credible measurement

model is also hampering advertiser confidence. It is critical that these matters are addressed early to ensure the development of a sustainable digital ecosystem in the long run.

Consolidation gaining momentum across the value chain

The M&E industry continued to witness consolidation in 2016 as leading players explored options to expand their footprint across genres and markets. Even though the number of transactions decreased in 2016, the overall value of deal increased compared to the previous year. While Dish TV and Videocon d2h merged operations to form the single-largest pay TV operator, Ten Sports was sold to Sony resulting in a two-player dominance in the sports genre. ZEE also acquired the TV broadcasting business of Reliance ADAG Group and acquired 49 per cent stake in their radio business.

The year 2016 also saw larger players in the radio segment expanding into non-metro cities and towns through acquisitions of smaller players in the industry. Additionally, the lock-in for old licenses are at the verge of expiry and smaller players may look out to sell. The film exhibition business continued the trend of consolidation, albeit at a slower rate as the number of screens available for consolidation has reduced significantly.

The 'Bharat' story strengthens

Print has been a testament to the importance of small town and rural markets. Amidst the competition from digital media, the Indian print industry stands strong (unlike its western counterparts) on the back of growing demand from the regional markets.

In the film exhibition space too, the number of multiplexes witnessed an increase across smaller towns, with major operators entering tier-II cities leading to increased footfalls and revenue realisations. The film industry is also looking at devising low capital expenditure

05. Reliance Jio free services now till March 31, 2017, Indian Express, 2 January 2017, <http://indianexpress.com/article/technology/tech-news-technology/mukesh-ambani-reliance-jio-announcement-happy-new-year-offer-welcome-offer-faq-4404918/>, as accessed on 15 March 2017

06. Vodafone cuts 4G data price to Rs 25/GB to combat Reliance Jio, offers freebies, Financial Express, 27 September 2016

07. Airtel's new plan gives 14GB 4G data at Rs 145, matches Jio Prime's data rates, India Today, 28 February 2017

08. Note: This does not take into account free voice calls and SMS

09. Social Media Advertising Spend in 2016, SOCINTEL 360, April 2016

strategies to expand in tier-II, tier-III cities and the hinterland, such as a public-private partnership model wherein an exhibitor partners with the state and gets into joint ventures with investors or real estate developers to build entertainment zones with two to three screen multiplexes, food courts and some retail outfits. Dubbed Hollywood content in regional languages is also contributing to the growing box office collections of Hollywood movies in India.

However, the big story in 2016 has been in the television segment, where post the commencement of rural measurement by BARC, the high levels of television impressions and viewing time in rural India was noted by broadcasters and advertisers alike. A clear consequence of this has been the increase in the number of advertisers in rural-focused television channels with Hindi-speaking markets recording the biggest increase supported by the introduction of a number of FTA channels and realignment of content towards more mass tastes. Going forward, rural India is slated to capture significant TV viewership.

Consumer analytics has become indispensable

Analytics is being extensively used across M&E now, as organisations look to evolve their business models and address various challenges emerging in competitive markets. Analytics provides customised solutions to assess the business impact and provide feedback on areas of improvement. The BARC viewership data is providing new insights to broadcasters and advertisers resulting in changes in content, distribution and advertising strategies. Music and video streaming services are leveraging analytics and other digital technologies, such as machine learning and Artificial Intelligence (AI), in order to take better decisions pertaining to investments on user experience, customisation services and original programming. Further, analytics is being used in the film industry to gauge the effectiveness of marketing efforts and thus

helping in strategising accordingly to achieve maximum Return on Marketing Investment (ROMI).

With the evolution in technology, data availability would only increase and organisations need to invest significantly in gathering, analysing and interpreting data to optimise customer engagement.

In conclusion, while strong economic fundamentals would continue to drive growth, the Indian M&E industry is on the cusp of rapid transformation with digital media taking centre stage across all the sub-sectors. Digital media, which was earlier being viewed as just an additional distribution platform and just another touch point, is rapidly emerging as a core revenue engine. While M&E organisations are looking to build out digital strategies, the economic and business models required to succeed in the digital landscape are challenging and would require a significant shift in mindset and approach. Further, dramatic changes in the regulatory environment is also impacting business models. In this changing paradigm, M&E organisations would need to be nimble and flexible and operate with a long term integrated strategy to build out sustainable businesses.

Demonetisation





On 8 November 2016, the Government of India undertook a measure to de-legalise high denomination currency notes of INR500 and INR1000 effective midnight. These tender bills were later replaced with new currency notes of INR500 and INR2000 issued by the Reserve Bank of India (RBI). The total value of currency notes in circulation in India was estimated at INR16.42 trillion¹ (as of 30 September 2016) of which high value currency accounted for nearly 86 per cent². This resulted in a mammoth operation to replace the currency at a scale much larger than the demonetisation initiative taken by the Indian government in 1946 and 1978.

At two occasions earlier in January 1946 and January 1978, currency notes of INR10,000 INR5,000 and INR1,000 were demonetised, respectively³. However, at that time only 2 per cent of the total value of the notes in circulation were impacted. Similarly, while other countries such as Pakistan, Nigeria, Australia, North Korea, and Venezuela have experimented with demonetisation, the scale has been considerably smaller.

Interestingly, an 'Income Declaration Scheme' which concluded two months before this measure, witnessed disclosure of INR650 billion⁴ as 'undeclared income'. Piecing together the above measures along with steps such as the Real Estate Bill, Pradhan Mantri Jan Dhan Yojana, etc., it is clear that 'formalising' the economy one of the key priorities for the government.

The government via various communication has indicated that the key objectives of this action were fourfold:

- stop accumulation of 'black money' – income and assets not declared to the tax authorities
- to curb corruption
- remove counterfeited currency and
- address issue of high denomination notes used terrorist activities.

Besides these explicitly stated goals, from the subsequent government communications released over the time, one could gather that the reason for this measure was also partially attributable to significant increase in currency flow in the past few years. This is due to host of factors, including services transactions conducted in cash for avoiding tax incidence, funding for state elections, purchase of gold and other precious metals etc.

Although the cash flow among general public has increased, liquidity/float availability with banking system has been limited due to the above factors. Traditionally, India has relied significantly on cash for transacting purposes primarily due to: a) high levels of convenience owing to underdeveloped payments infrastructure b) confidence in using cash due to lack of digital literacy and awareness and c) absence of upfront/transaction fees, unlike in digital payments.

01. Reserve Bank of India (RBI) annual report 2016, RBI, 29 August, 2016

02. As per the Economic Survey 2016-2017, Government of India, 2 January, 2017

03. In 1946 and 1978, India had demonetised Rs 5,000, 10,000 notes, Deccan Chronicle, 9 November, 2016

04. Union Budget 2017-18: Expectations



Immediately after announcing the demonetisation policy, the government and RBI made multiple announcements related to the exchange of currency notes, deposit timelines for old notes, process and monitoring of deposits. While the intent of these measures were to more effectively manage the process, the multiplicity of announcements combined with scarcity of new notes resulted in significant pain to consumers and businesses with high cash throughput.

Key implications

Given the uniqueness of this experiment, we are now in an uncharted territory and it is difficult to precisely narrow down the implications of the demonetisation drive. However, key implications are discussed below:

Short-term

Adverse implications

Less cash to spend: Consumer spending accounts for nearly 56 per cent of India's INR133 trillion economy⁵. With the announcement of demonetisation, consumers were noticed to be holding back on discretionary spends.

Likely slowdown in Gross Domestic Product (GDP) growth rate: The Economic Survey of India expects GDP growth rate to fall by approx. 0.5 to 1 percentage point⁶ due to demonetisation in the coming year (FY18). Impact of this move is seen to be much more in rural pockets, compared to urban/semi-urban areas.

Demand for luxury goods and real-estate prices: These sectors are typically associated with large cash components. Due to cash crunch, consumers were seen postponing spends relating to items considered to be in 'luxury.' As a result, jewelry, luxury goods, premium real estate properties could experience subdued demand in the near-term.

Declining cost of digital transactions: In order to incentivise digital transaction, various merchants, banks and e-wallets have slashed/removed usual transaction fees (Point of Sales charges, Automated Teller machines (ATM) usage charges, transfer charge etc.), thus impacting their bottom-line. However, the consumers benefited due to the above.

Positive implications

Advantage – banks:

- The size of the parallel cash economy is estimated to be over 20 per cent⁷ of the total GDP size. Even if a small portion of cash holding gets channeled through the banking system, the potential benefits of the same can be very large for the financial system. Post demonetisation, nearly INR12 trillion⁸ were deposited in banks, of which a sizeable portion is unlikely not to be withdrawn in future.
- Customer acquisition: Limitations placed by the government on bank deposits, and restriction on over the counter exchange of currency notes have pushed people to open bank accounts.

Medium to long-term

Adverse implications

The medium to long-term implications of demonetisation on the economy is likely to be largely positive. The adverse implication of demonetisation are likely to be recede during a period of four to six months. The likely key positives consequences over a longer duration are:

Improved float and Current and Savings Account (CASA), resulting in lower deposit and lending rates: In the long run, improved liquidity for financial participants will help reduce their cost of funds. This can result in lower interest rates for corporates and customers.

Reduction in tax avoidance: As people come to terms with demonetisation (and other related measures undertaken by government), more and more portion of the population is expected to pay their fair share of taxes. Also, with availability of better Information Technology (IT) infrastructure with tax departments, tax avoidance is likely to get progressively tougher.

Increased room to invest in important sectors such as agriculture, infrastructure, healthcare, education among others: Government finances are likely to improve owing to the above described factors, thus allowing it more room to invest in sectors such as infrastructure, agriculture, education, etc.

Formalised economy: Over time, with increasing transparency in transactions concerning incomes and related tax obligations, various sections of the economy are likely to get more formalised leading to improvement in social security on the whole.

05. Livemint.com November 2016.

06. As per the Economic Survey 2016-2017, Government of India, 2 January, 2017

07. Ambit Capital Report, Ambit Capital November 2016.

08. Business Standard, December 2016.

Reduction in cash to GDP: The current cash to GDP ratio is 12 per cent⁹ in India. Average cash to GDP ratio for some of the comparable countries in the world is in the range of 4 to 5 per cent⁹. Digitisation of payments and transaction would result in lower currency in circulation.

Acceleration in digital payment adoption: The government has rolled out various initiatives to promote digital payments over the course of last few quarters. Demonetisation will act as a catalyst in accelerating adoption of digital payments by large section of the population. This could help reduce the cost of cash on various participants in the economy: from government and RBI, to business communities, to financial participants and to consumers.



09. Committee on Digital Payments Report, Ministry of Finance, December 2016.



Is India ready to move from cash based economy to a less-cash or digitally empowered economy?

According to a paper published by Visa in 2016¹⁰, India lags behinds countries such as Brazil, China and Russia in digital payments adoptions. This paper estimates that the 'cost of cash' on the economy is 1.7 per cent¹⁰ of GDP (printing currency, handling costs, etc.).

Studies in the past have shown that the implications of extensive adoption of digital payments has resulted in benefiting the society on number of fronts: increase in financial inclusion, drive growth and employment creation, reduction in shadow economy and enabler for digital commerce.

Key challenges and considerations towards fostering digital payments are as below:

Key aspects	Key challenges	Developments
Digital infrastructure	<ul style="list-style-type: none"> Lack of infrastructure (internet connectivity, electronic payment devices and reliable power supply) proves to be a hurdle in India's goal of becoming a less-cash economy. Existing banks pose various challenges in the issue of digital wallets operated by private companies; limitations in the form restrictions on refill digital wallets, truncation of access to payment gateways, or levying charges. 	<ul style="list-style-type: none"> Through a mix of various initiatives, government aims to address challenges: investment in electrification of rural pockets, reducing duties/taxes on Point of Sale (PoS) machines to make it more affordable, urging banks to install over one million PoS terminals during first few months of 2017. Issues relating to interface between e-wallets and banks are likely to be resolved soon, as they have assumed greater significance owing to demonetisation.
Major section of population still outside banking network	<ul style="list-style-type: none"> Nearly fourth¹¹ of India's population of 1.2 billion is outside the banking network. Further, greater than 40 per cent accounts are dormant. Approx. 4 per cent¹⁰ of transactions are settled through cards in India, compared to 31 per cent in Brazil, and 54 per cent in South Korea. 	<ul style="list-style-type: none"> Measures such as Jan Dhan Yojna, issuance of new licenses for small banks, e-KYC norms for opening bank accounts, etc. are expected to rapidly improve banking network penetration in the coming years.
Workforce in unorganised sector/informal economy	<ul style="list-style-type: none"> Nearly 80 per cent¹² of the workforce is in the unorganised sector/informal economy depriving them of the benefits such as minimum wages and welfare schemes introduced by the government due to poor implementation by the authorities. 	<ul style="list-style-type: none"> In December 2016, government introduced an ordinance requiring payments of salaries over certain threshold to be made via cheques or digital modes. Payments to workers under government initiatives such as National Rural Employment Guarantee Act (NREGA) are made through credit to bank accounts.
Increased use of internet enabled mobile phones	<ul style="list-style-type: none"> India is Asia-Pacific's fastest growing smart phone market, but only 24 per cent¹³ of Indian adults own an internet enabled mobile phone and only 7 per cent¹⁴ of adults in low income families own an internet enabled mobile phone. India has 1.06 billion¹⁵ wireless subscriptions. About 60 to 70 per cent¹⁶ of people who own a smartphone also use mobile data. This limits the penetration of digital payments in the country. 	<ul style="list-style-type: none"> Growing section of the population is now able to buy internet enabled mobile phones due to increased availability of low cost devices. With the launch of Jio, cost of data consumption is expected to dramatically change. Combined effect of the above two factors augurs well for accelerated digitisation of the ecosystem.

10. Accelerating the Growth of Digital Payments in India, Visa, October 2016.

11. Global Findex, 2014, World Bank, January 2015

12. NSSO's Employment-Unemployment Survey, National Sample Survey Organization (NSSO), January 24, 2014.

13. IAMAI report 2016, Internet and Mobile Association of India (IAMAI), 2016

14. Pew Survey, February 2016.

15. Highlights of Telecom Subscription Data, May 2016, TRAI.

16. IAMAI report, 2016

Key aspects	Key challenges	Developments
Consumer awareness	<ul style="list-style-type: none"> Customer awareness quotient is rather abysmal - awareness of the benefits of digital tools for daily transactions, security measures (sharing OTP/PIN, personal details) is presently lacking. Generally, there's lack of clarity on aspects such as transferring amounts from an e-wallet to bank account, and fear of fraud and hidden fees. 	<ul style="list-style-type: none"> Post demonetisation, government is in overdrive mode to promote the message of security in digital payments. It is using all the medium such as Television, print, radio and digital to inform and educate the citizens about best practices for digital payments. The banks are also supporting this campaign in their own way by reaching out to their customer base by imparting knowledge about 'do's and don'ts',

Impact on Media and Entertainment sector

Demonetisation had a significant impact on the Media and Entertainment (M&E) sector, both directly and indirectly. The severity of the impact varied from one segment to another, based on their business model and structure. Cash crunch resulted in slowdown in consumption, which in turn impacted both spends and consumption in the M&E sector.

Sector	Impact on 2016
TV	2% of ad revenues
Print	1-1.5% of ad revenues
Films	5% of domestic theatricals
Radio	2-3% of ad revenues

Source: Industry discussions, KPMG in India's analysis, 2016-17

Advertising revenues

About 66 per cent of the broadcasting revenues and 80 per cent¹⁷ of print income comprises of advertising revenue. Advertising income is highly exposed to vagaries in underlying demand for products and services of large ad spending sectors such as Fast Moving Consumer Goods (FMCG), Auto, Banking, Financial services and Insurance (BFSI), Real Estate, Jewelry etc. As core sector consumption was impacted by demonetisation, there was a pull back on discretionary spends such as marketing and advertising.

Mix of advertisers also impacted ad spend as national networks across media sector are largely driven by national advertisers while regional players have greater dependence on regional and local advertisers. Post demonetisation, the bounce back from larger advertisers was faster which resulted in a faster turnaround for national networks. On the other hand, regional players were more impacted as compared to national networks.

In the third quarter of a financial year, which coincides with the festive season in India, advertisers usually spend higher amounts on advertising to capture consumers' mind space. Since demonetisation was announced after Diwali, i.e., on November 8, the impact on revenues in December quarter was partially mitigated. According to industry discussions, the estimated loss of advertisement revenues on account of demonetisation for Calendar Year (CY) 2016 is in the range of INR15 to 17¹⁸ billion. The first to feel the negative impact were the large FMCG companies because of their shorter sales cycles. In sharp contrast, an increase in advertisement activity was observed by mobile wallet companies, but this was not enough to offset the revenue loss. The overall e-wallet industry advertisement spends grew faster than other categories, however, because of its small base, resulted in only a marginal addition.

17. KPMG in India's analysis, 2016-17

18. KPMG in India's analysis, 2016-17, industry discussions



For print and radio, the revenues from large advertisers from certain categories (FMCG, real estate, jewelers etc.) were impacted, as they pulled back on spends in the face of dip in their sales. Local advertising and classified sales took a deeper hit due to demonetisation. The e-wallets and other financial services firms used this situation to their advantage and increased spends to garner consumer attention. We understand that some of the national publications discontinued select local editions, where visibility of break-even/profitability was jeopardised due to demonetisation.

As the cash crunch abated, consumption and demand improved from January 2017, as compared to the situation experienced during November and December 2016. Ad revenue run-rate is set to improve as compared to November – December 2016, although the expectation is that it will take one quarter or so to reach the pre-demonetisation levels.

Subscription/circulation income

The Indian television industry has been struggling with under-reporting of subscriber base for a long time. Post demonetisation, the cable operators who were forced to clean-up their operations may see it as an incentive to be more transparent (given the fact that cable digitisation is anyway in its last leg of implementation in India)

Given the ticket size of Direct to Home (DTH)/Multi-System Operators (MSO) subscription, and print circulation income per user (INR200 to 500 per month), the adverse impact due to demonetisation is seen to be transient. Further, cash availability situation has improved with passage of time. As such the impact of demonetisation was seen to be limited and temporary.

Other implications

Even after 15 years of according industry status, the Indian film industry is nowhere close to 100 per cent corporate funding particularly in regional film industries where there is limited corporate presence. As a result, there have been challenges to production pipelines due to slowdown and delays in fund availability

Lack of cash did briefly impact ticket sales but the impact was short lived at multiplexes as digital payment modes provided an effective replacement. Multiplexes have had higher mix of digital payments (approx. 35 per cent before demonetisation¹⁹) compared to single screens. Impact on multiplex chains was seen to be meaningful only for the first few weeks, where the overall tickets

sold dipped. However, the proportion of digital payments increased exponentially (e.g., post- demonetisation, PVR cinemas online transactions contribution to total revenues increased from 34 per cent to 43 per cent²⁰). Also, as cash circulation improved in metro cities first, compared to rest of the country, multiplex chains saw return of relative normalcy by early December 2016. Dangal™ success also brought back crowds to cinema halls, mitigating the impact of demonetisation.

However, single screen cinemas saw a greater impact both due to lack of availability of cash and cut back on discretionary spend.

Impact on revenues from live events was rather severe. We understand that about 2/3rd for revenues in this category are during second half of the year: whether it is due to wedding season, year-end corporate events, festive events, or music events, most of these events take place post October. Demonetisation accompanied with cash crunch hugely impacted live events.

19. Industry discussions

20. Quarterly results of PVR Limited, nseindia.com

A summary of some of the specific impact seen on account of demonetisation is presented below:

Aspect	Sector	Impact of demonetisation	Impact	Severity
Advertisement revenues	Broadcast	In the national channels, FMCG accounts for 50 to 55 per cent ²¹ of ad-revenues. Big spenders such as HUL, ITC, P&G etc. reportedly reacted to demonetisation by reducing Release orders (ROs) during November and December. Niche channels were impacted more than others.	Negative	Medium
		For regional channels, ad spends from the major revenue players (real estate, jewelry etc.) was reduced as much of the demand in these sectors is cash dependent. E.g., Sun TV reported negative growth of 7 per cent in Q3'17 period ²² . As per industry discussions, revenues during quarter from October to December is usually approx. 40 per cent of total due to festive season. Inventory utilisation was markedly on the lower side due to demonetisation.	Negative	Medium
	Print media	Due to cancellation of ROs from major advertisers many English, Hindi and other regional newspapers were impacted, and there was a consequent reduction in the number of pages during November – December period. Q3'17 revenues of list print-media companies reported margin de-growth of 3 to 5 per cent ²³	Negative	Negative
		Classified ads are highly reliant on cash transactions which constitutes nearly a 25 per cent of total billings.	Negative	Negative
		Incremental spends came through from e-wallets, BFSI, and other digital companies in the form of jackets and color print ads.	Positive	Low
	Radio	During November, ad revenues were lower by about 10-15 per cent ²⁴ due to demonetisation. Further, revenues from activities declined as this is majorly cash driven.	Negative	Medium
Government/BFSI contributes approx. 18 to 20 per cent ²³ of the ad campaigns, which saw an uptick for boosting digitisation awareness.		Positive	Medium	
Subscription and circulation	MSOs DTH	It is estimated that 70 per cent of the collections are cash for cable distribution. Owing to demonetisation, lower collections were seen for the month of November and December. This has been partially offset with the digitisation in Phase III. The Q3'17 growth in subscription revenue were in single digit – muted than expectations.	Negative	Medium
	Movie distribution	The virtual print fee (VPF) revenue was adversely impacted as single theaters cut down on shows owing to cash crunch. UFO Moviez reported negative growth of 4 per cent during the Q3'17 period ²⁵ .	Negative	Medium
	Print	Supply chain of hawkers/vendors generally deal in cash. As a result, circulation revenue was impacted due to demonetisation, albeit for a short duration	Negative	Medium
	Movie exhibition	Significant portion of ticket sale transactions in multiplexes are cash settled. Demonetisation directly impacted the footfall and spends per head. PVR reported negative growth of 5 per cent in footfall during Q3'17 on 'comparable-screen' basis ²⁶ . Food and Beverage (F&B) sales of large multiplexes chains were seen to be impacted due to higher cash component.	Negative	High

21. Pitch Madison Report, 2016
22. Quarterly results of Sun TV, nseindia.com
23. KPMG in India's analysis, 2016-17

24. Industry discussions, KPMG analysis
25. Quarterly results of UFO Movies Limited, nseindia.com
26. Quarterly results of PVR Limited, nseindia.com



Aspect	Sector	Impact of demonetisation	Impact	Severity
Subscription and circulation	Movie exhibition	Single theaters sees higher proportion of cash transactions, compared to multiplexes. There was significant reduction in the number of shows in November and December. Estimated impact: 20 to 25 per cent ²⁷ negative growth in collections during November-December period.	Negative	High
	Live events	Due to cash crunch, many of the events held during the festive season November/December saw reduced volumes. The F&B sales were negatively impacted by at least 15 to 20 per cent ²⁸ due to the liquidity crisis and increased downtime of servers of the digital payment wallets owing to increased online traffic for cashless transactions.	Negative	Medium
	Radio	Decrease in the sponsorship/activation revenues related, as FM channels transactions are reliant on cash availability.	Negative	Medium

Media and Entertainment (M&E) sector post-demonetisation : Leap forward, after slow 2016?

The M&E sector faced some challenges during November and December 2016 due to demonetisation. Since the announcement came after the Diwali period, the impact is seen to be comparatively lower. With the advent of digitisation in various sectors and governing bodies, the impact is expected to be short lived. Although the industry expects full recovery to pre-demonetisation levels to take four to six months, the situation is seen to have improved since January 2017 as cash crunch is seen to have ebbed. India largely being a consumer based economy, the addressable population base is ever increasing. While certain pockets of M&E sector still face lingering challenges due to demonetisation, on the whole, M&E sector is proving to be more resilient than expected during these difficult times. A testament to this resilience post-demonetisation is seen in the form of:

- Improving rural development on the back of increased availability of cash. Government reports for December 2016 quarter suggest that GDP growth was 7 per cent Year-on-Year (y-o-y)²⁹.
- Increased spending in categories such as mobile wallets, telecom 4G, mobile handsets;
- Continued spending from indigenous brands such as Patanjali, whose advertisement spends were not impacted even during Q4 CY16.

Various stakeholders are adapting to the new situation, viz., multiplex players slashing transaction fees online payments to improve footfall. Government schemes and campaigns in addition to increased adoption of digital payment mechanism are helping mold consumer habits.

Increased digital advertising spends, could lay high emphasis on making the medium more accountable. The dependency on cash for ad revenues is expected to decline, and thus curbing the long-term effect of demonetisation. Once we tide over these short to medium-term challenges, the long-term impact of demonetisation is likely to be positive for the sector: improvement in performance measurements can help enhance transparency quotient for advertisers, while large scale implementation of digital ecosystem can support unlocking and improving content monetisation potential in India – thus swelling size of M&E sector as a proportion of India's GDP, making it more comparable to developed peers.

27. Industry discussions, KPMG in India's analysis, 2016-17

28. Industry discussions

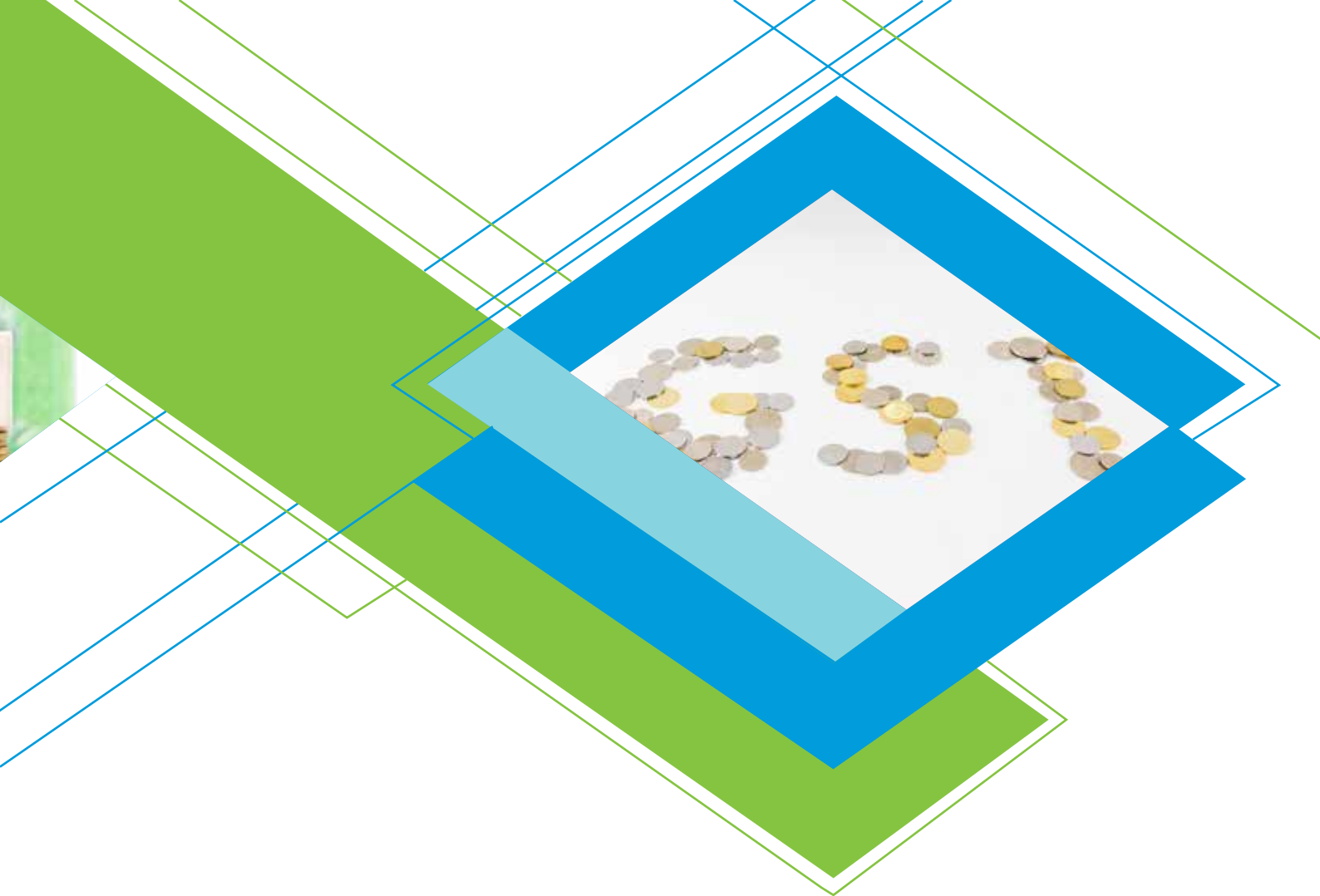
29. Central Statistics Office (CSO), 28 February 2017





Impact of Goods and Services Tax





Goods and Service Tax (GST), one of the biggest indirect tax reforms in the history of India is a comprehensive tax proposed to be levied on manufacture, sale and consumption of goods and services with a mechanism for allowance of input tax credit paid at each stage of supply. GST which is generally described as 'one tax for one nation' will subsume all existing indirect taxes such as Excise Duty, Service Tax, Countervailing Duty (CVD), Value Added Tax (VAT), Entertainment Tax at State level, Entry Tax etc. and only one tax i.e. GST will be levied and collected on value additions at each stage of supply of goods and services at national level. In India, there would be dual levy of GST i.e. on all inter-state supplies, Integrated Goods and Service Tax (IGST) would be levied and on all intra-state supplies, Central Goods and Service Tax (CGST) and State Goods and Service Tax (SGST) would be levied.

GST is also said to be destination based tax wherein the tax revenue would be earned by the state where goods and services are consumed rather than the place where they are produced or from where services are being provided.

As compared to the time taken in arriving at a consensus on the Constitutional Amendment Bill for GST, the manner in which subsequent events are being carried out by the government after the passing of the Bill indicates that the government and the states have done remarkably well in taking all necessary steps for implementation of GST. As soon as the President's assent was received on the Constitutional Amendment Act for GST on 8 September, 2016, the GST Council (Council) was created and notified on 12 September 2016.

Since the notification of GST Council, 11 meetings have been held so far in nearly five months. During these meetings, a number of important decisions have been taken by the Council such as setting of threshold limits, finalisation of four-tier GST rate structure, approval of draft GST rules on registration, payment, return, refund and invoice, issue of dual control, approval of GST Compensation Bills and drafting of final anti-profiteering clause.

Further, in the recently held meeting on 4 March 2017, the Council approved the final draft of CGST and IGST Bills and the next meeting of the Council is scheduled for 16 March 2017 wherein it is proposed to consider the draft SGST Bill and a draft Union Territory Goods and Service Tax (UTGST) Bill. After conclusion of this recently held meeting on 4 March 2017, the Hon'ble Finance Minister (FM) and the chairman of GST Council Mr. Arun Jaitley made some key statements on the way forward

- The draft of GST Compensation Bill, CGST and IGST Bills would be tabled in the Parliament soon after final approval of all legislation by the Council so as to pass the Bills before the Parliament session concludes on 12 April 2017.
- Also, once the draft SGST Bill has already been approved by the Council, the State Legislatures would begin the process of approval of SGST Bills.

- The next major activity is fitment of goods/services in the various agreed slab rates, which would be taken up by the Council soon after the officials complete the activity of fitment of goods/services in the various agreed slab rates which may happen in April 2017.
- The FM also clarified with respect to raising of peak rate upto 40 per cent by stating that there is no change in the decision to have four slab rates (5 per cent, 12 per cent, 18 per cent and 28 per cent) and Cess on certain demerit goods and that the 40 per cent rate is only an enabling provision for any need to increase the rate of tax at later date.

The government has so far released two versions of the model GST law i.e. draft model GST law and revised model GST law in public domain for comments. Further, FM emphasised the steps towards implementation of GST during the Union Budget 2017-18 speech, by stating that all steps necessary for preparedness to move towards GST are as per target including the Information Technology (IT) system, and that the Central Board of Excise and Customs (CBEC) is working extensively to reach out to trade and industry from 1 April 2017 thereby providing positive trigger towards readiness to GST. This approach of the government indicates an intention to transition to GST at the earliest.

The impact of GST on various trade and business will be different. In the ongoing paragraphs of this section, we have broadly touched upon certain impact areas for media and entertainment segment.

Impact on account of Place of Supply (POS)

Currently, on account of service tax being central levy, service providers are not required to determine the place of provision of service for services provided within India. However, under GST, since IGST would be applicable on all inter-state supplies and CGST and SGST would be applicable on all intra-state supplies, it would be necessary to determine the place of supply of service in each case. Impact on certain segments on account of POS provisions under the model GST law are discussed below:

Broadcasters

As per the model GST law, it appears that POS for broadcasting services would be determined based on the location where the cable connection or dish antenna is installed (however, due to absence of specific mention of

broadcasting service in the said Rule, POS still remains an ambiguous issue for the broadcasting business). It would be important that the broadcasters determine the location where the cable connection/dish antenna is installed or customers i.e. cable operators/Direct to Home (DTH) operators location (in case it falls under the general rule of location of recipient) appropriately for classifying the transaction as intra/inter-state supplies in each case.

Direct to Home (DTH)/Cable operators

The model GST law specifies that POS in respect of cable and direct to home television service would be determined based on the location where the cable connection or dish antenna is installed. Accordingly, DTH/Cable operators would be required to determine the customers' location for appropriately ascertaining the intra/inter-state supplies in each case.

Advertisers

Currently, place of provision of service rules under the service tax law do not provide for place of provision of advertisement services to government/non-government entities. Hence, is determined as per the general rule i.e. location of service recipient. However, the model GST law provides for POS of advertisement service provided to government entities and does not state anything in respect of POS of advertisement services provided to non-government entities. Accordingly, the POS of advertisement service supplied to government entities needs to be determined as per specific rule and as of now it appears that POS of advertisement services supplied to non-government entities needs to be determined as per general rule of location of recipient. Hence, appropriate provisions in this respect are expected to form part of final law which will help in determining the POS of advertisement services provided to non-governments entities.

Impact on account of other factors

Production houses and theatres

Exemption on theatrical rights

Under the current tax scenario, transfer of theatrical rights is exempt from service tax and VAT (in certain states). Such exemption is in view of the entertainment tax levied on the theatrical exhibition of movies. However, under GST regime, state level entertainment tax will be subsumed. The exemption on theatrical rights will not continue and be subject to GST. However, it is important to note in this regard that only state level entertainment tax will be subsumed and the local levy of the entertainment tax shall be continued to be levied.

Availability of input tax credit

Currently, since theatrical rights is exempt from Service Tax, Central Value Tax (CENVAT) credit on corresponding inputs and input services attributable to such exempt income is also not available. Under GST, since the exemption on theatrical rights will not continue, no reversal of input tax credit on inputs and input services will be required. This may accordingly lead to decrease in overall cost of production which will be a positive impact on the segment.

Treatment of Intellectual Property Rights (IPRs)

Under current scenario, temporary transfer of IPR are treated as provision of service as well as deemed sales and accordingly are subject to dual levy of service tax and VAT. However, under GST regime, such transfer of IPRs would be treated as supply of service and would be subject to single levy of GST. However, whether permanent transfer of IPRs should be treated as goods or services still remains an open issue for which appropriate provisions are expected.

Broadcasters

Transfer of equipment/IRD boxes

Currently, under Service Tax law, services provided without consideration are not subject to Service Tax. However, under GST, any supply of goods made to the related person in the course or furtherance of business even without consideration will be treated as supply and would be subject to GST. Accordingly, the broadcasters transferring equipment/IRD boxes to related persons without consideration in the course of provision of service may be treated as supply of goods in addition to supply of broadcasting service and may be subject to GST.

Advertisers

Taxability of sale of space in print media

Currently, service provided by way of selling of space for advertisements in print media is covered under negative list of service and hence are not subject to service tax. Under GST regime, central and state government, on recommendation of the Council has been entrusted with the power to exempt by way of notification goods and/or services of any specified description from the whole or any part of the tax leviable thereon. Thus, detailed rules and notifications are expected to be released in this regard which will help to determine the taxability or otherwise for sale of space in print media.

Event organisers

Taxability of sponsorship service under reverse charge basis

Under the current tax regime, event organising companies receiving sponsorship service are liable to pay service tax on reverse charge basis and accordingly are required to reverse the CENVAT credit on revenue from sponsorship service, since the same is excluded from definition of output service. Under GST, central and state government, on recommendation of the Council has been entrusted with the power to specify categories of supply of goods and/or services the tax on which is payable on reverse charge basis and the tax thereon shall be paid by the recipient of such goods and/or services. Hence, detailed rules and notifications in this respect are expected to be released which could help determine the taxability under reverse charge mechanism in case of sponsorship service.

Subsuming of state level entertainment taxes

Under the current tax regime, event organisers are required to pay entertainment taxes levied by certain states in respect of events. Under GST, state level entertainment taxes will be subsumed and hence such event organizers would be liable to pay GST. However, it is pertinent to note that only state level entertainment tax will be subsumed and the local levy of entertainment tax shall continue to be applicable.

Exemption to certain events

Under the current tax regime, service tax exemption has been provided in respect of certain events where the consideration for admission to such events does not exceed INR500. Such exemption is in view of entertainment tax levied on such events. However, under GST, state level entertainment tax will be subsumed and hence it is likely that such exemption will not continue and the entire value of consideration will be subject to GST. Hence, no reversal of CENVAT credit on inputs and input services may be required.

General impact

Registrations

Currently, service tax being a central levy, an option of centralised registration is available. However, under GST, registration would be required to be obtained in each state of operations and there is no option available for centralised registrations. Hence, it would be necessary to obtain separate registrations and file separate returns in respect of each registrations obtained under GST.

Input tax credit

- Under the current service tax regime, input tax credit is available on the basis of invoice. However, under GST, input tax credit will be available only if the vendor has actually paid the tax into government treasury and the details uploaded on the GSTN portal by the recipient matches with the details uploaded by the vendors.
- Currently VAT paid on goods is not available as credits to discharge output service tax and vice versa. However, under GST cross credits between goods and services will be available



Sr. No.	Particulars	Positive's	Negative's
1	Production houses and theatres	<ul style="list-style-type: none"> Ambiguity on whether licensing of copyright will be classified as goods or service resolved; under GST, it is specified the same will be treated as service Decrease in overall cost of production due to availability of input tax credit since cross credits between goods and services will be available Decrease in effective rate of tax on account of entertainment tax being subsumed. 	<ul style="list-style-type: none"> Increase in compliance's due to state wise registration and return requirements.
2	Broadcasters	<ul style="list-style-type: none"> Ambiguity on whether licensing of copyright will be classified as goods or service resolved; under GST, it is specified the same will be treated as service Under GST, cross credits between goods and services will be available. 	<ul style="list-style-type: none"> Free supplies made to related persons will be subject to GST Increase in compliance's due to state wise registration and return requirements Increase in effective rate of tax
3	DTH/Cable operators	<ul style="list-style-type: none"> Decrease in effective rate of taxes on account of state level entertainment tax being subsumed. 	<ul style="list-style-type: none"> POS needs to be appropriately determined as per location where cable or dish antenna is installed Increase in compliance's due to state wise registration and return requirements.
4	Advertisers	<ul style="list-style-type: none"> Under GST, cross credits between goods and services will be available. 	<ul style="list-style-type: none"> POS on account of advertisement service provided to non-government entities Increase in compliance's due to state wise registration and return requirements.
5	Event organisers	<ul style="list-style-type: none"> Decrease in effective rate of taxes on account of state level entertainment tax being subsumed. 	<ul style="list-style-type: none"> Increase in compliance's due to state wise registration and return requirements

Next steps

Further, as a step towards preparing for GST, it is imperative that the industry players work towards ensuring that the following action points are in place for smooth transition to GST:

- Effective plan for GST transition and implementation
- Configuration of IT systems and business processes as per GST law
- Evaluation of pricing and valuation mechanisms as maybe applicable
- Train internal staff and other stakeholders
- Relook at contract clauses/negotiate terms with partners; etc.

Conclusion

All in all, GST is expected to have a positive fiscal impact on the Media and Entertainment (M&E) sector on account of simplified tax structure, reduction in costs due to availability of input tax credits at various stages of supply, etc. However, there are certain concerns such as debate on whether permanent transfer of IPR will be treated as supply of goods or supply of services, continuity of various exemptions, increase in compliance requirement in respect of obtaining registrations, returns etc. which may create some problems for the segment despite the positive impact.



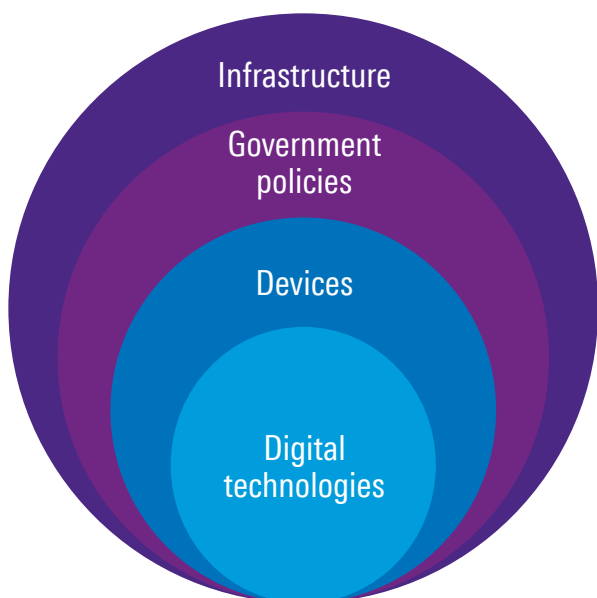
Digital consumption

Data dividends





Four pillars influencing M&E sector



While the 'digital customer' is evolving, the digital ecosystem is evolving at a faster pace, opening up newer avenues for users to consume data. The consumer is becoming more digitally savvy, wants a personalised rich experience while consuming content and wants to engage in a fun and simple way. The digital infrastructure is also developing with the government's continued push to increase data bandwidth, reduce data costs and increase availability and accessibility of smartphones.

The brands are gradually understanding the needs of the 'digital consumer' and are accordingly trying to device innovative ways to communicate with him. India remains an ad driven market and brands continue to find it challenging to coax customers into paying for data and content.

The four key pillars that continue to influence the digital Media and Entertainment (M&E) space are infrastructure, mobility, government policy and digital technologies.



Digital infrastructure

Broadband development and adoption laying the foundation for digital growth

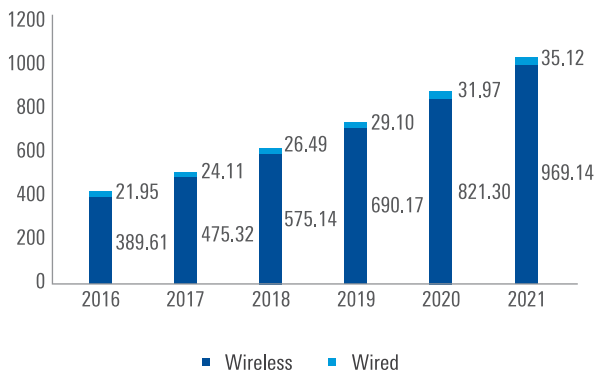
Broadband speeds are an essential component for consumers to have a rich experience over the internet. The average broadband speed in India is 4.1 Mbps (3Q 2016), which has marked a 62 per cent increase Year on Year (y-o-y). The broadband (4 Mbps) adoption (IPv4) in India is at 30 per cent representing a 116 per cent y-o-y change. Although the broadband speed and adoption are improving at a swift pace, South Korea leads the space with 26.3 Mbps and an adoption of 97 per cent (IPv4)⁰¹; on the other hand, India still has some headroom for growth.

In parallel, the adoption of IPv6 internet protocol is improving in India, which creates the infrastructure to connect more devices, supports higher speeds, increases security of communication and reduces latency. As of 2016, IPv6 adoption in India stood at 16.4 per cent.⁰² How fast the telcos are able to transition to this new protocol will lay the foundation of how the adoption of new age technology, such as Internet of Things (IoT), matures in India.

Adoption of high speed 4G networks

The number of wireless users in India is likely to cross 389 million in 2016 to reach 969 million in 2021⁰³, and the 4G connections are expected to grow five-fold from 2016 to 2021 at a Compound Annual Growth Rate (CAGR) of 38 per cent and 3G connections are expected to surpass 2G connections by 2019. Further, the 3G and 4G connections are expected to represent 80 per cent of overall connections by 2021 from 25 per cent in 2016.⁰⁴

Internet users (in millions)



Source: KPMG in India's analysis and estimates, 2017

- Akamai State of the Internet Connectivity Q3 2016, released by Akamai
- IPv6 Adoption Visualisation by Akamai, <https://www.akamai.com/uk/en/our-thinking/state-of-the-internet-report/state-of-the-internet-ipv6-adoption-visualisation.jsp> accessed on 05 February 2017
- KPMG in India Analysis
- VNI Mobile Forecast Highlights, 2016-2021, cisco, http://www.cisco.com/c/dam/assets/so/sp/vni/forecast_highlights_mobile/index.html#~Country accessed on 24 February, 2017
- India pips China in smartphone sales pace, but lags in volume <http://economictimes.indiatimes.com/tech/hardware/india-pips-china-in-smartphone-sales-pace-but-lags-in-volume/articleshow/52627757.cms> accessed on 05 February 2017

With improved network, better access to internet and smart mobile devices, digital platforms are expected to drive more media consumption. In India, the average mobile-connected end-user device generated about 251 megabytes (MB) of mobile data traffic per month in 2016 compared to 151MB per month in 2015 and in 2016, India's business mobile data traffic grew 1.7 times⁰⁴.

This is a crucial development for the M&E space, whereby more accessibility is given to the user to interact on digital platforms, consume digital content and buy digital goods.

Mobility

India is a mobile first market

The number of internet-enabled mobile phones crossed 300 million in 2016 and is expected to touch 700 million in 2021.⁰⁴ Mobile devices penetration in India is growing steadily and mobile remains the primary device for Indians for their digital needs.

The average selling price of internet-enabled mobile phones is currently just below INR9,000 which is half of that in China.⁰⁵ With increasing accessibility and affordability of smartphones, users are increasingly consuming content through their phones.

A digital customer's appetite for rich content, especially video continues to grow on the go that requires higher bandwidth. Given this, the rate of growth of 4G networks will be multifold in comparison to the growth in wired connections and Wi-Fi access⁰⁶. The mobile video traffic is expected to grow 11.5 times during 2016-2021 at a CAGR of 63 per cent and the number of video capable devices and connections is expected to grow 2.2 times between 2016 and 2021, crossing 800 million in number. Video is expected to represent 60 per cent of the overall mobile data traffic and is expected to grow to 78 per cent by 2021.⁰⁷

The data rates have also dropped drastically across the board with the launch of Reliance Jio, earlier this year.⁰⁸ This may further give an impetus to users to be online and interact on digital platforms.

An interesting shift in the mobile application space can also be observed — users are shifting to core applications, such as Facebook, Gmail and WhatsApp, and are spending almost 80 per cent of their time on these applications.⁰⁹ In response to this, more developers are finding ways to go beyond their mobile application and create logical integrations to enable additional services within other applications to retain customers.¹⁰ For example, Uber is integrating their services with Google Maps.¹¹

06. KPMG in India's analysis, 2016-17

07. VNI Mobile Forecast Highlights, 2016-2021, cisco, http://www.cisco.com/c/dam/assets/so/sp/vni/forecast_highlights_mobile/index.html#~Country accessed on 24 February, 2017

08. Reliance Jio effect: Airtel, Idea launch data, free calls tariff plan, <http://www.livemint.com/Industry/wdUUXVhDsiS0fuXWqymoK/Reliance-Jio-effect-Airtel-bundles-data-with-free-voice-cal.html> accessed on 05 February 2017

09. Key Mobile Takeaways From Mary Meeker's 2016 Internet Trends Report, <http://www.appcelerator.com/blog/2016/06/key-mobile-takeaways-from-mary-meekers-2016-internet-trends-report/> accessed on 27 February 2017

10. IMB Marketing Cloud – 10 Key Marketing Trends for 2017

11. Getting an Uber in Google Maps Just Got Easier, <https://newsroom.uber.com/googlemaps/> accessed on 24 February, 2017

Government policy

The Government of India through its umbrella 'Digital India' initiative continues to invest and drive several digital initiatives to improve the digital infrastructure and digital ecosystem of the country.

Connecting the unconnected

About 112,871 km of optical fiber cable has already been laid under BharatNet for high connectivity.¹² Mumbai is expected to get 1200 Wi-Fi hotspots for free usage and Google is working with Railtel to provide free Wi-Fi at over 400 railways stations in the next few years.¹³ The Bharat Sanchar Nigam Limited (BSNL) has also built over 2500 free Wi-Fi hotspots across the country. The government's initiative to connect the remote parts of the country has boarded 8,621 villages already and plans to onboard over 55,000 villages by 2019.¹⁴

Enabling digital services to the mass

By December 2016, 0.25 million Gram Panchayats were equipped with Common Service Centers (CSC). These touch points are created by the government to roll out digital services to its customers.

Impetus to the telecom sector

The Transformation of Department of Telecommunication (DoT) into 'Center of Probity and Transparency' has led to streamlining of outstanding spectrum policy issues, allowing availability of more bandwidth for operators in auctions that can be deployed to drive data growth.³ After considering the recommendations of Telecom Regulatory and Authority of India (TRAI), the government has decided to grant unified licences for virtual networks operators who can offer consumers more choice for data and voice services while allowing telcos more options to monetise unused airwaves.¹⁵

Driving investment for innovation

To drive investments in the manufacturing of electronics and Information Technology (IT) hardware, the government has introduced several initiatives, such as Modified Special Incentive Package Scheme (MSIPS) to attract investment, Eco-Development Forces (EDF) to attract venture funds for innovation and Electronic Manufacturing Clusters (EMC) to generate jobs. These initiatives have led to 985 per cent increase in the number of investment proposals received between May 2014 and May 2016 in this space, and manufacturing of mobile phones increased by 83 per cent from 2014-15 to 2015-16

in India.¹⁶ Due to this impetus, the manufacturing in India is likely to drive down costs and, hence, increase the penetration of electronic devices.

Financial inclusion

The government has promoted payment banks and financial mobile solutions to bring the unbanked population into the banking fold through a digital medium. For example, the Cabinet approved the setting-up of India Post's payments bank to include 40 per cent of the country's population that is outside the formal banking ecosystem.¹⁷ Through the Unified Payments Interface (UPI), 'Digi Dhan Abhiyan' and 'Bharat Interface of Money' (BHIM) mobile applications, the government is onboarding the rural to the digital payment ecosystem. As an example, nearly 1.1 crore people downloaded the mobile application, BHIM, within 10 days of its launch¹⁸ and 'Digi Dhan Abhiyan' aims to cover two lakh CSCs across rural areas to enable them to become digital financial education centers.¹⁹ Monetisation opportunities will increase on digital platforms with the inclusion of more people on the digital payment ecosystem.



12. Digital India newsletter, July 2016; http://digitalindia.gov.in/newsletter/2016_july/index.php accessed on 06 February 2017
13. Digital India newsletter, September 2016; http://digitalindia.gov.in/newsletter/2016_september/index.php accessed on 06 February 2017
14. Digital India newsletter, June 2016; http://digitalindia.gov.in/newsletter/newsletter_june/index.php accessed on 06 February 2017
15. Virtual network operators now allowed to set up shop in India; <http://economictimes.indiatimes.com/tech/internet/virtual-network-operators-now-allowed-to-set-up-shop-in-india/articleshow/52575845.cms> accessed on 06 February 2017

16. Make in India, Ease of doing business; <http://www.makeinindia.com/eodb> accessed on 06 February 2017
17. 400-1000% increase in digital transactions after demonetisation, says government <http://timesofindia.indiatimes.com/business/india-business/400-1000-increase-in-digital-transactions-after-demonetisation-says-government/articleshow/55897291.cms> accessed on 06 February 2017
18. BHIM App: Download, Features and How To Use [Android and iPhone]; <https://upipayments.co.in/bhim-app-download-features-use/> accessed on 3 March 2017
19. PM Narendra Modi launches mobile app for digital transactions at Digi Dhan Mela; <http://www.india.com/news/india/pm-narendra-modi-launches-mobile-app-for-digital-transactions-at-digi-dhan-mela-1732341/> accessed on 3 March 2017



Digital technologies

Digital continues to drive content experience

Technology has made it possible to merge the real and the digital world, which is creating new immersive experiences for the users. Digital technologies, such as Augmented Reality (AR)/Virtual Reality (VR)/Mixed Reality (MR), are already being actualised through various applications. However, there are some content experiences that are gaining traction, which have been listed below.

Live video streaming

In India, the number of video-capable devices and connections are expected to grow 2.2-fold between 2016 and 2021, reaching 800 million in number.²⁰ Live video streaming continues to gain traction as an experience and not merely for sports. Currently, the number of OTT players in India have increased significantly reaching about 30 with the likes of Hotstar, Spuul, Voot, Netflix and Amazon Prime — the latest entrant.

Social networking websites have activated live streams whereby users can share their real life experiences. Facebook Live, Snapchat, Instagram and YouTube are some of the leading applications that have either been launched live or are in the process of getting launched. Global brands, such as Target and BMW, have already started using live streaming to launch products and run marketing campaigns.²¹

IoT

The Internet of Things (IoT) is a concept whereby multiple devices, such as sensors and electronics, can be connected via the internet to collect and exchange data. The M&E sector industry is already using various categories of sensors such as inertial, motion and image that are used in animation, gaming, video images, camera stabilisation, sports and 3D to understand consumer preferences. This is further analysed to generate experiences for the end customer.²² The penetration of IoT in India is still in the nascent stage, however, with the increase of wearables and smart devices, usage information can be collected and used by brands to provide further personalised services to the end user.

Real time 360 degree viewing

With advancements in VR headsets, real-time 360 degree viewing could be possible which is currently only available on a pre-recorded basis.²³ This will mean individuals can attend a live event without leaving their homes, creating new revenue streams for the stadiums.

20. VNI Mobile Forecast Highlights, 2016-2021, cisco, http://www.cisco.com/c/dam/assets/so/sp/vni/forecast_highlights_mobile/index.html#~Country accessed on 24 February, 2017

21. Live streaming in today's world, Financial Times <https://www.ft.com/content/f525b21c-f21e-11e5-aff5-19b4e253664a> accessed on 3 March 2017

22. Opportunities for M&E companies from the Internet of things <http://economictimes.indiatimes.com/industry/media/entertainment/opportunities-for-me-companies-from-the-internet-of-things/articleshow/53191046.cms> accessed on 06 February 2017

23. How Technology is Changing the Live Sports Viewing Experience; <https://www.lightmaker.com/technology-changing-live-sports-viewing-experience/> accessed on 06 February 2017

We are moving from a time where most content experiences were via analog media, to where all content experiences, besides live, are digital. Narratives no longer are beholden by length, genre or size of audience. Video is the new HTML and all content experiences are being driven assuming it's the foundational layer to communication. From 360, to short-form, long-form, vertical, to web-series, the canvas for rich content experiences far surpasses what a TV only screen could achieve.

Sameer Pitalwala

CEO and Co-Founder

Culture Machine Media Pvt. Ltd



Cognitive – the next evolution of data technology

Customer journeys are getting increasingly complex in a multichannel and multi devices ecosystem, creating unstructured data that is difficult to analyse. Cognitive technologies deliver on this issue to give structured, correlated and unique insights that can range from emotions to attitude.

Cognitive technologies such as Artificial Intelligence (AI), machine learning, and Natural Language Processing (NLP), are disrupting the media and entertainment space. YouTube's content recommendation are transforming from collaborative filtering to NLP to better reflect how the human brain works.²⁴ Applications such as 'Banjo', claim to be generating insights using AI by mining social media, search trends, geo-location data, and other digital signals to produce breaking news instead of humans waiting to discover something important²⁵. Machine learning and experimental APIs were used to create the trailer for a new movie – 'Morgan', whereby IBM's Watson analysed existing trailers to find nail biting moments and then recommended 10 most usable moments in the film and then a human editor finalised the trailer from those recommendations.²⁶

The development in these cognitive technologies can help in higher customer engagements through better content targeting, better monetisation through higher consumer stickiness.

24. How Media Companies Are Using Artificial Intelligence to Connect With Consumers; <http://variety.com/2016/digital/features/media-companies-youtube-ai-1201912832/> accessed on 06 February 2017

25. AI Startups Are Reinventing Media; <https://www.wired.com/brandlab/2015/04/news-flash-ai-startups-reinventing-media/> accessed on 06 February 2017

26. Machine Learning Already Changing the Entertainment Industry; <https://www.futurum.xyz/machine-learning-already-changing-entertainment-industry/> accessed on 06 February 2017

Evolution of 'digital consumer' in India

Consumers of different age groups across the country are getting increasingly comfortable with digital solutions for utilities, banking and entertainment. To add to this, the evolving market dynamics in the telecom space has led to a perceptible change in consumer behaviour. These insights are underscored by the findings of our Urban India Android Smartphone Panel which reveal evolving consumption patterns.

Video is the new medium of choice- Data is both more accessible and affordable now than it was a few years ago. As per Nielsen estimates, the average time spent by an individual on streaming videos has increased nearly nine times from two minutes a day in Q2 '14 to 18 minutes a day in Q4 '16.

Instant messaging applications stagnating- With consumers spending more time streaming video content, our numbers show that the time spent on instant messaging applications has plunged by almost 30 per cent since Q2 '14. The reach of these applications has also remained largely constant in the last three years.

Shopping moves from web to mobile application- Application-happy consumers in our largely mobile internet market, have been quick to shift from shopping on the web, to shopping via applications. According to Nielsen, the reach of shopping applications has increased from 30 per cent in Q2 '14 to 81 per cent in Q4 '16. Reach here refers to the proportion of connected (active data connection for minimum 10 days a month) Android smartphone users in urban India who used shopping apps at least once in the given quarter (measured via our representative panel using passive metering technology).

This move has been so decisive that some brands have shut shop on the web and pursued an app-only operation model.

What are online shoppers buying?

The numbers show that the base of online shoppers is expanding, and with this rapid increase, marketers are keen to know what's flying off the virtual shelves. The biggest gainers of online shopping have been the grocery and personal care segments. According to Nielsen's Category Penetration Report 2015 – 2016, online grocery shopping rose sharply from 33 per cent in Q4 '15, to 45 per cent in Q2 '16.

Our studies into why people have chosen to move online for their shopping needs have revealed a multitude of reasons. One of the primary reasons for the adoption of online shopping is the convenience of ordering from the comfort of an armchair and having the products delivered to the doorstep. Another key factor is the convenience of being able to shop anytime. Finally, the promise of easy returns ensures that the risk of remote shopping is mitigated. Notably, price, which was an important factor driving online shopping before, is no more a critical driver as people begin trusting the medium and loosening their purse strings

According to the findings of Nielsen's E-com Brand Track, 2015-2016, the top three reasons to shop online for any category are the following:

- 46 per cent respondents find online shopping convenient thanks to doorstep delivery
- 41 per cent say that they value the convenience of being able to shop anytime
- 37 per cent respondents claim to shop online because the returns are hassle-free.

Clearly, online brands have been identifying consumer pain-points effectively, and then addressing them efficiently – which has paid off. What is encouraging for the sector is that the government is doing its bit to improve infrastructure and push the 'Digital India' agenda ahead. Digital adoption had begun cautiously with consumers venturing into entertainment and social media online, but handling more serious functions such as big-ticket purchases and financial transactions offline. All this has changed rapidly as the convenience offered online has won over consumers.

(The author is an Executive Director with Nielsen India and heads the Media and Marketing Effectiveness Practice Area.)

Dolly Jha
Executive Director
Nielsen India



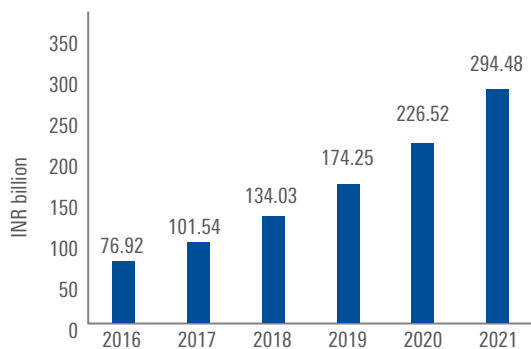
All views and opinions expressed herein are those of the author and do not necessarily represent the views of KPMG in India.



Digital advertising

Digital is driving the future of advertisements in India, with digital ad spends expected to cross INR294 billion in 2021. In 2016, digital advertising contributed INR76.92 billion and is expected to grow at a rapid pace with a CAGR of 30.8 per cent until 2021.

Digital advertisement spend (INR billion)



Source: KPMG in India's analysis and estimates, 2017

It is expected that this continuous growth on digital ad spends in India will continue on the back of

- development in digital infrastructure causing increased internet penetration and increased internet speed driving usage
- increase in penetration of mobile phone users
- increase in onboarding of traditional platforms such as FMCG and Financial services, on digital channels²⁷.
- increased maturity towards the implementation of digital technology to drive better optimisation and better measurable matrices giving marketers further visibility to their spends
- increased spends on OTT platforms, and
- increase in consumption of video on line through mobile

Digital advertising ecosystem

The digital advertising ecosystem consists of six different layers as part of the value chain and these layers focus on different micro environments of the sector.

Digital advertising value chain

Business intelligence

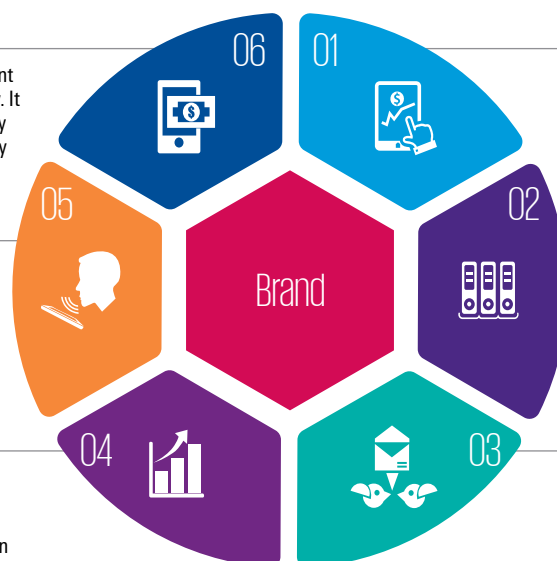
This layer focusses on the micro environment affecting the digital advertisement industry. It enables various stakeholders of the industry to manage their businesses more effectively

Media enhancement

These enhancements are designed to enrich the creative or more precisely target-specific audience that those ads reach to

Execution technology

Technology, such as distributing the ads to various media outlets, optimising them based on performance, and reporting back on actual counts of ads delivered, have been used to improve effectiveness of the digital advertising process



Media planning and buying

This layer is devoted to the choices that brands make about advertising placement

Content creators

Content creation involves decisions regarding the type of content a marketer would place in advertisements

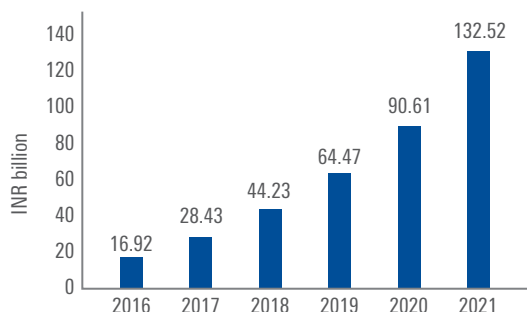
Media Vendors

Due to various options of digital platforms and media available, a layer of ways for content producers to sell various forms of media has evolved

27. AD spends going mobile; <http://www.newindianexpress.com/business/2016/oct/10/ad-spends-going-mobile-1526607-1.html> accessed on 12 February 2017

Mobile advertisement spends continue to grow with increased penetration of internet-enabled mobile phones and content consumption rising on the mobile platform. Mobile advertisements is expected to grow from INR16.92 billion in 2016 to reach INR132 billion in 2021 at 50.93 per cent CAGR.

Mobile advertisement spend (INR billion)



Source: KPMG in India's analysis and estimates, 2017

Behaviour and consumption

“ We are moving to a world where insights, content creation, content delivery, commerce are all getting connected. Media owners and advertisers need to harness the power of data a lot more than they presently do, to stay ahead in the race. ”

CVL Srinivas
CEO
GroupM South Asia



Marketers to spend more on video

Search and display still contribute the largest share of the digital ad revenue, representing 47 per cent of the overall pie.²⁸ With digital advertising reaching scale in India, this segment is relatively mature and is expected to grow at a slower pace when compared to that of social and video options.

Video as a segment has seen about 18 per cent of the contribution and is expected to grow at a CAGR 40 per cent by 2021. The consumption of video content in India has increased manifold on the back of higher internet speeds, affordable smartphones and cheaper data rates.²⁹ Non-metros now account for almost 30 per cent of YouTube watch time, backed by regional content, better devices and increasing access.³⁰ This trend has opened gates for new age video creators emerging on social platforms who are popular amongst the millennials with large subscriber base. With this phenomenal rise of video content, marketers are starting to focus and leverage these channels because of better micro-targeting opportunities and feedback.

Social media's impact on the digital ads is increasing rapidly with 28 per cent contribution to the revenues on the back of rapidly growing user base.³¹ Globally, Facebook accounted for 15 per cent of the digital advertising spend and is steadily growing. Monetising social is catching up and some brands are allocating significant percentage of their digital budgets to social media promotions. As an example, Sennheiser India spends about 70 per cent of the digital ad budget on Facebook for better targeting and engagement.³²

Classifieds, one of the significant categories for digital ads is growing at a steady pace due to increased internet adoption. With more services emerging in the hyper-local delivery and on-demand space, companies are spending on the digital platforms for more customer acquisitions. This trend is likely to continue as classifieds players are looking to scale operations and reach out to new markets.³³

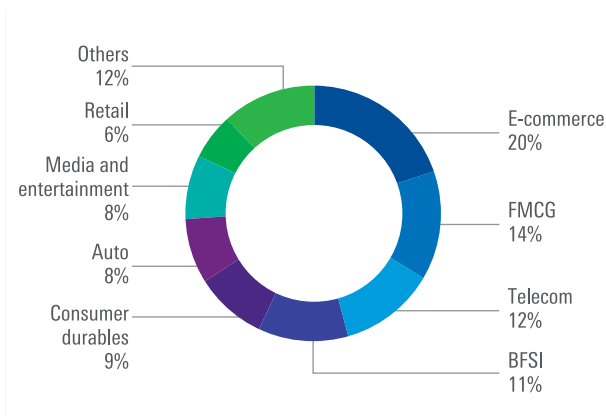
28. Digital report 2017 released by Dentsu Aegis, March 2017.
29. KPMG in India's analysis and estimates, 2017
30. KPMG in India's discussions with Google India
31. Digital report 2017 released by Dentsu Aegis, March 2017.

32. Google and Facebook duopoly in the consumer attention and ad space <http://economictimes.indiatimes.com/magazines/brand-equity/google-and-facebook-duopoly-in-the-consumer-attention-and-ad-space/articleshow/57144626.cms> accessed on 17 February 2017
33. Digital Classifieds in India 2020, KPMG in India – Google report, 2016



E-commerce leads digital ad spends

Sector-wise digital ad spend



Source: Digital Ad Report 2017 released by Dentsu Aegis, March 2017.

The e-commerce sector is leading the digital ad spends with 20 per cent contribution, while the Fast Moving Consumer Goods (FMCG) contributed approximately 14 per cent with a large part of the sector's ad spend still on the traditional channels. Sectors such as the government, travel, auto and education are increasing their focus on digital channels to reach out to consumers.³⁴ This trend is expected to be amplified with a series of new product launches from the automotive sector and upcoming election campaigns.³⁵

Climbing Mt. Digital: The changing landscape of advertising and the importance of digital education

Marketing is a mountain range of many disciplines, and every once in a while, a tectonic shift leads to a new giant being formed- like Mount Digital in the recent past. Conquering Mt. Digital, which is still in its formative years with frequent upheavals, calls for education - to change from current state to a new state through an ongoing process of unlearning/ relearning, acclimatisation to the new normal, followed by a further journey onward. This requires continuous evolution and redefinition of the self as well as the organisation.

How do we go about this?

Take the route of education as a process enabler to drive skill building, collaboration and culture change to transform ourselves. Recognise the need to be the change agent for the industry – to help marketers and the whole ecosystem adapt and thrive. In the digital ecosystem, new jargons and ideas arrive on a daily basis. It's complex and seems humanly impossible to stay on top of the medium and all this new development. There's therefore a dire need to constantly simplify the digital world, keep it jargon free and more relatable. Though not difficult to understand the theory or construct, marketers often struggle on role and relevance - to identify ideas, insights or actionable recommendations from the vast amount of clutter in digital space. Focus on enabling this through formats like digital days - a boot camp to make specific intervention to bring the marketing team up to speed on digital, help simplify and partner with the ecosystem along with work book sessions to plan next steps.

Set-up 'basecamps' to drive culture change through education and experiential learning process. This involves internal (staff) buy-in and behaviour change; and external guidance,

knowledge and community support through multifold initiatives.

One such example of industry initiative is 'WPP Stream India', which brings brands together with marketing, technology and content leaders to think about the digital future - what it means for communication, for creativity and more importantly for business. It's an unconference format that brings together stakeholders from diverse backgrounds to work on crowd-sourced agenda.

Industry bodies play a key role in driving digital adoption, peer learning, thought leadership and best practices, standards and guidelines. There's good amount of work being done by bodies such as Internet and Mobile Association of India (IAMAI) and Mobile Marketing Association (MMA) to drive digital education in the local market. The Internet Advertising Bureau (IAB) has also done some pioneering work globally in standards and guidelines.

Today, every individual and organisation needs to go through their own journey of digital transformation. There will always be new shifts, and new summits to be crossed. Digital education can help you navigate, but what will help you thrive is an adaptive approach to different terrains. Be prepared to keep transforming!

Tushar Vyas
Chief Strategy Officer
GroupM South Asia



All views and opinions expressed herein are those of the author and do not necessarily represent the views of KPMG in India.

34. Digital report 2017 released by Dentsu Aegis, March 2017.

35. Online ad market, Dec 2016, IAMA; <http://www.bestmediainfo.com/2016/07/online-ad-market-to-reach-rs-7044-crore-by-dec-2016-predicts-iamai/> accessed on 11 February 2017

Beyond the obvious

Blurring lines between performance ads and branding

Traditionally, to allocate ad spends, the dilemma for marketers has been between impactful brand based campaigns or measurable performance based campaigns. However, with technology advancement and growing digital channels, the lines between both the types are blurring and advertisers are experimenting with a blended approach. By better use of technology, branded campaigns can be measured on their performance and also can be tweaked according to feedback to resonate the story with audience. For example, a men's body wash ad on Facebook when targeted by dynamic segmentation is similar to running a television ad ensuring 100 per cent accuracy of your audience being young male viewers.³⁶

Over the period of time, technology has changed the way we live, communicate, express and consume, more so in last 10 years. Advertisers and agencies need to be less risk averse and be more entrepreneurial and experiment more. Traditional communication channels are challenged and are replaced by new ones faster than one ever thought at a much competitive pricing. However, the path lead by technology in advertising is fraught with risk. A badly executed social media or viral marketing campaign can backfire and do more harm to the brand than ever imagined.

Anurag Bansal
Chief Financial Officer
DDB Mudra Group



Brand sponsors for video content is on the rise

The concept of brands sponsoring video content is fast catching up in India as brands are trying to engage directly and gain more mindshare of the consumers. For example, TVF-Pitchers was sponsored by Kingfisher Premium, and the content creators made sure that the brand was deftly weaved into the story line.³⁷ The new-age content creators, such as AIB, TVF and BB Ki Vines, have significant YouTube follower base and branding on these channels mean resonating with micro-segmented audience persona, which is difficult to target on traditional channels. In addition, cost per thousand advertising impressions (CPMs) for content on these channels is comparatively cheaper than the traditional channels, which is why brands are increasing their focus on these fronts.

Alliance between hardware, software and content players

Desire to drive consumer and marketer experience through differentiation is encouraging alliances between technology and content players. For instance, in the U.S.A., media buyers can purchase ads on OTT platforms such as 'Hulu' through STRATA that converts impressions into television ratings, in turn helping advertisers to measure overall effectiveness of a campaign.³⁸ In the domestic market, alliance between Hotstar and Reliance Jio to bundle premium content for Jio play subscribers is seen as one similar step in this direction.³⁹ These type of alliances are expected to boost monetisation channels, such as ad revenue, subscriptions and data consumption along with increased customer lifetime value.

Transparency of data use a must for building a sustainable base of digital customers

With the maturity of cognitive applications and data mining tools, a great deal of data regarding a customer's digital journey can be understood. Although this is a great news for marketers who can target their customers better, the real question is to what extent is this a viable option for both parties. Can the users rely on brands to use their data in an ethical fashion? A global research by 'The University of Cambridge Psychometrics Centre' in (include year) reveals that 71 per cent respondents believe brands are using their data unethically. The survey respondents who had concerns over data were universal across age, gender and nationality. Over 58 per cent of respondents were wary to use digital services due to privacy concerns.⁴⁰ Therefore, there is a need for brands to communicate the value generated by customer data and how they will use it to better serve them. This will be necessary to build trust and create loyal, and to achieve sustainable customer relationships.

36. The Out-Dated Notion of Branding vs. Performance; <https://www.exchangewire.com/blog/2016/03/21/the-out-dated-notion-of-branding-vs-performance/> accessed on 12 February 2017
37. Meet India's YouTube Millionaires; <http://www.businesstoday.in/magazine/features/how-ordinary-individuals-have-found-fame-and-fortune-on-the-video-sharing-platform/story/244684.html> accessed on 11 February 2017
38. OTT Advertising Integrates With TV Ads; <http://www.video.tv/2016/11/ott-advertising-integrates-with-tv-ads/> accessed on 13 February 2017
39. Jio partners with Hotstar to bundle premium content for Jio play subscribers; <https://telecomtalk.info/jio-partners-with-hotstar-to-bundle-premium-content-for-jio-play-subscribers/155873/> accessed on 13 February 2017
40. Marketers overestimate consumers' attitude to data; <https://www.marketingweek.com/2016/06/23/marketers-overestimate-consumers-attitude-to-data/> accessed on 14 February 2017



The vision is to create a content platform that recognises, serves and satisfies all content needs of the Indian youth and will drive the OTT space in future. The key, therefore, should be a 'consumer first' approach - develop a deep understanding of what the consumers want to see and accordingly build the content supply and serve them the right content at the right time.

Dhawal Singh Gusain

Chief Operating Officer

TVF



Economics

Attribution modelling the missing piece in the measurement puzzle

A convergence between television, computers and mobile devices is helping cross-platform consumerism and multi-screen interaction. Customer data tracking by a photo sharing company, Shutterfly, indicated that buying process for many consumers often started on mobile and ended on desktop or laptop⁴¹ which shows the rising adoption of multiple devices and their influence. With this kind of unified digital environment, it is easy for marketers to capture the mind share of consumers and impact their buying decisions.⁴²

The global market for cross-platform advertisement market is expected to reach INR5400 billion by 2020 which suggests that marketers are adopting cross platform ads for better targeting.⁴³ However, the measurement technologies to provide the holistic view about the campaigns is still the missing piece. The adoption and implementation of these technologies have not been done in India completely, and various companies and industry bodies are trying to build on this. Without this measurement technology, the user behaviour cannot be mapped thereby making it difficult to analyse the impact of a campaign. So, there is a need to develop this technology to further boost brand engagement and drive monetisation.

41. How to Master Cross-Device Ad Targeting; <https://www.shopify.in/enterprise/67204163-how-to-master-cross-device-ad-targeting> accessed on 13 February 2017
42. 10 key trends of present and future cross-platform media; <http://nextmedia.lavinia.tc/medios-de-comunicacion/10-key-trends-of-present-and-future-cross-platform-media/> accessed on 14 February 2017
43. Cross-Platform advertising market trends http://www.strategyr.com/MarketResearch/Cross-Platform_and_Mobile_Advertising_Market_Trends.asp accessed on 14 February 2017
44. The global state of programmatic now; <http://digiday.com/publishers/global-state-programmatic-five-charts/> accessed on 14 February 2017
45. KPMG in India's discussions with Google India

Programmatic ads

The buying and selling of media spots through programmatic software with minimal or less human intervention, has changed the monetisation game for digital advertising. The U.S.A. market predicts its programmatic spending to reach USD37 billion by 2018 and with increasing video consumption, money is expected to shift from banners to video ads.⁴⁴ It is estimated that approximately 25 per cent of the search and display ads market is now programmatic and is growing at 200 per cent y-o-y. As an example, the programmatic campaign of Lakme Eyeconic launched a new product with a claimed message of 22 hours smudge free *Kajal*. The campaign saw a dramatic uplift in engagement by serving contextually relevant ads with 1.4 fold View through Rates (VTRs).⁴⁵

The buying and selling of media spots on Facebook and Google already happens programmatically which is a significant portion of digital advertising in India and with evolving technologies and ad spends, it is expected to grow rapidly.⁴⁶

Inventory available for ad placements can be categorised into prime, sub-prime and remnant inventories depending on the popularity of the slot. In India, programmatic selling and buying has been primarily done for the remnant inventory and few sub-prime slots, however this trend is slowly changing with more sub-prime and prime inventory are being traded through programmatic platforms.⁴⁷

Over the Top (OTT) video services

Introduction

The burgeoning mobile internet and smartphone penetration has given rise to an alternative screen for media consumption in a country whose households are still largely single TV. The smartphone growth in India has ensured that internet consumption via mobile data constitutes 15 per cent of all internet consumption in 2016, projected to rise to 30 per cent⁴⁸ by 2021. Further, declining prices of smartphones that are currently under INR9,000⁴⁹ and increasing sizes of smartphones screens at a current average of 5-5.5 inches, have resulted in the mobile fast becoming a screen of choice for media consumption.

Urban consumers have been early adopters of video, especially in the age group 15-34, which constitute 70-75 per cent of the total internet base⁵⁰. With on demand accessibility, aggressively priced high speed 4G data services, and a latent demand for differentiated content, OTT Video on Demand (VoD) services have seen an upsurge in the last one year.

46. KPMG in India's analysis and estimates, 2017
47. KPMG in India's analysis and estimates, 2017
48. VNI Mobile Forecast Highlights, 2016-2021. cisco. http://www.cisco.com/c/dam/assets/so1/sp/vni/forecast_highlights_mobile/index.html#-Country accessed on 24 February, 2017
49. India pips China in smartphone sales pace, but lags in volume <http://economictimes.indiatimes.com/tech/hardware/india-pips-china-in-smartphone-sales-pace-but-lags-in-volume/articleshow/52627757.cms>
50. Based on Industry discussions

The year saw the entry of global OTT video majors, Netflix and Amazon Prime Video in India, as well as launch of major broadcast network backed platforms like VOOT (Viacom 18) and OZee (Zee TV). Other platforms like Hotstar (Star TV India) and Sony Liv (Sony Pictures Networks) consolidated their offerings by launching premium services and a dedicated kids channel, respectively. Telecom platforms are also joining in the OTT game with syndicated content offerings on the likes of Jio Apps, Airtel Wynk etc⁵¹.

Growing consumption has seen advertiser interest rising steadily, with the digital advertising market having grown to INR76.9 billion in 2016 and envisaged to increase by nearly 4 times to INR294.5 billion by 2021.⁵²

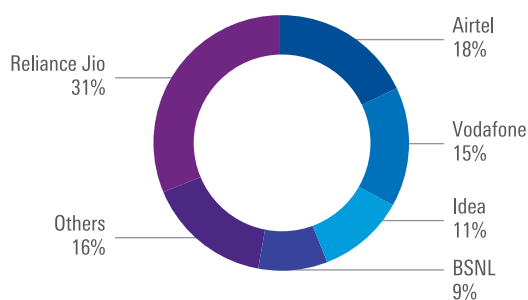
Monetisation models in the OTT space remain at a nascent stage and differentiation remains a challenge. Advertisers are the mainstay for majority of platforms currently, however, a subscription VoD model would be critical to long term sustainability.

The 4G dawn – Driving data consumption

Data consumption in India has seen consistent growth over the last few years due to rising penetration of internet-enabled phones, and improving coverage of high speed data networks, primarily 3G. Average data usage per subscriber shot up by 76 per cent in nine months from December 2015 to September 2016, rising from 137 MB/month, to 240 MB/month⁵³.

September 2016 was a watershed moment in India's mobile internet history, with the entry of Reliance Jio and free data service offerings accompanying the launch; revolutionising data usage habits of consumers. Reliance Jio achieved a milestone of 100 million subscribers in less than six months, emerging as the largest broadband service provider in India with a share of ~ 31 per cent⁵⁴ (as on 31 December 2016).

Market share of broadband subscribers in India as on 31 December, 2016



Source: TRAI Press Release on Telecom Subscription Data as on 31 December, 2016

51. KPMG in India's analysis, 2016-17
52. KPMG in India's analysis, 2016-17
53. TRAI reports - The Indian Telecom Services Performance Indicators October-December, 2015 and July-September, 2016
54. TRAI Press Release on Telecom Subscription Data as on 31st December, 2016

Incumbent service providers followed suit and introduced aggressive 3G/4G offers, slashing data prices and upselling packs with higher data usage limits and an attractive per GB value proposition.

Effective price of 1 GB data (INR)

Operator	1 GB pack	3 GB pack	7 GB pack
Airtel	250	150	121
Vodafone	250	150	121
Idea Cellular	200	134*	107**
Reliance Jio	1 GB per day with a monthly outlay of INR 303 + INR 99 as one time yearly fee (Valid for subscribers signing up before 31 March 2017)		

Airtel, Vodafone & Idea data pack validity – 30 days
*average of 2.5 GB and 3.5 GB pack rates; **average of 6 GB and 8GB pack rates- MUM&MAH circles
Source:KPMG in India's analysis, based on postpaid rates as available on respective company websites, accessed on 24 February 2017

These 4G offers led to a fundamental shift in the way subscribers consume data. A 4G connection utilised 1.43 GB of traffic per month in 2016, 4.1 times the average 349 MB per month usage for a 3G connection.⁵⁵ Monthly data usage in December 2016 was highest by a Reliance Jio user at 6.54 GB, followed by 1.29 GB on Vodafone, 1.28 GB on Airtel, and 1.32 GB on Idea Cellular.⁵⁶

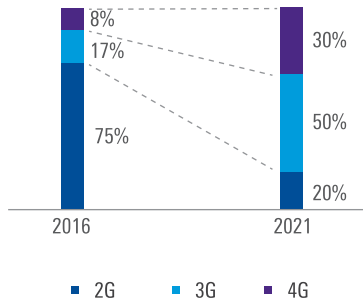
With the announcement of Jio Prime membership for INR99 and subsequent unlimited data (Fair Usage Policy (FUP) of 1GB/day) and unlimited voice calls and SMS for INR303/month, the incumbents have also come up with various offerings to counter the same. Vodafone is offering 28 GB data/month (1GB/day FUP) and 300 minutes of voice calls/day at INR346 monthly; Airtel has come up with a monthly INR345 recharge, which offers 1 GB data/day (500 MB of which is at night) along with free local and STD Calls; while Idea Cellular offers unlimited voice and 500 MB data/day at INR348 monthly.⁵⁷

Video streaming has been amongst the biggest beneficiaries of the 4G uptake. Video streaming apps saw a ~336 per cent increase in usage post Reliance Jio launch.⁵⁸ With the high speed data momentum likely to continue in the near future, 80 per cent of the total mobile connections in India are estimated to have high speed 3G/4G connectivity by 2021. The same is projected to result in a 5.5 times rise in data consumption per mobile user, rising from 393 MB/month in 2016 to 2.15 GB/month by 2021. Online video consumption is expected to spur this growth, with the share of video in overall mobile internet traffic expected to rise from 49 per cent in 2016 to 75 per cent by 2021.⁵⁹

55. VNI Mobile Forecast Highlights, 2016-2021, cisco, http://www.cisco.com/c/dam/assets/sol/sp/vni/forecast_highlights_mobile/index.html#-Country accessed on 24 February, 2017
56. Reliance Jio free data offer spurred consumption of video content: Study, television post, <http://www.televisionpost.com/news/reliance-jio-free-data-offer-spurred-consumption-of-video-content-study/> accessed on 24 February, 2017
57. Reliance Jio, Airtel, Vodafone and Idea – We explain free unlimited data offers <http://indianexpress.com/article/technology/tech-news-technology/reliance-jio-airtel-vodafone-and-idea-28-gb-data-offers-details-how-to-recharge-4553781/> accessed on 6 March 2017
58. Reliance Jio free data offer spurred consumption of video content: Study, television post, <http://www.televisionpost.com/news/reliance-jio-free-data-offer-spurred-consumption-of-video-content-study/> accessed on 24 February, 2017
59. VNI Mobile Forecast Highlights, 2016-2021, cisco, http://www.cisco.com/c/dam/assets/sol/sp/vni/forecast_highlights_mobile/index.html#-Country accessed on 24 February, 2017



Mobile connections by network type (%)

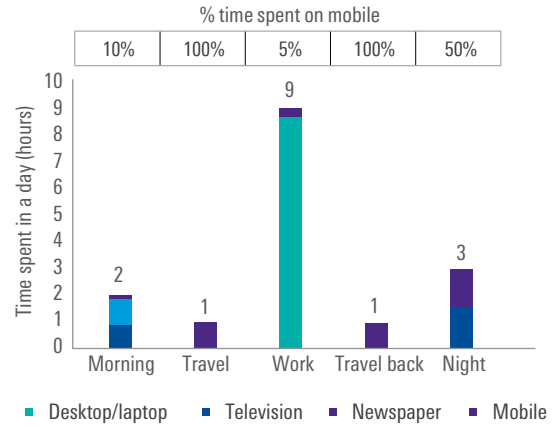


Source: VNI Mobile Forecast Highlights, 2016-2021, cisco, http://www.cisco.com/c/dam/assets/sol/sp/vni/forecast_highlights_mobile/index.html#--Country accessed on 24 February, 2017

Evolving consumer behaviour

Consumers are accessing content across a variety of platforms, with online video being consumed via social feeds, User Generated Content (UGC) dominated platforms like YouTube, and subscriptions of various free and paid VoD platforms. The smartphone as a screen allows for a potential round the clock usage. On an average a consumer is exposed to at least 4 hours of mobile consumption on any day,⁶⁰ largely due to increased commute time in metropolitan cities that contribute the largest share to OTT video traffic.

Media consumption on mobile phone across the day



Source: KPMG in India's analysis, 2016-17

SIGNATURE
presentation

एका मोकळ्या घरातलं मन मोकळं मनोरंजन.

यो लो
YOU ONLY LIVE ONCE.
• A MARATHI WEB SERIES •

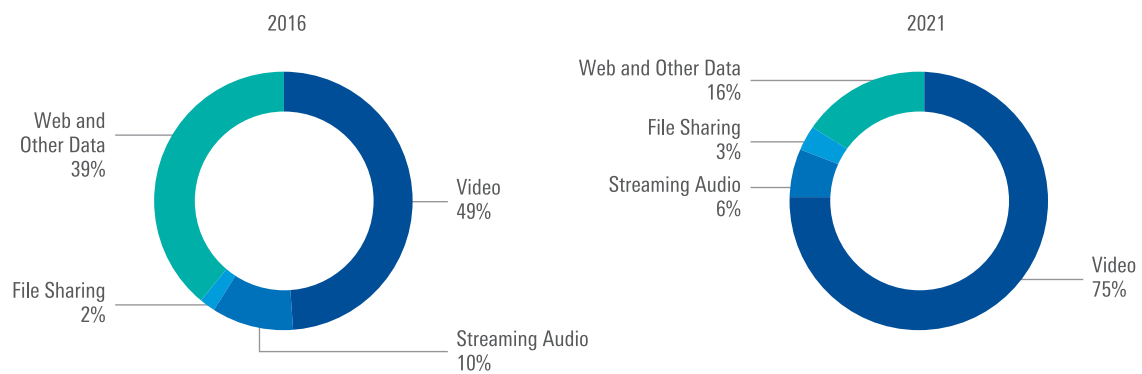
SONY LIV
WE LIVE TO ENTERTAIN

NOW STREAMING EVERY WEDNESDAY

60. KPMG in India's analysis, 2016-17

Today, video content dominates mobile internet usage and the same trend is likely to continue going ahead. Online video is part of lives of 85 per cent of mobile data consumers in India who watch them at least once a week, whereas 39 per cent connected consumers watch online videos daily.⁶¹

Contribution of consumption categories to mobile internet in India



Source: VNI Mobile Forecast Highlights, 2016-2021, cisco, http://www.cisco.com/c/dam/assets/sol/sp/vni/forecast_highlights_mobile/index.html#--Country accessed on 24 February, 2017

An ever evolving device led internet ecosystem, higher data speeds available to consumers and the positive impact of demonetisation on digital payments are going to be the key growth drivers for OTT VOD segment in the near future. The current low hanging fruits in the form of ready content, catch up TV are being currently served to the customers, with original and regional content likely to progress gradually.

Uday Sodhi
Executive Vice President &
Head - Digital Business
Sony Pictures Networks



India's most watched VoD platform, YouTube houses over 20,000 active video channels,⁶³ having grown in India by 80 per cent with respect to watch time, and by 90 per cent with respect to hours of content uploaded.⁶⁴ Original content in the form of videos/episodes of 10-50 minutes are being created and consumed across platforms. A VoD subscriber watches an average of 6-7 minutes of content daily, or 180-210 minutes monthly.^{62, 65}

An analysis of 350 original videos uploaded on YouTube over the last 3-4 years by top 10 original content creators shows an increase in duration of most watched content over 3 years⁶⁶. This can be attributed majorly to increasing supply of quality content, and rising penetration of high speed networks, ensuring seamless streaming and customer stickiness.

61. Only 39% Indians watch videos online daily, zeebiz, <http://www.zeebiz.com/technology/news-only-39-indians-watch-videos-online-daily-8290> accessed on 18 February, 2017
 62. Based on industry discussions
 63. YouTube Go, Google's attempt at video domination crafted in and for India, factordaily, <http://factordaily.com/youtube-go-india/> accessed on 21 February, 2017
 64. India has undergone a content creator revolution: YouTube, dnaIndia, <http://www.dnaindia.com/scitech/report-india-has-undergone-a-content-creator-revolution-youtube-2191918> accessed on 21 February, 2017
 65. KPMG in India's analysis, 2016-17
 66. KPMG in India's analysis, 2016-17



Consumption trends of most viewed 350 original videos on YouTube (minutes)

Content uploaded	Last 1 year	Between 1 and 2 years	3 years ago
Average duration (minutes)	7:20	6:52	5:02
Longest duration (minutes)	40:44	45:23	18:32
Average duration of top 10 videos (minutes)	10:32	6:41	6:41

Source: YouTube, KPMG in India's analysis

Consumption pattern on various VoD platforms (January 2017)

Platform	Active subscribers (million)	Minutes spent on the platform (million)
Hotstar TV	63.0	11,300
Voot TV	13.2	2,800
Amazon Video	9.5	NA
Sony LIV	4.6	423
Netflix	4.2	495
OZEE TV	2.4	679

Source: <http://brandequity.economicstimes.indiatimes.com/news/media/how-ott-players-are-gearing-up-to-woo-indian-viewers/57275909> accessed on March 4, 2017

Insights on the OTT viewership in India

The tailwinds

India's digital transformation is proceeding at a breakneck pace. With nosedive of data charges, falling smartphone prices and significant increase in mobile data speeds, digital video is now becoming mainstream. Digital ad industry continues to grow at a tearing pace of 30%+ YoY (with digital video growing at 50% YoY). Most estimates say that digital forms over 15% of the overall ad media mix. Post demonetisation, consumers are now getting more comfortable with digital payments. The fact that India is largely a single TV home market (only 5% are multi-TV), for many in the house, the mobile phone is their primary screen. Consumer habits are changing fast and on-demand viewing is becoming the norm, especially with kids, millennials and the affluent. For such segments, streaming video is the answer – given the fact that pretty much all premium content owners now offer such services free of subscription charge. This is accentuated by the fact that the only place to catch-up on what you miss on TV is online (given the low DVR penetration)

This is a great time for OTT video platforms to capitalise on these shifts. Within 9 months of launch, VOOT as a digital video destination achieved over 17mn monthly users, billions of minutes of monthly watch-time & an engagement rate of 50+ min of daily time spent per viewer. The advertisers too have welcomed the inclusion of services like Hotstar & VOOT in their digital video plans – which till some time back had only YouTube.

Old habits die easy and new ones born fast

One of the major casualties in the on-demand world is the concept of a fixed Prime Time. Given 24X7 availability of content, we see that OTT viewership spread through the day. In some cases, there are multiple Prime Times – such as for Adult Females – one during afternoon and one towards late night. For kids, as against the traditional TV prime time of early evening, we see 8-9 PM as the digital prime time (especially on VOOT Kids), as the kids have the parents' phones just before their bed time. For Youth, while we see consumption through the day, the peak viewing is 10:30 pm onwards. Most viewers also continue

to watch OTT platforms later into the night than traditional TV (carrying their devices to bed).

Viewers now consider these platforms as the primary medium to watch their favorite shows. We observe that for many of our general entertainment shows, between 30- 40% of Monday episode's viewers return daily to watch every episode in that week for that show (50% return to watch at least half the episodes of that week, showcasing strong platform loyalty).

Who is watching?

Kids (being digital natives), Youth and affluent viewers have a strong affinity towards digital medium. Thus, presently 80% of OTT video viewers for services like ours are less than 30 years old. While the overall internet usage is more male skewed, on services such as ours, we see a very balanced gender skew. Digital, being an individual viewing medium, shows much sharper demographic skews than TV.

OTT video now has a huge coverage across all of urban India and soon with Indic language interfaces – will penetrate even deeper. We already see users on VOOT from across 1400 Indian cities and towns.

Content remains king

Shows on VoD have a significantly longer shelf life than TV. There is a significant viewing of the episodes of the daily soaps /weekly dramas – well beyond their first week of publish. We see an interesting pattern playing out on our Original Shows, where every time a new show launches, we see a spike in the viewing of older originals as well. Given mobile skewed consumption, a ~20-minute episode continues to work better (as compared to one-hour eps or feature films). Releasing all episodes of a series for 'binge' allows for distinctive story telling opportunities – accelerated events and rapid transformation in characters. All of this has tremendous implications across various dimensions including the choice of subjects, formats, episode lengths and publishing cycles.

With BARC now covering 180+mn homes and 54% rural weightage, TV programming is getting even more 'center of plate' to ensure ratings in this highly competitive market. This is leading to the top end (~15 mn individuals in our estimates as we speak) feeling disconnected from what's on Indian TV. While some of them watch international shows for entertainment, they (& the others) long for local Indian stories that they can relate to & emotionally connect with. That, in our minds, is the space best occupied by Digital Originals that we create

The future

In the very near future we see the world of unified TV & digital ratings. We see Telcos increasing their focus on bundling content with data to drive Average Revenue per User (ARPU). The next big wave is coming with high-speed broadband entering your house. With an inexpensive casting device (to convert every TV into a smart TV) and disruptive pricing of high

speed internet at home there will be a huge change in what you watch on your big screen.

We are preparing for the world where every screen will be connected. While today online video is largely equated with mobile video, tomorrow the same online video will be on your large TV screens in your living rooms & bed rooms. This will impact the grammar of content creation – even for linear broadcast. In fact, over time the word broadcast will manifest itself into a billion unicasts.

These are indeed exciting times for all.

Gaurav Gandhi
Chief Operating Officer
Viacom 18 Digital Ventures



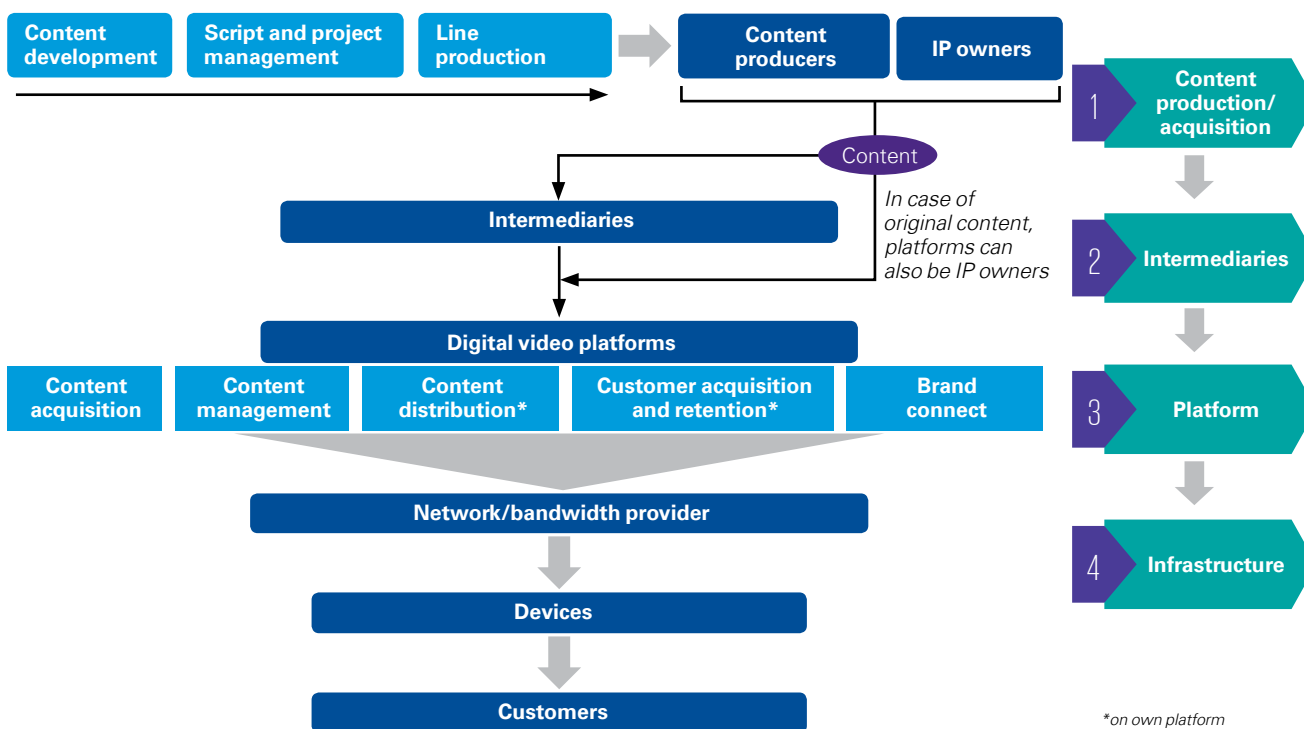
All views and opinions expressed herein are those of the author and do not necessarily represent the views of KPMG in India.

The OTT video value chain

A typical OTT video value chain comprises of 4 layers of stakeholders – The content creators; intermediaries like Multi Channel Networks (MCNs) which act as

aggregators between the content and the platform; digital video platforms; and the infrastructure providers which take the content to end users.

OTT video value chain



Source: KPMG in India's analysis, 2016-17



Of late, the boundaries between different layers of an OTT video value chain are blurring as players look to build integrated capabilities.

- Captive OTT video platforms by broadcast networks offering content to own TV audiences - E.g. Voot, Hotstar, SonyLiv, and Zee & Ditto TV
- Independent VoD platforms producing/co-producing local original content - E.g. Amazon Prime Video, Netflix
- Traditional content producers launching their OTT video platforms to leverage their creative strengths- E.g. Balaji ALT, ErosNow
- Telecom players launching integrated on-demand services to complement their distribution reach and promote data usage, e.g. Reliance Jio's Jio Play, Airtel's Wynk.

With growing OTT video consumption in India, content categories on digital are evolving continuously. The VoD platform players and media houses are overlapping each other's areas, however, creating content is completely separate from platform play. While, consumer insights generated by platforms help them in determining consumption choices and trends, the success of content largely depends on the creative delivery.

Sujit Vaidya

Chief Financial Officer
Disney India



Presence of VoD platforms across OTT video value chain

Player Name	Concept development	Script/project development	Line production	Intermediary	Content acquisition	Content management	Content acquisition*	Content distribution	Brand connect	Network/bandwidth	Devices
Arre TV TVF	✓	✓	✓	✗	✗	✓	✓	✓	✓	✗	✗
Eros Now	✓	✓	✓	✓	✓	✓	✓	✓	✓	✗	✗
Hotstar Voot Viu Yupp TV Sony Liv Hungama Ditto TV Hooq Netflix Spuul Amazn Prime Ozee	✓	✓	✗	✗	✓	✓	✓	✓	✓	✗	✗
Reliance Jio	✗	✗	✗	✗	✓	✓	✓	✓	✓	✓	✓
Alt Tv	✓	✓	✓	✗	✗	✓	✓	✓	✓	✗	✗
YouTube	✗	✗	✗	✗	✗	✓	✓	✓	✓	✗	✗
AIB Y-Films	✓	✓	✓	✗	✗	✗	✗	✗	✓	✗	✗
Wynk Music	✗	✗	✗	✗	✓	✓	✓	✓	✗	✓	✗

Source: KPMG in India's analysis, 2016-17

OTT content – Catch up TV with growing focus on originals

“ We launched Hotstar in 2015 with the conviction that India was ready for streaming on a large scale. We were sure that consumers will gravitate towards high quality, curated, long form content on digital if offered the choice. We are seeing this take shape on a dramatic scale over the last year. The mobile is already playing the role of a primary screen for millions of users in cities today, and over time will become the second and third screen in households across the country. The action will be where the best stories are, whether TV shows, movies or sports. ”

Ajit Mohan
Chief Executive Officer
Hotstar



The early wave of VoD content was dominated by music and movie trailers. 2016 saw the continuation of the trend with catch-up TV, movies the dominant categories with some traction towards live sports. Existing content forms the core strategy of broadcaster platforms, although some are trying to weave original content around catch-up TV to offer enhanced value to consumers. For example, VOOT offers extended ‘Bigg Boss’ clips, content that is not otherwise aired on TV⁶⁷.

Original ‘for-digital’ content is still at a nascent stage, with a few platforms beginning to invest in the same. Players such as ALT, TVF and Arre are building their libraries through original content, while major platforms such as Hotstar tied up with the likes for AIB for original web series in 2016. Originals are in the form of comedy, through the use of parodies and fiction videos/web series, romantic comedy and drama, and thriller are gaining traction⁶⁸.

On the other hand, global VoD majors, Netflix and Amazon Prime are offering a mix of syndicated international and Indian movies and shows, as well as originals, with Amazon Prime notably investing in local productions, tying up with reputed media houses⁶⁹.

Original content investments by OTT video platforms in India

Platform	Original content budget	Tie-ups	Examples of original content in pipeline
Amazon Prime Video	INR5 billion	<ul style="list-style-type: none"> Excel Entertainment Phantom Films Anurag Kashyap 	<ul style="list-style-type: none"> Mirzapur Made In Heaven Vishpuri
Sony Liv	<INR4 billion	<ul style="list-style-type: none"> Vikram Bhatt 	
Voot	<INR4 billion	<ul style="list-style-type: none"> Turner India Colosseum Media 	<ul style="list-style-type: none"> Relality TV
Eros Now	<INR4 billion	<ul style="list-style-type: none"> Sanjay Leela Bhansali Rohan Sippy Anil Kapoor Film Company 	<ul style="list-style-type: none"> Adoptation of popular American Sitcom The Client Khel
Alt	INR0.5 billion	<ul style="list-style-type: none"> Vaishnave Media Works 	
Netflix	NA	<ul style="list-style-type: none"> Phatntom Films 	<ul style="list-style-type: none"> The Sacred Games
Hotstar	<INR4 billion	<ul style="list-style-type: none"> 4 Lions Films 	<ul style="list-style-type: none"> Tanhaiyaan

Source: Amazon spends top dollar to win prime spot in digital content race, Economicstimes, <http://economictimes.indiatimes.com/industry/media/entertainment/amazon-spends-top-dollar-to-win-prime-spot-in-digital-content-race/articleshow/57028751.cms> accessed on 19 February, 2017

67. Based on industry discussions
68. KPMG in India’s analysis, 2016-17
69. KPMG in India’s analysis, 2016-17



Mass based content to emerge

With increasing availability of high speed internet and a maturing device ecosystem, OTT Video consumption is likely to gain acceptance across broader demographics as compared to the a targeted audience profile currently. By 2021, video capable devices will constitute 59 per cent of total mobile connected devices with 814 million consumers, from 35 per cent currently.⁷⁰ The same would necessitate a shift in content strategies with current consumption patterns – short form content on mobile phones are likely to expand to consumer comfort with streaming long form content, across various devices including smart televisions. Regional markets, that have a limited digital presence currently, are also expected to evolve with mass adoption of data. Eros Now has already announced its Tamil production, while other platforms are expected to follow suit⁷¹. Regional OTT consumption too has seen a growth of 75 per cent in Tamil and Telugu content.⁷²

OTT business models

The business models around OTT platforms are currently at an evolutionary phase, with players gauging consumer habits to find the right mix between Advertisement (AVOD) and Subscription (SVOD) led offerings. Leading OTT video platforms like Hotstar, Voot are dependent largely on advertising revenues, with the likes of Hotstar having a small portion as subscription income. Out of a total revenues of INR1.86 billion in FY'16, Hotstar's advertising revenues contributed INR1.39 billion, or 75 per cent to overall revenues, while subscription revenues contributed only 13 per cent at INR0.24 billion⁷³.

Sponsored or brand-integrated original content has seen some traction, especially with independent, content led platforms. Eg: A.I.S.H.A on Arre was sponsored by Gillette, Permanent Room-mates of TVF had Ola Cabs on board and Integriti/Café Coffee Day were Sponsors of Lovebytes on Sony Liv⁷⁴. Sponsorship allows baking in the advertising into the content, reducing the chances of consumer disengagement due to too many advertisements.

Monetisation models and subscription rates of top OTT video platforms in India

Ranking	Platform	Business model	Subscription price (INR/month)
1	YouTube	Ad-funded UGC	-
2	Hotstar	Freemium	199
3	Jio Play	AVOD	-
4	Voot	AVOD	-
5	Amazon Video	SVOD	~42
6	TVF Play	AVOD, sponsored content	-
7	Netflix	SVOD	500
8	Sony LIV	Freemium	50
9	OZEE TV	AVOD	-
10	dittoTV	Freemium	20
11	Viu	Freemium	99
12	Eros Now	Freemium	50

Source: KPMG in India's analysis, based on subscription rates as available on respective company websites, accessed on 24 February 2017; Subscription rates are of the lowest packs of respective platforms

70. VNI Mobile Forecast Highlights, 2016-2021, cisco, http://www.cisco.com/c/dam/assets/so/sp/vni/forecast_highlights_mobile/index.html#~:Country accessed on 22 February, 2017

71. ErosNow to offer original content, afaqs, http://www.afaqs.com/news/story/44940_ErosNow-to-offer-original-content accessed on 21 February, 2017

72. India has undergone a content creator revolution: YouTube, dnaindia, <http://www.dnaindia.com/scitech/report-india-has-undergone-a-content-creator-revolution-youtube-2191918> accessed on 21 February, 2017

73. <http://www.televisionpost.com/special-reports/hotstars-revenue-grows-amid-losses/> accessed on 21st February 2017

74. KPMG in India's analysis, 2016-17

Advertiser interest in digital OTT

Video advertising is fast gaining prominence as advertisers look to reinforce their marketing messages across multiple screens. Video advertisements as a segment contributes to 18 per cent of the overall digital advertisement spends in 2016 and is expected to grow at a CAGR of 40 per cent by 2021⁷⁵.

Video is being increasingly deployed both for pure play advertising as well as branded content. Standalone VoD players like TVF and Arre are significantly dependent on sponsorships for their revenues, which can go as high as INR25-30 million⁷⁶. Video advertisements also allow for direct consumer targeting with the ability to track, measure, analyse and monetise online campaigns in real-time.

The AVOD model is expected to persist going forward, albeit some concerns around measurement of digital campaigns remain. Further, fraudulent impressions (bots) led to advertisers losing an estimated USD7.2 billion (INR482 billion) globally in 2016.⁷⁷

Implementing viewable, accredited third-party measurement verification is the need of the hour globally. Closer home, BARC digital ratings that are being looked forward to by the marketers could prove to be the game-changer for the OTT video advertising in India in 2017.

SVOD - Sustainable model going forward

Due to the challenges of low television subscription rates and still evolving data & digital payments ecosystem, the SVOD model is yet to gain traction in India. Additionally, with an increasing focus on original content, input costs for platforms are set to rise manifold. On an average, a 20-30 minutes fiction content on digital can cost anywhere between INR1.2-1.5 million⁷⁸, higher than content costs on television⁷⁹.

With increasing competition amongst OTT players, a subscription based revenue model is key to sustainability in the future. Compelling content strategy, friction-less onboarding and superior experience for consumers, and seamless digital payment options are prerequisites for consumer to consider paying for both data and content.

The online video market is expected to cross a billion USD in the next five years, with advertising being the larger source of revenue for OTT players in this period. Key players are putting a lot of efforts to get users on their platforms for not just catch-up TV, but making these destinations as the first port-of-call for accessing content – be it live sports, kids shows, big reality programmes (with additional exclusive not-seen-on TV content) or international hits. We are also seeing some great work happening in digital original series space as well. All of this focus on quality content, rapidly scaling user base, reduced data prices and the upcoming industry digital measurement will help grow the digital advertising market further.

Gaurav Gandhi
Chief Operating Officer
Viacom 18 Digital Ventures



75. KPMG in India's analysis, 2016-17

76. TVF, Ola Cabs & the Permanent Roommates association, indiantelevision, <http://www.indiantelevision.com/world/video-on-demand/tvf-ola-cabs-the-permanent-roommates-association-160129> accessed on 22 February, 2017

77. Premium Publishers Tell P&G's Pritchard They Can Solve His Digital Ad Problems, adageindia, <http://www.adageindia.in/digital/premium-publishers-tell-pgs-pritchard-they-can-solve-his-digital-ad-problems/articleshow/57194768.cms> accessed on 19 February, 2017

78. Based on industry discussions

79. Based on industry discussions



Subscription VoD – Growth enablers in India

India is a unique country driven by multiple spoken languages, different cultures, regional content preferences, a large young population, a growing middle class, and the popularity of mobile as a medium to consume entertainment. Internet penetration above 30 per cent with around 400 million users, of which over 200 million are estimated to be broadband users. The average internet speed has doubled to 5.6 Mbps in 2016, and it is estimated that 14 per cent of internet users have speeds of 10+ Mbps. Three factors that put India at the forefront of digital video growth are – internet user growth, a large vibrant entertainment eco-system and a young demographic.

As the Indian economy advances, our personal and professional lives are getting busier, commutes are getting longer, and technology is becoming the simplifier, but our need for entertainment is only growing. With the proliferation of on-demand video services in India, we are spoiled for choice of movies and TV shows either for free (AVOD), or for renting/buying (TVOD) or for an all-you-can-watch subscription price (SVOD). Improvement in streaming infrastructure, broadband networks, video playback capabilities on multiple devices with heuristics, and real-time customer analytics have helped improve engagement and total hours streamed. Combine this with the rise of content discovery platforms from immersive social networks, content marketing websites to mobile-centric messaging services; and we are consuming more digital video than ever before. Finally creators are experimenting, taking risks and diversifying from only making movies and TV shows (widely available on inexpensive cable TV packages) to making comedy skits, music and educational videos which has helped bring relief to single-TV households where each individual can watch the content of their preference without depending upon the programming offered by the TV channels or the individual who controls the remote.

A digital video service can be evaluated on three parameters (1) Content selection (2) Customer/user experience and (3) Value. Ad-supported digital video services struggle to have a wide selection of premium and new content beyond older Indian movies and Indian TV shows due to licensing restrictions and windowing rules from content owners because of limited revenue potential for the content owners. The volume of content available also tends to be high and hence curation to provide a personalised customer experience is challenging. Transactional video services have limited selection of only newer movies but are restricted by the lack of diverse local payment methods, thereby limiting customers and revenue potential for content owners. Wide selection of latest and exclusive Indian and international content is an unmet demand from Indian customers today which is being satisfied by the pirate sites that are easily accessible.

Subscription video services, like Amazon Prime Video, provide a much better customer experience because of the availability of a wide selection of premium/latest content that caters to a larger customer group (latest and exclusive English, Hindi, Tamil, Telugu, Marathi, and Bengali movies; U.S. TV shows and kids programming); powerful search, personalisation and

recommendation algorithms make discovering relevant titles quick, easy and intuitive; the economics are better both for the service as well as content owners as we know that worldwide subscription revenues drive a content business. Finally, with the use of local and relevant payment methods one is able to reach a much larger customer target group (there are only ~19MM credit cards in India) and can be a utility payment every month like one would pay the electricity bill.

The biggest benefit of an SVOD service is that it leads to democratisation of the content eco-system – creators, filmmakers, writers, and studios. Studios don't have to worry about relying only on theatrical revenues via footfalls during one single weekend at the box-office nor rely only on a limited number of licensees. SVOD opens up a new revenue stream and can be structured as long-term output deals like the western markets. Film makers and content creators are not limited by the viewership numbers and time slots of specific TV channels; every passionate filmmaker and creator who has a story to tell can show their craft unconstrained. There are no restrictions of genres (comedy, thrillers, etc.) since the customer segment in India is diverse and personalisation enables content discovery based on the customer's content preferences. Similarly, customers don't have to pirate content because that latest content is available right there with content now releasing globally at the same time on SVOD. On-demand experiences empower not only the customer but also the content creator; good content will always get discovered, viewership and acclaim. All of these efforts have led to digital piracy in India declining by an estimated 40 per cent in the last 12 months.

At Amazon, we keep the customer at the center of all we do and with the global learning that customers worldwide are the same. They are looking for (1) a large selection of content; (2) a reliable and convenient way of accessing it; and (3) good value. Local market dynamics determine what 'large' or 'convenient' means.

We believe that (1) original content in partnership with top and passionate filmmakers, talent and writers; (2) availability of latest and exclusive movies and TV shows from top Indian, US and international studios/production houses; (3) customer-centric product features such as 'data saver' video playback quality and 'download and watch offline' optimise for data usage and make consumer experience reliable and convenient; and (4) finally, local payment methods such as debit/credit cards, internet banking, gift cards and Amazon innovations such as Amazon Pay Balance will result in a large customer base sampling SVOD services. Our goal is to change the way Indian customers consume premium entertainment in India; and to change the way content creators create content for Indian and worldwide customers by focusing on what customers want and delivering it consistently. The time is now for SVOD.

Nitesh Kripalani
 Director and Country Head
 Amazon Prime Video India



The future - Vertical integration

The long term success of OTT Video platforms in India is likely to be centered on key strengths of content and distribution capability. While Hotstar was amongst the first movers in the OTT ecosystem and was a catalyst in rapid and early consumer adoption using cricket rights as a lever, Jio has further accelerated that movement, getting on-board 100 million subscribers in less than 6 months through their free, high speed, unlimited data services. JioPlay has already reached 52 million active subscriber base as on January 2017⁸⁰.

The telecom companies, with access more than one billion consumers are a key driver of data consumption. With voice getting commoditised, data revenues are the key for telecom operators and the same are expected to grow from INR275 billion in FY2016 to INR955 billion in FY2021⁸¹. Additionally, the established payments network of telecom operators could result in seamless SVOD provisioning for the users. A combination of the distribution strength of telecom operators; combined with content creation capabilities of large media houses, would result in an end to end capability to provide a superior experience to the user.

The proposed acquisition of Time Warner by AT&T and Reliance Jio building a strong base of media assets point to such trends continuing to play out in the near future.

“ The telecom operators in India are better placed to harness the potential of SVOD market due to their ability to bundle content with other services, provide seamless payment mechanisms and get economies of scope on their customer acquisition costs. Independent SVOD players could find the B2C models challenging as the customer lifetime value may not be able to compensate for the high acquisition costs. ”

Achint Setia

Head – Corporate Strategy and Business Development

Viacom18 Media



Social media

It is estimated that there were 299.7 million social media users in India in 2016 and it is expected to reach 477.4 million by 2019.⁸² India is the second-largest country for Facebook with 166 million monthly active people as of 3Q, 2016 and is the largest country for WhatsApp with over 160 million active people in India.⁸³

Social media ad spending in India was INR19.11 billion in 2016 and is expected to cross to INR45 billion in 2020, growing at a CAGR of 23 per cent.⁸⁴

Mobility is likely to continue to be primary driver for social media usage. Mobile accounted for about 32 per cent of the overall social media ad spend in India and is expected to grow to 68.5 per cent by 2020.⁸⁵

Branding and lead generation have primarily driven social media ad spend in the country accounting for 55 percent and 27 per cent, respectively. Product launch is expected to be the fastest growing marketing objective from 2016 to 2020, followed by sales marketing. Retail and food & beverage may emerge as the most prominent sectors to spend on social media.⁸⁶

It is becoming clear that the importance of social media as a platform is going to continuously increase with barriers to connectivity and cost of access expected to be increasingly resolved in India over the next few years. Marketers could grab this opportunity with both hands to connect with the growing social India.

Behaviour and consumption

“ The strong social character of Facebook offers a creative canvas for meaningful interactions which are not only topical but in real time driven by innovative products like Facebook Live. As a matter of fact, Facebook Live and videos are seeing great adoption by publishers, media entities, actors, sportspeople, journalists and public figures to authentically engage with people and fans. India is the second largest country in the world for Facebook and we are working towards introducing a plethora of opportunities for content creators to communicate with millions of people in India. ”

Saurabh Doshi

Head of Media Partnerships

Facebook



80. RELIANCE JIO GRABS THE TOP SPOT FROM AIRTEL IN MOBILE DATA SERVICE – TRAI REPORT, datareign, <https://www.datareign.com/reliance-jio-top-airtel-mobile-data-service-trai-report.html#> accessed on 22 February, 2017

81. Video On Demand: The War to Entertain You, *business today*, <http://www.business today.in/opinion/columns/video-on-demand-the-war-to-entertain-you/story/240946.html> accessed on 19 February 2017

82. SOCINTEL 360 – Social Media Advertising Spend in 2016

83. KPMG in India's discussions with Facebook India

84. KPMG in India's analysis and estimates, 2017

85. SOCINTEL 360 – Social Media Advertising Spend in 2016

86. KPMG in India's analysis and estimates, 2017



Popularity of transient content

Social media revolution has created a new level of transparency amongst friends and communities. But as a side effect, it has led to privacy issues. A user may have some connections or 'friends' on Facebook, however might not want them to see all the interactions that happen on his page.

Snapchat picked up on this trend and used expiring content as a backbone to how content is created and consumed on its platform. Users have shown a keen interest to this way of communication and as a result, there are over 158 million active users daily on Snapchat globally⁸⁷. Instagram and WhatsApp have created a stories feature like that of Snapchat and Facebook is also experimenting with disappearing messages⁸⁸. This global frenzy has gained popularity with Indian millennials and more users are taking the liking of expiring content.⁸⁹

Fake information

In 2016, the concept of fake information became popular. Nearly 23 of the top-50 hoaxes about the U.S. politics were amongst the top trending fake news on Facebook in 2016 and it contributed to 10.6 million shares, reactions and comments.⁹⁰ Facebook has initiated the Journalism Project by which it intends to tackle fake news through deeper collaboration with news organisation and educating users on finding and trusting news.⁹¹

It is interesting to note how powerful social media platforms have become and the way users react to information. It is extremely important to monitor such developments and put an end to it, else there could be serious challenges amongst the communities impacted.

Beyond the obvious

Influencer marketing in the 'new social world'

The concept of influencers on social media platforms is evolving from using celebrities who are able to influence a target niche group of audience through their specific positioning on the subject. Influencers are no longer measured on just about the number of followers or likes but their ability to extract return on the dollar spent. For example, the 'Never Ending Trending' campaign from Flipkart brought together 15 fashion influencers who nominated each other to flaunt trends from Flipkart's fashion stores.⁹² Influencers are also being asked to contribute content and create actual conversations with their target audience and build long-term relationships. Brands are also investing in strengthening their digital suite of applications to measure brand advocacy, influencer identification and cross-channel audience behaviour across the customer journey touch points.⁹³

87. Amazing Snapchat Statistics and Facts; <http://expandedramblings.com/index.php/snapchat-statistics/> accessed on 05 February 2017

88. Where Social Media Is Headed in 2017: The Biggest Trends to Watch For; <https://blog.bufferapp.com/state-of-social-media> accessed on 07 February 2017

89. KPMG Industry Discussions, 2017

90. 50 Of The Biggest Fake News Hits On Facebook From 2016; https://www.buzzfeed.com/craigsilverman/top-fake-news-of-2016?utm_term=.fmWpm49br#hdZoJ2QBg accessed on 07 February 2017

91. Facebook's Journalism Project wants to finally crack the problem of fake news; <http://www.wired.co.uk/article/facebook-journalism-tools> accessed on 07th February 2017



Influencers represent communities that are an inch and sometimes a foot wide and mile deep. The ability to pair brands and drive activations is a low hanging fruit, but influencers lead chaotic lives in an ever-changing world trying to garner attention, which puts their content and communities on the boundary of content experiences that can at many times be as beneficial to a brand, as it can be detrimental.



Sameer Pitalwala

CEO and Co-Founder

Culture Machine Media Pvt. Ltd



Social media campaigns foraging into live

Video and live video were amongst the most preferred forms of content consumption on social media platforms and mobile phones becoming the device of choice. As per a global survey conducted by 'Social Media Examiner' in 2016, about 50 per cent of the marketers planned using live video services and 50 per cent wanted to know more about it.⁹⁴ Live video is becoming popular amongst marketers because people can get the 'in the moment' feeling and live video also promotes live feedback which adds to the engagement aspect of the content. For example, Hyundai India used social media platforms for live screening of its newly launched CRETA. It generated more than 15,000 tweets and the reach on Facebook was more than two million users in 15 days.⁹⁵

Marketers in India could account for this trend and analyse the best way to engage with their target audience.

Social media disrupting the rating system

The concept of ratings is being disrupted continuously. Traditionally, it was based on linear viewing, but now a customer's journey is becoming increasingly dynamic, where video watching experience is becoming more communal. More and more users are switching to a second screen while watching content on their primary device to express their views and interact and engage. It was reported that about 86 per cent of Facebook users currently interact with a second-screen while watching programmes, with activity peaking around prime time, and Twitter users are 66 per cent more likely than average to interact with the online content of a show.⁹⁶

92. Flipkart launches Trend Chain Campaign on Instagram http://www.afaqs.com/news/story/49947_Flipkart-launches-Trend-Chain-Campaign-on-Instagram accessed on 27 February 2017

93. KPMG Industry Discussions, 2017

94. 2016 Social Media report by Michael A. Stelzner, Social Media Examiner, May 2016 <https://www.socialmediaexaminer.com/wp-content/uploads/2016/05/SocialMediaMarketingIndustryReport2016.pdf>, accessed on 07 February 2017

95. Hyundai Motor India Scores Big On Social Media; <http://www.digitalvidya.com/blog/hyundai-motor-india-scores-big-on-social-media/>, owner of the report/publisher? accessed on 07 February 2017

96. 6 Key Media and Entertainment Trends To Look for at the 2016 NAB Show; <http://www.nabshow.com/thought-gallery-thought-leaders/6-key-media-and-entertainment-trends-look-2016-nab-show-released/published-by?> accessed on 07 February 2017

Social media platforms are becoming evaluation engines where users give deeper insights on the content they consume or the advertisements they see. However, when it comes to measuring the Return on Investment (RoI) on the digital platform, the measurement tools to close the feedback loop are in nascent stage. Since rating agencies are in the phase of transforming the underlying measurement infrastructure and methodology to incorporate digital measurements and cross-device consumption measurements, it is notable to account the development of this trend.

Economics

Fewer developments, but no major shift expected in monetisation models

Social platforms have typically monetised through an ad supported model and this model is likely to stay as the major revenue contributor for the next few years. Other significant sources of income have been through paid subscription for premium features and income through web applications.

It is clear that a customer's journey is becoming more non-linear and there is a possibility that social interactions can influence purchase decisions. However, despite social media platforms investing on promoting social commerce, there has not been any sizable movement so far in India.⁹⁷

Monetising live events

Advertisers are hoping to reach and connect with their target audience in a more immersive fashion. Live videos have taken users fancy recently, given that they can share their experiences 'live' through social media platforms such as Facebook, Instagram and Snapchat amongst others. Facebook is experimenting with in stream ads within live video broadcasts for monetisation.⁹⁸ Other possible ways of monetisation could be to include pre-rolls, post-rolls, amplified live videos, product placements, live video marketplace, etc.⁹⁹

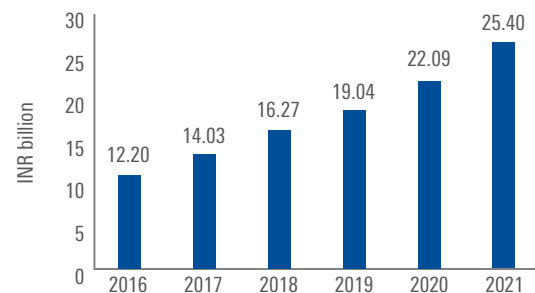
Social platforms are also foraying into acquiring rights for live sporting events. Facebook is one of the contenders for the Indian Premium League's (IPL) digital rights with Jio, Amazon and Twitter.¹⁰⁰

Digital music

The Indian music industry continues to shift towards digital consumption on the back of cheaper data rates, better digital infrastructure and availability of curated digital music on growing digital platforms.

In 2016, the Indian music industry is estimated at INR12.2 billion and is expected to grow to INR25.4 billion by 2021 at a CAGR of 15.8 per cent.¹⁰¹ Digital music now generates an estimated revenue of over 70 per cent of the overall size of the music industry while synchronisation, performance rights and physical channels contributing the remaining share.

India's music market (INR billion)



Source: KPMG in India's analysis and estimates, 2017

97. KPMG in India's analysis and estimates, 2017

98. Real time ads for Facebook Live; <http://about.grabyo.com/facebook-live-monetisation/>, released/published by? accessed on 07 February 2017

99. How Social Platforms Will Monetize Live Video; <http://www.adweek.com/digital/christoper-puga-adatply-guest-post-10-predictions-monetize-live-video/> released/published by? accessed on 07 February 2017

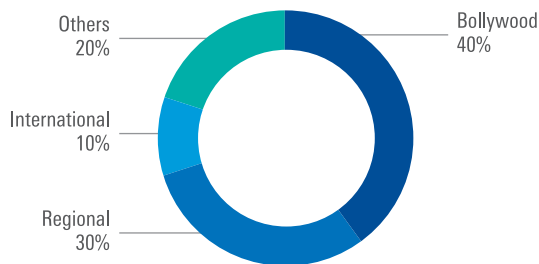
100. Facebook Joins IPL Digital Rights Fray With Jio, Amazon, And Twitter; <http://www.huffingtonpost.in/2016/10/18/facebook-joins-the-fight-for-ipl-digital-rights-with-jio-amazon/> accessed on 07 February 2017

101. KPMG in India's analysis and estimates, 2017



Behaviour and consumption

Bollywood, the most popular genre in 2016



Source: KPMG in India's analysis and estimates, 2017

While Bollywood continues to be a significant contributor to music consumption in India, there is growth in the regional space especially with Punjabi music gaining traction. The surprising trend this year is that the international music is gaining a lot of popularity. Most of this demand is driven by the people in age group of 16-30 years who are part of the internet boom economy and are increasingly becoming entertainment savvy.¹⁰² On the digital platforms, classical as a genre is seeing a downward trend. Digitally promoted niche genres of music are slowly creating their own spaces.

English is one of the most widely spoken language in the country- so, consumption and interest in English content per se has steadily been rising over the years.

With smartphones becoming an urban norm, this audience is simultaneously aware, and has instant access to whatever they want, whenever they want it.

Arijun Sankalia

Director

Publishing and International,
Sony Music India



Streaming is the preferred mode of consumption

On the back of improving digital infrastructure, cheaper data usage plans and availability of free music content, a majority of India's music listeners preferred to stream their music online.

The year 2016 saw a spike in the music streaming volume with around 50-60 million active monthly users on music streaming applications.¹⁰³ With over 300 million internet-enabled mobile phones in the country and reducing tariff rates, this volume is expected to grow rapidly. The ease of consumption and improved data access speed are other factors that may fuel the growth of streaming.¹⁰⁴

Mobile – The primary device for music video consumption

Nearly 75 per cent of the music video consumption is expected to be driven by 16-35 years demographic cohort while 80 per cent of the music would be consumed on smart multimedia devices.¹⁰⁵ Globally, in 2016, estimates showed that video represented 50 per cent of the overall mobile data traffic and is expected to grow to 78 per cent by 2021.¹⁰⁶ With 300 million users on internet-enabled mobile phones by 2016, mobile phones could be the preferred device of consumption of music video content.¹⁰⁷

Beyond the obvious

The Indian consumer has started demonstrating great affinity and adoption towards streaming as a consumption platform. With higher penetration of internet enabled mobile phones and affordable data prices together with aggressive push from the local and global streaming services, the future is bright for the music ecosystem. The Indian music business is poised to grow at the back of freemium and paid users in the near future.

Devraj Sanyal

Managing Director and CEO

Universal Music Group
India and South Asia



102. Decoding the Indian Music Consumer; http://www.afaqs.com/news/story/41371_Presentation-Decoding-the-Indian-Music-Consumer accessed on 20 January 2017

103. Music streaming apps, services: Here's how Apple Music, Gaana, Saavn to Hungama stack up against each other; <http://www.financialexpress.com/entertainment/music-streaming-apps-services-heres-how-apple-music-gaana-saavn-to-hungama-stack-up-against-each-other/366523/> accessed on 20 January 2017

104. VNI Mobile Forecast Highlights, 2016-2021, cisco, http://www.cisco.com/c/dam/assets/sol/sp/vni/forecast_highlights_mobile/index.html#-Country accessed on 24 February, 2017

105. The rise of music streaming in Asia – McKinsey report, 2016?

106. VNI Mobile Forecast Highlights, 2016-2021, cisco, http://www.cisco.com/c/dam/assets/sol/sp/vni/forecast_highlights_mobile/index.html#-Country accessed on 24 February, 2017

107. 4G: The impact on video consumption in India <http://www.medianama.com/2016/09/223-4g-impact-video-consumption-india-nickhil-jakatdar-vuclip/>; accessed on 20 January 2017

The battle is over differentiation

Consumers are increasingly adopting streaming as a medium for music consumption. Given this trend, there are existing domestic players such as Saavn, Gaana, Hungama and Wynk who are popular and established and there are new players such as Google Play, Amazon and Reliance Jio, who are planning to enter this market. In this competitive industry, with similar song catalogues and genres available across all service providers, platform loyalty plays a key role to improve monetisation and retain consumers.¹⁰⁸

To differentiate themselves, music streaming services are leveraging digital technologies such as analytics, machine learning and AI and investing on user experience, customisation services and new type of content.¹⁰⁹ For example, Saavn has launched Saavn original programming and has integrated a social networking feature with its music streaming service which allows users to follow the profiles and playlists of their friends as well as celebrities.¹¹⁰ Gaana has launched a first of its kind Facebook messenger bot inside the Facebook messenger application developed to provide streaming services its users on Facebook.¹¹¹ Hungama is using gamification to reward points to its users while using its services, which they can then redeem to buy digital goods such as songs, music videos and movies.¹¹²

There is a marked trend whereby these music applications are slowly transforming themselves into platforms from just applications by customising, integrating with third parties and providing other value-added services to retain customers.

In a highly-complex market like India, it is crucial for a company to differentiate itself. We've found that the most powerful ways to do that is through culture and experience.

A company culture that is authentic and innovative will ultimately come through in the product and user experience. Data-driven recommendations will create a seamless and personal experience for users across an ever evolving library of music content.

Mahesh Narayanan
Managing Director
Saavn



Players investing in original content

Music streaming services are increasingly investing in generation of platform exclusive content, non-music content and even selected video catalogue.

For instance, Saavn has 'Originals' with audio stories, podcasts and commentaries¹¹³ while Gaana has 'specials', such as popular Radio Mirchi content, sit down comedy and exclusive programmes¹¹⁴ and Hungama has an original audio series called 'Mera Wala Music'¹¹⁵ that offers non-music stories. This trend indicates that companies which had their primary focus on playlists and acquisitions are now also investing to generate their original content to differentiate themselves and add monetisation channels.



108. KPMG in India's analysis and estimates, 2016-17

109. Music Streaming Services in India Compared: We Help You Choose the Best One; <http://www.guidingtech.com/61070/streaming-services-india-compared/> accessed on 20 January 2017

110. Social media's greatest creations: The advent of digital has changed the way music is consumed http://economictimes.indiatimes.com/articleshow/53285073.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst accessed on 20 January 2017

111. Gaana launches India's first music streaming bot; <http://www.bestmediainfo.com/2016/11/gaana-launches-indias-first-music-streaming-bot/> accessed on 20 January 2017

112. Music streaming apps, services: Here's how Apple Music, Gaana, Saavn to Hungama stack up against each other; <http://www.financialexpress.com/entertainment/music-streaming-apps-services-heres-how-apple-music-gaana-saavn-to-hungama-stack-up-against-each-other/> accessed on 20 January 2017

113. India-focused streaming service Saavn expands into non-music content; <https://techcrunch.com/2016/04/06/india-focused-streaming-service-saavn-expands-into-non-music-content/> accessed on 20 January 2017

114. Radio Mirchi partners with Gaana in content sharing alliance; <http://timesofindia.indiatimes.com/business/india-business/Radio-Mirchi-partners-with-Gaana-in-content-sharing-alliance/articleshow/54714532.cms> accessed on 20 January 2017

115. Hungama Music launches original audio series & curated playlists; <http://www.medianama.com/2016/11/223-hungama-music-original-audio-series/> accessed on 20 January 2017



Economics

“ Digital Music’s inherent strengths, convenience of access and storage and Affordability, will ensure that it will grow leaps and bounds. In a diverse country of India’s size, there is a lot of potential for digital music to grow both through streaming and stored devices. Apart from OTT and browser based services, Players are using innovative products to take digital music to masses. ”

Vikram Mehra
Managing Director
 Saregama India Ltd.



Monetisation continues to be a challenge for the music industry with a majority of consumers expecting free content. Digital continues to be the major revenue channel followed by publishing, events and merchandising. Within digital, streaming continues to be the major growth driver. With the rise of streaming platforms, content acquisition rates for popular content or content by popular artistes is surging. Monetisation for such tracks is becoming a big challenge.

There has been no growth for Caller Ring Back Tones (CRBT) and its contribution over the next few years is expected to continue to decline.¹¹⁶

On the back of the gap between the demand for music and lack of monetisation, players are looking at adjacent business streams to monetise. Given this, there has been marked growth in monetisation of live events, merchandising, and brand partnerships. For instance, Uber partnered with Gaana to let Uber riders choose their music while in a ride and Ola’s partnership with Apple music and Sony LIV is to deliver enhanced experienced for its premium riders.¹¹⁷ Saregama’s ‘Music Cards’ that are basically USB drives with pre-loaded content became one of the top three sellers in the music category in Amazon.¹¹⁸

“ Evolution is and will be the key operative word in the digital marketplace for the foreseeable future. Evolution of business models, evolution of content relevance, evolution of content consumption - a merger of service offerings is imminent and video will dominate. Second, market place maturity is just setting in, both for businesses and consumers - and which means finally (slowly but surely) predictable retail income will soon start rising against crazy minimum guarantees - thereby bringing a level of sustainability of new age business models . Third, consumers have started to and will pay for digital services. ”

Mandar Thakur
COO

Times Music,
 A division of The Times of India Group



The surge of micro-transactions

India’s digital payments industry is expected to touch USD500 billion by 2020. Over 50 per cent of person-to-merchant transactions are expected to be under INR100.¹¹⁹ The surge in micro-transaction is likely to positively impact industries selling digital goods. It becomes easier and convenient to buy a song or download a movie for a relatively small fee on your device.

Outlook

Monetisation has been a challenge for the music industry but due to the growth of digital infrastructure, cheaper data rates, penetration of internet-enabled mobile phones and with investment in value-added services across various touch points of the customer journey, the music industry is expected to grow steadily in the years to come.

116. KPMG in India’s analysis and estimates, 2017

117. Ola opens Ola Play for Prime category <http://economictimes.indiatimes.com/small-biz/startups/ola-expands-play-to-prime-users/articleshow/56680964.cms> ; <http://www.medianama.com/2016/06/223-uber-gaana-streaming-india/> accessed on 20 January 2017

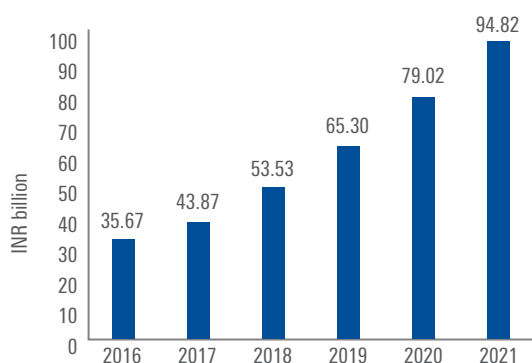
118. Saregama launches Music Cards preloaded with songs in USB Drive; <http://tvnews4u.com/saregama-launches-music-cards-preloaded-songs-usb-drive/> accessed on 20 January 2017

119. Digital payments in India seen touching \$500 billion by 2020; <http://www.livemint.com/Industry/M6SPyd4vUcC7QlQRnjBqaO/Digital-payments-in-India-seen-touching-500-billion-by-2020.html> accessed on 20 January 2017

Digital classifieds

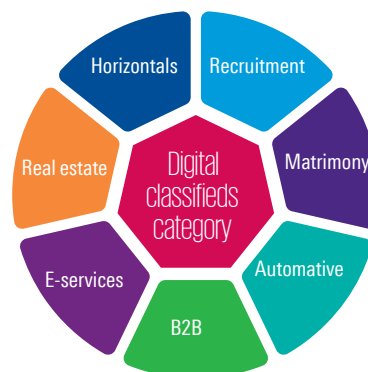
India's digital classifieds market is on a strong growth trajectory having grown from INR29 billion in 2015 to reach INR35.67 billion in 2016, and is expected to cross INR94 billion by 2021 at a CAGR of 22 per cent.¹²⁰

India's digital classifieds (INR billion)



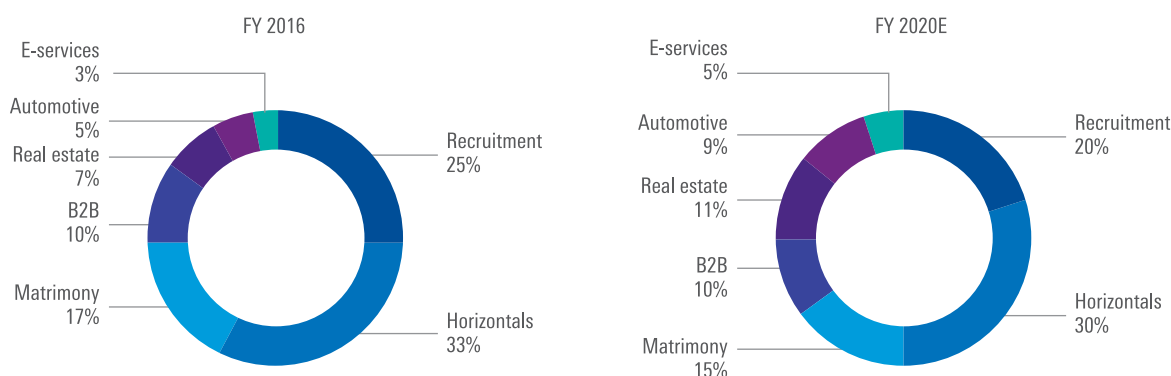
Source: KPMG in India's analysis and estimates, 2017

Digital classifieds category



The digital classifieds market in India caters across sectors and as per the stages of development, some categories, such as recruitments and matrimony services, are comparatively mature and heading towards diversification, while horizontal classifieds, real estate and B2B classifieds are reaching stabilisation with better monetisation models. However, segments such as automotive classifieds and e-services are in the phase of expansion and are poised to drive the next phase of growth.¹²⁰

India's digital classifieds: Segment-wise revenue share



Source: KPMG in India's analysis and estimates, 2017

By 2020, nascent verticals such as real estate, automotive and e-services are likely to exhibit higher growth rates as these segments are still to achieve critical scale. Horizontals, which contribute one-third of the revenue in 2016, is likely to remain the highest contributor as it is expected to reach INR23 billion with 30 per cent share by 2020. Other verticals like recruitment, matrimony and B2B services are poised to grow at a steady pace in the coming years.

120. 'E-services, real estate, auto to drive growth in digital classifieds'; <http://www.thehindubusinessline.com/info-tech/eservices-real-estate-auto-to-drive-growth-in-digital-classifieds/article9131843.ece> accessed on 09 February 2017



Behaviour and consumption

Influence of internet for search and discovery is driving demand

Internet adoption through connected devices and awareness about the digital economy is providing a boost to the classifieds market where search and discovery through web is the primary point of interaction. According to Google search trends 2016, about 76 per cent of the research sample mentioned online as the most preferred option to search for real estate classifieds, 65 per cent of Indian consumers use internet to research before buying a car and 80 per cent search online for used goods.¹²¹ The rising adoption of internet-enabled mobile phones and cheaper tariff rates are further boosting this trend.

Increasing personalisation and improving customer experience is the way forward

By using data visualisation tools and analytics to interpret significant amount of data, companies are now focusing on bringing out the customisation factor into their platforms. Classified players across all segments are differentiating themselves by customising their offerings based on different consumer preferences.¹²² For instance, matrimonial services are using community, region and education based micro segmentations, while B2B classifieds give customised micro-pricing for Small and Medium Enterprises (SMEs) and recruitment portals have sector- and region-based job listings. With 59 per cent of the research sample willing to pay for value-added services in horizontal classifieds and 40 per cent willing to pay for ancillary services in real estate classifieds, companies are looking at customer experience as a differentiator that has monetisation potential.¹²³

Metro and tier-I cities continue to drive consumption

The consumption of online classifieds in India is majorly taking place in metro and tier-I cities on the back of jobs availability, concentration of real estate, B2B services and automotive consumption. As per Google search trends 2016, all four metro city regions in addition to cities, such as Bengaluru, Hyderabad, Lucknow and Pune dominated the search for used goods and jobs. Even in growing e-services vertical, food and hospitality and home services are focused on the urban population looking for convenience.¹²⁴

Headroom for growth in vernacular classifieds,

Companies are exploring to adopt vernacular versions of platforms to reach out to users from tier-II and -III cities mainly the younger demographics. For example, Quikr allows its users to choose from seven different languages - Hindi, Tamil, Telugu, Kannada, Malayalam, Gujarati and Marathi - to browse, post and sell.¹²⁵ Further, taking a cue

from the success of horizontal classified players from the Middle East countries, companies would like to replicate that kind of adoption in the domestic market to expand reach.

Beyond the obvious

Value-added services — a direct cost, yet a key differentiator for monetisation

There has been a steady increase of new players entering the online classifieds space. Given the added competition, providing value-added services and auxiliary services in addition to the core value proposition helps players differentiate and increase a customer's life time value. For example, matrimony services provide photography, catering, gifting services along with match-making, which helps customer to use the platform as one stop shop.¹²⁶

Developments in digital technologies such as digital brochures, chat bots and predictive analytics is enabling these platforms to enhance the features and user experiences on their platforms.¹²⁷



121. Google search trends 2016. Digital Classifieds in India 2020, KPMG in India – Google report, 2016
 122. Why the Indian digital classifieds industry has to step up its localization game; <http://reverienc.com/indian-digital-classifieds-industry-step-localisation-game/> accessed on 09 February 2017
 123. Google search trends 2016. Digital Classifieds in India 2020, KPMG in India – Google report, 2016
 124. KPMG in India's analysis and estimates, 2016-17
 125. Quikr Goes Vernacular, Breaks the Language Barrier; <http://news.quikr.com/blog/2015/12/16/quikr-goes-vernacular-breaks-language-barrier/> accessed on 17 February 2017
 126. KPMG in India's analysis and estimates, 2016-17
 127. 7 Online Marketing Trends That Will Dominate 2017; <http://www.forbes.com/sites/jaysondemers/2016/11/14/7-online-marketing-trends-that-will-dominate-2017/#506c8e37dec8> accessed on 09 February 2017

Economics

Category-wise revenue models

Segment	Current revenue models	Potential revenue streams
Recruitment classifieds	Subscription models for companies, membership models from job seekers and advertisements	Analytics based value-added services, partnerships to manage placements in colleges and interview assistance
Matrimony classifieds	Subscription model providing access to pool of profiles and contact details	Alliances for auxiliary services and dating applications
Horizontals	Paid listings for more visibility, advertisements and ancillary services such as pick-up and delivery	Lead generations through data analytics, customised approach to tap segments such as SMEs and concierge services
Real estate classifieds	Subscription models for builders and corporates, advertisements and direct leads generation	Customised subscription plans and ancillary services, such as verification of property and documentation services
E-services	Commission per service, advertisements and subscription models for premium listings	Training and certification alliances for value-added services
Automotive classifieds	Subscription for dealers and corporates, advertisements, direct leads generation and pay by sale	Partnerships with agencies for cross-selling and ancillary services, like inspections and certifications
B2B classifieds	Subscription models for B2B players, advertisements and direct leads generation	Customised subscriptions depending of scale of customer business

Source: KPMG in India's analysis and estimates, 2017

The above clarifies that for monetisation, players will look to become thorough in addressing consumers by adding features, leveraging digital or acquisitions/mergers. Collaboration across the value will be key to drive synergies and develop new business models. For example, horizontal classifieds and e-tailers may look to tie-up with services portals to penetrate the large service market. Review and ratings are likely to be key influencers to drive traffic and services to any of these platforms so investments in listening tools will be on the agenda for players in the online classifieds space.

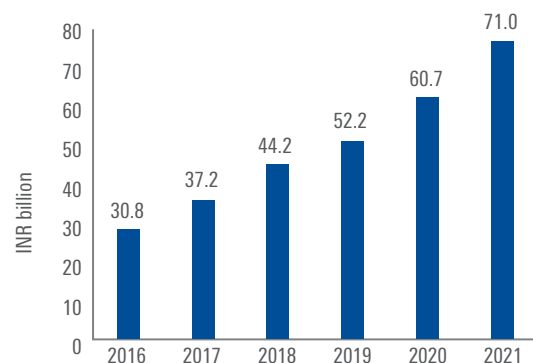
128. KPMG in India's analysis and estimates, 2017

Gaming

In the background of exponential success of gaming in the developing Asian region, the Indian gaming industry has realised the latent critical volumes; however, the value still eludes the ecosystem. Yet, the games have found acceptance as a means of 'entertainment' in the everyday life of an urban Indian. A fact better understood by the success of 'movie-based games', although free for consumers, provide 'Bollywood' an accepted engaging channel to reach the masses through smartphones.

The gaming industry in India has grown from INR26.5 billion in 2015 to INR30.8 billion in 2016 and is on a path of steady growth with an estimated CAGR of 18.1 per cent to reach INR71 billion in 2021. This trend is primarily derived from the rise of mobile gaming due to the rapid proliferation of internet-enabled mobile phones, better internet connectivity and evolving gaming supply chain.¹²⁸

India's gaming industry, 2016 (INR billion)



Source: KPMG in India's analysis and estimates, 2017

Improved quality and affordability of internet-enabled mobile phones has proven to be a boon to the Indian gaming industry as it has changed the mindset of consumers. In the mind space of an average Indian consumer, the industry has moved from 'time waste and expensive' to 'casual and convenient' on which mobile gaming is growing rapidly, engaging all age groups.



Behaviour and consumption

Console gaming continues to struggle

When it comes to console gaming, the Indian market has not been able to achieve similar success as that of the global markets. Social acceptance of gaming as entertainment, high console and game costs have been the barriers for adoption.¹²⁹ With an estimated 3–3.5 million lifetime sales of consoles in the country, console gaming is expected to grow slower when compared to that of mobile gaming.

Mobile gaming saw significant upsurge in terms of adoption; however, monetisation still an issue

India's mobile gaming market has significantly increase not only in terms of game downloads but also in revenue generation. Nearly 1.6 billion games were downloaded in 2016, which is a 58 per cent increase from 2015 on both iOS and Android platforms combined.¹³⁰ However, in terms of revenue generated, India's market is still in the nascent stage with much of the revenue generated from the advertisements unlike global markets where revenue is from in-application purchases. But this trend is expected to change on the back of better payment methods, changing in-application spending behaviours and reduced pricing tiers.

Racing and arcade games dominated downloads while strategy and social card games have driven revenues

As performance and graphics of internet-enabled mobile phones are constantly improving, more titles are being developed by the publishers for compact screens. However, in the Indian context, most of the games downloaded are casual games with racing and arcade genres topping the charts. However, in terms of revenues generated, global origin strategy games such as Clash of Clans and Indian origin social card games such as Teen Patti are leading the list.¹³¹

'Indianised' game content is reaching masses and seeing adoption

Games contextual to the Indian audience are proving to be dark horses in the list dominated by the global gaming majors.¹³² Teen Patti, a popular offline social game in Indian households when developed into a mobile game by Octro gaming enjoyed significant success garnering over 32 million users.¹³³ It has regional language support that helped reaching more audience. Games adopted from the entertainment industry, such as 'Sultan', 'Dhoom: 3 the game' and 'Chhota Bheem', have significant traction in terms of downloads and game time. For instance, 'Sultan: the game' remained on top charts as one of the most downloaded games during the release week of the movie 'Sultan'.¹³⁴

Beyond the obvious

Demand-supply gap of localised content

Only one out of top-10 mobile games by downloads and three out of top-10 by revenue generations are from Indian developers, which for most part is contributed by casino games category.¹³⁵ Such lack of gaming content developed by Indian developers limits the appeal of gaming options for the Indian consumers which again would restrict the monetisation opportunities. So there is a greater need for domestic players to keep abreast with global competition in bringing high-quality content across channels.

Social – the gaming platforms

In the history of technology advancement, communication possibilities have peaked globally like never before and at the heart of this development is the social media. It has a significant impact across the digital ecosystem and for gaming it enabled adoption even beyond digital champions (19-25 years old).¹³⁶ Social media games such as Farmville and Mafia Wars, and real money games such as Rummy and Teen Patti experienced unprecedented popularity across age and gender. The Indian gaming market is now largely dominated by casual gaming which generated INR16 billion revenue out of the total revenue of INR30.8 billion of the Indian gaming industry.¹³⁷

AR making headways

As a proven concept, the pure functional approach of augmented reality is changing the way gamers are interacting with the world around. After the viral success of Pokémon Go, AR is a proven success and is expected to see more adoption.¹³⁸ The game which boasted 21 million daily users in nearly 40 countries, with INR650 million revenue per day during its peak has shown a new dimension of gaming when mixed with the physical reality.¹³⁹ These new-age technologies are enhancing the way a gamer interacts with the gaming content and they are likely to prove as a differentiator for the industry in the coming years.

129. 7 trends that could define the Indian gaming industry in 2016; <http://www.news18.com/news/tech/7-trends-that-could-define-the-indian-gaming-industry-in-2016-1188724.html> accessed on 05 February 2017

130. Inside India's gaming trends in gaming ecosystem, Gamesbond report, 2016

131. Mobile Gaming on the Rise in India, App Annie Report, 201

132. The state of play for mobile games in India in 2016; <http://www.pocketgamer.biz/feature/64670/the-state-of-play-for-mobile-games-in-india-in-2016/entry/1/> accessed on 06 February 2017

133. Teen Patti by India's Octro: The Dark horse of mobile gaming; <http://indianexpress.com/article/technology/tech-news-technology/teen-patti-by-indias-octro-the-dark-horse-of-mobile-gaming/> accessed on 06 February 2017

134. Mobile Gaming on the Rise in India, App Annie Report, 2016

135. Mobile Gaming on the Rise in India, App Annie Report, 2016

136. Social Media's Impact On Online Gaming In India; <http://thesocialmediamonthly.com/social-media%E2%80%99s-impact-on-online-gaming-in-india/>, accessed on 15 February 2017

137. India climbs into top 20 gaming markets globally; <http://techcircle.vccircle.com/2015/10/16/india-climbs-into-top-20-gaming-markets-globally/>, accessed on 12 February 2017

138. 'Pokémon GO' Shows That The Future Of Gaming Is AR Not VR; <http://www.forbes.com/sites/olliebarder/2016/07/10/pokemon-go-shows-that-the-future-of-gaming-is-ar-not-vr/#3e10580015b5> accessed on 12 February 2017

139. Augmented Reality Gets Boost From Pokemon Go; <https://www.engadget.com/2016/09/28/augmented-reality-gets-boost-from-pokemon-go/> accessed on 08 February 2017

Economics

The science behind making a successful game that churns continuous engagement and monetisation is fairly simple; interact with your existing community, react to their behaviour and re-engage users with what they desire; retention is the bait and revenue is the patient reward that follows in today's mammoth mobile gaming marketplace.

Deepak Ail

Co-founder and CEO

Roosh Interactive Games



Mobile gaming

Gaming monetisation in India across revenue realisation points is still at a very nascent stage. Console gaming is concentrated largely to SEC A group due to its high price points. Given the rapid penetration of internet and internet-enabled mobile phones, nearly 96 per cent of Indian developers are focusing on producing games for mobile devices now.¹⁴⁰ The monetisation for mobile gaming is from advertisement driven freemium model and in-application purchases. A majority of the revenue for the mobile gaming is from advertisements in the form of banner ads, incentive advertisements and brand placements while in-application purchase contribute to a small share of revenue pie.¹⁴¹

Apart from these, the concept of in-game marketing where advertisers pay to have their name or product in digital games is slowly catching up. As the quality of the video games is improving both on graphics and content front, in-game ads have become more prolific. For instance, Axe, the men's grooming product brand used in-game marketing to engage its core user group of 18-34 aged males.¹⁴²

Console gaming

In the Indian market, the revenue for console gaming is through pay per purchase model. Taking cue from the Personal Computer (PC) games market, console players are starting to look at online as a channel to sell games on the back of improved internet connectivity and cloud technologies.¹⁴³ This is fuelled by the rising number of games and their adoption on subscription based streaming platforms such as 'Steam'.

Challenges of monetisation

The Indian gaming market has one of the lowest payment trends. Only 18 per cent of the gamers in India pay for games. Moreover, ARPU from paying gamers is only about INR290 per gamer per year.¹⁴⁴

Indian gaming ecosystem is coming together to create a conducive environment to tackle these challenges for the industry to thrive.

Developers: As compared to only five developers during the pre-2005 era, there are more than 200 developers and service providers today in India, of which at least 25 per cent are primarily focusing on local market.

Game stores: Apple store and Google Play reduced the minimum price for application-store listing as well revenue share in application purchases.¹⁴⁵ Further, they have launched innovative payment modes for convenient application store purchases.

Telecom operators: With reducing voice revenue, telecom operators are investing in data to drive ARPU higher. The expansion of coverage, launch of faster data technologies (3G and 4G) and access at one of the lowest prices in the world are expected to ease the barrier of using internet for gaming access.¹⁴⁶

Hence, key stakeholders of the industry are working together to provide solutions to some of the prevalent challenges in the Indian gaming industry to drive growth.

External funding an issue

Investors in India still remain skeptical of backing the young and lean domestic developers. Although in FY15, the gaming sector received about INR4.8 billion in Private Equity (PE) and Venture Capital (VC) funding, this remains just a fraction of close to INR200 billion invested in e-commerce sector in the same year.¹⁴⁷ Venture Capitals expect the developers to be profitable with every game, which according to the developers is not possible as the industry entails continuous supply of content till an occasion of hit game.¹⁴⁸

140. Inside India's gaming trends in gaming ecosystem, Gamesbond report, 2016

141. KPMG in India's analysis and estimates, 2016-17

142. Explore the Strategy of In-Game Marketing; <http://www.marketing-schools.org/types-of-marketing/in-game-marketing.html> accessed on 05th February 2017

143. 11 video game trends that will change the future of the industry; <https://www.theguardian.com/technology/2016/jul/21/11-video-game-trends-that-will-change-the-future-of-the-industry> accessed on 05 February 2017

144. Mobile gaming market in India to cross \$571 million by 2016 <http://economictimes.indiatimes.com/industry/tech/hardware/mobile-gaming-market-in-india-to-cross-571-million-by-2016-study/articleshow/47487993.cms> accessed on 05th February 2017

145. Apple And Google Shift To 15% App-Subscriptions Rev-Share /, released by? accessed on 15 February 2017

146. Reliance Jio Effect: Best Unlimited Voice Calling Plans, Mobile Data Offers by Airtel, Vodafone, and Others; <http://gadgets.ndtv.com/telecom/features/reliance-jio-effect-best-unlimited-voice-calling-plans-mobile-data-offers-by-airtel-vodafone-and-oth-1636983> accessed on 15 February 2017

147. Gaming startups in India <http://www.livemint.com/Consumer/xvehLqZNAzHvy7uOIDIN/Gaming-startups-catch-investor-eye-as-smartphone-use-goes-u.htm> accessed on 15 February 2017

148. How gaming industry is shaping up in India; <http://www.franchiseindia.com/entrepreneur/article/starting-up/business-opportunity/How-gaming-industry-is-shaping-up-in-India-594/> accessed on 15 February 2017



Television

'Bharat' beckons





Introduction

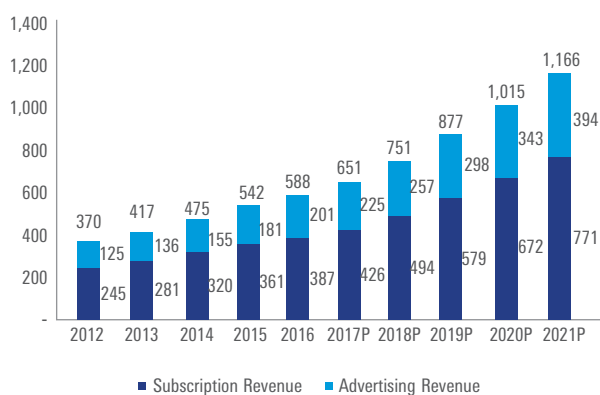
The Television industry in India stands at an estimated size of INR588 billion in 2016, a growth of 8.5 per cent over 2015, and is envisaged to register a CAGR of 14.7 per cent to reach INR1,166 billion by 2021. The advertising revenue is expected to grow at a healthy CAGR of 14.4 per cent, despite an early double digit growth in 2016 and 2017, and subscription revenues are expected to register a slightly higher CAGR of 14.8 per cent¹, driven by the intended benefits of digitisation flowing in post 2017.

Television had a steady run in 2016, with another year of double digit growth despite headwinds on account of demonetisation. The growth in subscription revenues was impacted due to the slow pace of digitisation and Average Revenue Per User ("ARPU") realisations from the addressable C&S base.

Television advertising was steady at an 11 per cent growth² in 2016, aided by strong performance of sports properties like Indian Premier League (IPL) and T20 Cricket World Cup, and the launch of 4G services in the second half of the year. The emergence of Free to Air channels as a major source of reach and viewership has the potential to translate into a large advertising market in the future, albeit with risks around cannibalisation of subscription revenues. Even though factors like slow consumption pickup, Broadcast Audience Research Council (BARC) data recalibration, and the November event of demonetisation pulled down advertising spends, the blip is not likely to last beyond 2017, with demonetisation being a short term impact.

The subscription revenue growth was tepid at 7 per cent³ in 2016, on account of the impact of DD FreeDish (FreeDish) subscriber additions and slow progress around digitisation with Phase 3 and 4 deadlines revised to January and March 2017, respectively. Further, since distributors are focused on covering the entire Phase 3 and 4, challenges around implementation of subscriber management systems, packaging for consumers, revenue distribution between LCOs and MSOs and non-implementation of RIO deals persist. The same has resulted in a flat ARPU growth for the distributors in 2016, with the percentage share of broadcasters in subscription revenue remaining flat⁴.

TV Industry Size (INR billion)



Source: KPMG in India's analysis based on data collected from industry discussions
 Note: Figures are rounded off to nearest integers and may not add up exactly to column totals.

01. KPMG in India's analysis
 02. KPMG in India's analysis

03. KPMG in India's analysis
 04. Based on industry discussions, KPMG in India's analysis



“ The year 2016 witnessed demonetisation that led to a temporary hurdle on the advertisement revenues. The FTA space evolved at a fast pace due to BARC insights available on the rural markets. In the upcoming year, the industry needs to move from archaic CPRP to CPT, owing to increasing acceptance of BARC as the currency for measurement. Looking ahead, digital is the future and compelling content across all platforms and screens is the key

Punit Goenka

MD & CEO

Zee Entertainment Enterprises Limited



Looking ahead to 2017, the advertising revenues are likely to see similar growth levels as in 2016, on account of the first quarter impact of demonetisation and economy calibrating to GST later in the year. The long term forecast for advertising growth remains robust at 14.4 per cent CAGR over 2016-2021, due to economic fundamentals remaining sound and India remaining a mass market consumption story. On the subscription growth front, the intent behind TRAI's tariff and interconnect guidelines could help alleviate some of the issues, combined with the inevitable, though delayed completion of digitisation, leading to a projected 14.8 per cent CAGR⁵ over 2016-2021.

The year also saw a flurry of M&A activity in the TV segment. The acquisition of Ten Sports by Sony Pictures Networks created a two player market for sports broadcast genre in India. The strategic acquisition of Reliance Broadcast Network's GEC channels, Big Magic and Big Ganga, by Zee Entertainment Enterprises Limited helped the company consolidate their presence in the GEC space. On the distribution side, the merger of Dish TV and Videocon D2H created the largest DTH player in the country⁶, setting the tone for further potential consolidation in the competitive TV distribution segment.

The OTT segment saw broadcaster owned platforms and independents consolidating their presence, while telecom operators like Airtel and Reliance Jio and global players like Netflix and Amazon entered the market with varied video offerings. The launch of high speed data

services by telecom operators and increasing propensity of users to consume content 'on the go' bode well for the growth of OTT in the near term. Currently, Advertising Video On Demand ("AVOD") is the dominant business model, but with consumption becoming widespread and original content coming into play, Subscription Video On Demand ("SVOD") models are set to gain traction.

Defining trends in 2016

Demonetisation

Demonetisation was a late surprise for the TV industry in 2016. There was a negative impact observed on advertising revenues of broadcasters, and while the revenues for distributors were not significantly impacted, a marginal decline was seen in subscriber additions for Q4 CY'16.

The impact though has been short term, and a bounce-back has been observed since January 2017, varying across genres and channels, and a full recovery is likely to take another quarter pulling down the growth estimates for 2017.

Demonetisation impact on broadcasters

The broadcasters were negatively impacted due to the event. With cash drying up, consumption across the country saw a steep decline, resulting in major sectors cutting down on advertisement spends.

The October-December quarter, which usually contributes to around 35-40 per cent of the year's advertising revenues, saw de-growth in the last 45 days of 2016. FMCG majors reduced advertisement spends by up-to 50 per cent and other core sectors like Automobiles and Real Estate joined suit. Patanjali was an exception, keeping all their advertisement spends intact⁷.

“ The TV advertising growth was severely impacted by demonetisation, with November and December 2016 the worst affected months. The impact was more pronounced on the smaller channels in each genre. Even though Q1 of CY 2017 has seen some advertisement spends coming back, the situation is expected to normalise only by April 2017

Uday Shankar

Chairman and Chief Executive Officer

Star India Private Limited



05. KPMG in India's analysis

06. Dish TV, Videocon d2h merger creates leader http://www.business-standard.com/article/companies/dish-tv-videocon-d2h-to-merge-116111101475_1.html accessed on February 24, 2017

07. Based on industry discussions

The broadcasters saw around an overall 200 bps decline in projected advertisement growth rate for CY'16 due to demonetisation, with a noteworthy trend being that most broadcasters did not resort to lowering advertisement rates to fill up inventory, fearing a permanent rate correction. The Regional Channels were worse off in terms of the impact, primarily due to a higher presence of local advertisers on these channels and a higher proportion of cut in spends by the FMCGs as compared to national hindi channels.⁸

The month of December 2016 was severely impacted due to demonetisation as FMCG, Consumer Durables and Automobile sectors cut down their ad spends dramatically. E-Commerce spends were sporadic in the entire year, which also was a negative as compared to the previous year. Sports as a genre though, was not impacted much. Even though we have seen advertisers returning in January, full normalcy can only be expected by end March 2017

Nitin Nadkarni

Chief Financial Officer

Sony Pictures Networks India
Private Limited



Demonetisation impact on distributors

DTH platforms and MSOs were not materially impacted in terms of revenue loss due to demonetisation. However, the distributors saw subscriber acquisitions slow down, with the DTH industry falling short of Q4 CY'16 expectations by about 0.5-0.7 million subscribers. The MSOs also saw a minor blip in subscriber acquisition of about 5-10 per cent of their envisaged targets, and customers deferring payments by one to two months.⁹

The movement of customers towards e-payment options would be positive for companies in the long run, in terms of reduction of cash collection overheads and bringing down bad debts. Major DTH operators envisage e-payments contributing majority to their recharges/collections in the next six to eight months.¹⁰

BARC – Gaining acceptance

2016 was the first full year in which BARC (Urban and Rural) ("U+R") data was available across the entire 52 weeks. In January 2016, BARC introduced the metric of '000 Impressions as a measurement tool for viewership, with the terminology decided keeping in mind the long term strategy of BARC moving into digital measurement.

Rise in FTA channels led by rural penetration

The coverage of rural viewership by BARC opened up whole new marketing opportunities for broadcasters and advertisers in 2016. The ratings pushed Free To Air (FTA) GEC channels of the top broadcasters, along with DD National in the top 10 category, and the same has consequently seen ad rates for these channels increase by about 50-70 per cent¹⁰ during the year. The FTA channel launches were broad based, covering hindi movies, news (hindi and regional), music and even kids at the end of the year.



08. Based on industry discussions, KPMG in India's analysis

09. Based on industry discussions, KPMG in India's analysis

10. Based on industry discussions



Fall in ratings of niche genres

The BARC measurement panel and sampling, being essentially mass based, led to a decline in ratings of some genres. GEC gained at the cost of English entertainment and movies, youth, kids and other niche genres. While the television households have grown considerably, so have the channels within each genre. Due to an increase in the base of TV universe and fragmentation of viewers, the absolute growth in viewership of each genre was not represented by the fall in relative ratings. For example, the English entertainment genre remained stagnant at in terms of percentage share of viewership in 2016, whereas the absolute number of impressions grew by 6 per cent¹¹.

While the industry continues to calibrate their advertisement purchase decisions to BARC data, a holistic, strategic view on impressions vs. rating points would evolve in the near future. The potential shift from Cost per Rating Point (CPRP) to Cost per Thousand (CPT) would help capture the incremental increase in viewer base across genres, and smaller broadcasters won't be penalised for a loss in rating points despite an actual growth in viewers. However, with the established utility of CPRP, the CPT implementation is likely to take a fair amount of time to gain acceptance.



There is an inherent need for the industry to move from CPRP to CPT to get an accurate representation of the growth of channels, especially the niche channels and television as a medium with so much of growing penetration and reach is undervalued. So we believe this shift will help advertisers realise the true potential of the channels which have been under-indexed in the BARC ratings

Pawan Jaikhani
Chief Revenue Officer
9X Media Private Limited



BARC digital ratings

BARC envisages launch of their digital measurement in Phases across 2017/early 2018. The measurements could give third-party authenticity to digital advertisement efficacy and the respective rates (CPT/CPMs) that are currently decided autonomously by each platform. It is likely to justify the potential of targeted marketing by digital platforms and help ensure comfort and higher participation from advertisers.

The rural India growth

Though rural measurement by BARC commenced in October 2015, 2016 was the first whole year for which data was captured and assessed. A year on year (YoY) comparison shows a rise in TV impressions and average time spent in rural India by 30 per cent and 26 per cent respectively. This is higher than the overall growth in TV impressions of 24 per cent and in average time spent of 21 per cent.¹² Serials (40 per cent viewership - % share of normalised average impressions'000), followed by films (37 per cent viewership - % share of normalised average impressions'000) were a hit amongst rural TV audience.¹³

Sports content, especially indigenous sports leagues were also popular among rural TV viewers, with significant traction observed in terms of viewership.¹⁴

11. OpinionsThatCount: Are niche channels getting their due in expanded BARC universe?, Bestmediainfo, <http://www.bestmediainfo.com/2017/01/opinionsthatcount-are-niche-channels-getting-their-due-in-expanded-barc-universe/> accessed on 17 February, 2017
12. The rise of rural TV viewers, livemint, <http://www.livemint.com/Opinion/csfQeJ917E5WmNiFfoS17L/The-rise-of-rural-TV-viewers.html> accessed on 8 March, 2017

13. BARC newsletter 2016 year end edition – Anatomy of Rural India
14. Based on industry discussions

The rising rural viewer

Indians love their dose of entertainment and this is no longer just an urban phenomenon. BARC India's Broadcast India Survey, released in March this year, highlights this. Consider this: while there are 99 million TV homes in rural India, there are only 80 million homes with a gas stove, 25 million homes with a refrigerator, 8 million with a washing machine and 0.8 million with an air conditioner.

All this makes rural India, which was a ratings dark area until BARC India began measuring it, very important both from content creators' and advertisers' perspective. With 344 million people watching TV as compared to 157 million individuals using internet in rural India, TV remains the biggest and most impactful medium for advertisers to reach out to their target audience in the region.

While rural ratings debuted in end 2015, it was in 2016 that the industry got to sample, consume and digest one full year's worth of rural viewership trends. And the picture that has emerged is illuminating: Rural TV homes helped boost viewership of almost all genres, particularly several sports leagues. Sample this fact: the biggest contributor to Pro Wrestling League (PWL) and Pro Kabaddi League (PKL) in 2016 was the rural viewer.

BARC India data shows that both PWL and PKL garnered 64 per cent of viewership each from rural. What is surprising is that even a sport like Indian Super League got more than half (52 per cent) its viewership from rural. The growing popularity of these Leagues can be attributed to the inclusion of rural, which loves sports content.

But it is not just sports that has benefitted from inclusion of rural India viewership. Rural viewers also love their daily dose of drama/soaps, news and movies. In fact with 50 per cent viewership of soaps and drama, 49 per cent of news and as high as 52 per cent viewership of feature films coming from rural viewers, it is definitely the next big market to watch out for. Surprisingly, movies like Phantom and Vivah that was aired on HD channels garnered higher viewership in rural than urban.

Rural also contributes to viewership of a niche and big-city genre like English movies, with 33 per cent viewership for the genre coming from rural. Feedback from the ground indicates this is reflective of the aspirational attitude among rural, particularly the youth among them. This is a good sign for advertisers. With around 38 per cent of the rural population forming the affluent base (NCCS A & B) and 47 per cent of total rural population in the age group of 15-40 years, it is they who form the belly of rural viewership. This shows that going forward, any premium or high end product targeting need not necessarily be limited to urban anymore.

One year of rural viewership data has busted the myth that rural viewers do not consume much television. Rural viewers, like their urban counterparts, prefer watching primetime TV, so much so, that almost half (49 per cent) of viewership in the primetime band comes from rural. The broadcast sector is

making changes in line with rural India's 'Early to rise and Early to sleep' pattern. This is also visible in our data, which shows a steep rise in early primetime and a dip in viewership in the late primetime band. This trend has led to many broadcasters either launching new or pushing the existing content in the early primetime band for rural viewers to sample. Early primetime has also become a band that the advertisers are looking to tap into the rural viewers, so much so that the band has seen a 23 per cent growth in advertising since the launch of rural data.

The uncovering of rural viewership has triggered many Free to Air (FTA) channel launches in 2016. Not just this, existing FTA channels too have seen a rise in not just viewership, but also advertising share. The four top FTA Hindi GECs in the genre, had only 11 per cent viewership share before BARC India started measuring rural viewership. As of the last quarter of 2016, they now corner 36 per cent viewership in the Hindi GEC genre. Hindi FTA movie channels that formed a mere 3 per cent of viewership pre rural, today contribute to over 33 per cent in the Hindi Movie viewership pie.

In terms of advertising (number of insertions) as well, there has been a 13 per cent rise in number of advertisers on rural focused channels. Within that, HSM channels have seen the maximum growth. From 31 per cent, share of FTA channels in total advertising has jumped to 39 per cent. With new channel launches in the space, this share is only expected to go up.

The top three categories which have significantly increased advertising on the four top FTA Hindi GECs are Auto Tyres (81 per cent growth), DTH service providers (44 per cent) and detergent cakes / bars (34 per cent). Some of the top brands which increased their FCT on the top four FTA GECs were Ponds India, Reckitt Benkiser, Dabur, Godrej Consumer products Ltd, ITC and Nestle.

These trends and insights highlight the fact that with the launch of rural viewership, both advertisers and content creators have found a new target audience to reach out to. The latest establishment survey has uncovered a vastly different landscape from the one that existed when BARC India unveiled All India ratings: rural India today boasts of 17 per cent more TV homes than urban India. And with penetration at a low 52 per cent (as compared to the national average of 64 per cent), there is clearly huge headroom for growth of TV viewership. Tapping into this market early on may just be the right thing for both broadcasters and advertisers.

Partho Dasgupta
Chief Executive Officer
BARC India



All views and opinions expressed herein are those of the author and do not necessarily represent the views of KPMG in India.



With stagnating urban TV penetration, the next wave of exponential TV consumption growth is expected to come from rural India. With the BARC universe update, the urban-rural split in terms of percentage of TV penetration has changed from 49:51 to 46:54¹⁵.

A significant amount of the rural television audience is dominated by age group 15-30^{16,17}. On the contrary, viewership amongst urban audience is skewed towards 22-40 years of age (40 per cent of total urban viewership).¹⁸ An explanation of this difference could be the exposure of urban audiences to various devices and media that currently stand under-penetrated in rural India.

The same has resulted in a growth in the number of advertisers looking at rural focused TV channels as a medium of choice.¹⁹

The new 'Genre' – Free to air channels

The year 2016 saw Free to Air (FTA) channels build on last year's momentum to emerge as the vehicles of choice for advertisers. The viewership trends that emerged with BARC's rural measurements in October 2015, got re-affirmed in 2016, and FTA channels continued to achieve reach, viewership and resultant advertisement spends.

Growth of FTA genre in 2016

2016 saw the major broadcasters launching FTA Hindi movie channels to complement their existing presence in the FTA Hindi GEC segment

The performance of the FTA Hindi GEC channels has rivalled that of respective Pay GECs, with major Hindi GEC FTA channels appearing consistently amongst the top 10 Hindi GEC channels. Some of the key factors that have led to the success of FTA channels are:

- With the BARC reaching 98.5 million rural households out of their universe estimate of 183 million TV households²⁰, the needs of the now 'measurable' rural markets are amongst the top priorities for the broadcasters
- The FTA genre provides a robust way for the broadcasters to achieve reach and viewership for the GEC in a relatively quick time, with the added incentive of cost effectiveness as compared to a Pay GEC
- The continued resurgence of FreeDish has ensured that broadcasters having a FTA presence on this platform is a given. FreeDish is estimated to have garnered 22 million active customers²¹ at the end of 2016²², providing a large potential viewership base to the broadcasters.
- The delay window of archived content aired on FTA channels (as compared to the same content on corresponding Pay channel) shrunk considerably in 2016, having been reduced to around 1-3 months for some of the broadcasters, as compared to more than 1 year when the channels were initially launched. For instance, Bajirao Mastani, which had a World TV Premier on Colors on 23 April, 2016, was telecast on Rishtey Cineplex on 8 May 2016, a gap of a mere 2 weeks.²³



15. The rise of rural TV viewers, livemint, <http://www.livemint.com/Opinion/csfQeJ917E5WmNiFoS17L/The-rise-of-rural-TV-viewers.html> accessed on 8 March, 2017

16. Based on industry discussions

17. BARC newsletter 2016 year end edition – Anatomy of Rural India

18. BARC newsletter August 2016 edition – Understanding Urban India

19. Based on industry discussions

20. BARC Universe Update 2017

21. KPMG in India's analysis

22. Based on industry discussions, KPMG in India's analysis

23. Based on industry discussions

Hindi GEC and movie channel launches by major broadcasters

	Hindi GEC		Hindi Movies	
	Channel Name	Launched	Channel Name	Launched
Sony	Pal	Sept 2014	Wah	June 2016
Zee	Anmol	Sept 2013	Anmol Cinema	Sept 2016
Star	Utsav	June 2004	Utsav Movies	May 2016
Viacom	Rishtey	March 2014	Rishtey Cineplex	May 2016

Source: KPMG in India's analysis 2016





FTA channels are here to stay. Advertisers are yet to realise the full potential of this segment, and with categories like farm Products, tractors etc. coming in, the overall advertising pie is likely to increase. Subscriber movement to DD FreeDish in DAS 3 and 4 could put pressure on subscription revenues, but broadcasters need to clearly differentiate content on Pay and Free platforms to alleviate this.

NP Singh

Chief Executive Officer

Sony Pictures Networks India Private Limited



The FTA phenomenon in 2016 wasn't just restricted to the Hindi GECs or Movies genres. The news genre saw Zee News (Hindi), NDTV India (Hindi) and News 18 (Hindi, Kerala, TN and Assam) go FTA in 2016, where leading channels like Aaj Tak and India TV are already present. Towards the end of 2016, Maha Cartoon TV debuted on FreeDish, signaling the entry of Kids genre in the FTA segment²⁴.

A look at the FreeDish channels outlines the breadth of the FTA content available to the end consumer across genres, and considering only a one-time upfront cost to acquire the Dish and STB, represents a substantial value. However, the platform has negligible presence in Southern entertainment apart from the Doordarshan language channels, and the same may be a hindrance in terms of adoption of FreeDish by southern markets.

Key Channels available on FreeDish as on 25 February 2017

Genre	Key Channels
Hindi GEC	Sony PAL, Star Utsav, Rishtey, Zee Anmol, Big Magic
Hindi Movies	Sony Wah, Star Utsav Movies, Rishtey Cineplex, Zee Anmol Cinema, B4U Movies,
News	News 18 Hindi, Aaj Tak, ABP News, Zee News, India News
Kids	Maha Cartoon
Music	9X M, 9X Jalwa, Sony Mix, MTV Beats
Online Shopping	Naaptol TV
Devotional	Aastha Bhajan, Sadhana TV, Aastha TV, Sanskar

Source: www.freedish.in; accessed on 25 February 2017

The growing interest in a slot on FreeDish was evidenced by the 31st auction²⁵ in October 2016, with DD garnering ~INR1.3 billion²⁶ from renewals and addition of 3 new channels on empty slots. As compared to a base price of INR43 million²⁷, the average winning slot rate stood at INR48 million.

February 2017 auctions saw a further increase in slot rates, with the highest bid at INR73 million as against a reserve price of INR48 million. With renewal of 10 slots and sale of 3 new slots, DD was able to garner INR0.66 billion²⁸. The platform also ramped up its channel catalog to 104 from 80, along with an intention to start encrypting its signals from April 2017.²⁷



24. KPMG in India's analysis

25. DD FreeDish registers biggest revenue haul from slot auctions, TelevisionPost, <http://www.televisionpost.com/dth/dd-freedish-registers-biggest-revenue-haul-from-slot-auctions-mops-up-rs-129-cr/> accessed on 14th February 2017

26. Three new TV channels join DD FreeDish bouquet; 24 get extension, Indian Television, <http://www.indiantelevision.com/television/tv-channels/terrestrial/three-new-tv-channels-join-dd-freedish-bouquet-24-get-extension-161021>, accessed 6 February, 2017

27. 24 channels renewed, three channels added to DD FreeDish, Best Media Info, <http://www.bestmediainfo.com/2016/10/24-channels-renewed-three-channels-added-to-dd-free-dish/>, accessed on 7 February 2017

28. <http://www.televisionpost.com/dth/dd-freedish-earns-rs-65-5-cr-from-slot-auction-fy17-revenue-rs-250-cr/> accessed on 17th February 2017

Impact on advertising and subscription revenues

The rise of FTA genre has seen a commensurate increase in interest from advertisers in 2016 as well. Brands who have a substantial rural consumption base were now able to measure their spend performance, which resulted in sustained inflow of the advertising monies.

The FTA market has seen a rapid growth in terms of advertising revenues in 2016 resulting in opening up of the rural markets for advertisers. Robust ratings of FTA GECs have seen advertisement rates rising to 1/5th of the Pay GECs, from 1/10th at the start of 2016. However, the threat to subscription revenues is real, and the onus lies with broadcasters collectively to ensure Pay channels remain relevant

Ashish Sehgal

Chief Revenue Officer

Zee Entertainment Enterprises Limited



The FTA channels garnered an estimated INR4-5 billion of the overall TV advertising pie in 2016; which is expected to rise to INR8-10 billion in 2017, as the channels gain prominence in the upcoming annual budget planning exercise for advertisers.²⁹

However, given this rapid advertising revenue growth in the near term, the same could result in an adverse impact on subscription revenues in the long run with a material number of subscribers in Phase 3 and 4, and new additions to the C&S fold, likely to find FreeDish as an attractive option as compared to Pay DTH and MSOs. However, the increase in advertising revenue pie could compensate a part of negative impact on subscription revenues.

With a projected 30 million subscribers on the FreeDish platform by 2021, a net negative impact of INR90-110 billion on the total industry revenues over 2016-2021 is estimated.³⁰ The FreeDish projections take into account upgradation of FreeDish subscribers to Pay TV each year, and a churn out factor from FreeDish is assumed to account for that. We have also taken into account the inflow of incremental FTA advertising revenues, to arrive at the potential impact of FreeDish.

The content overlap with FreeDish is a serious concern. Concept of windowing and differentiated content needs to be thought through. We are cannibalising long term Pay TV market for easy short term money at the moment. With an estimated 150 million HHs for Pay TV market, each customer lost to FreeDish is a long term revenue loss for DTH and MSOs

Rohit Jain

Deputy Chief Executive Officer

Videocon D2H



Some of the measures devised by Pay TV platforms to counter the above potential impact are outlined below

- The success of FreeDish as a platform has been largely observed in the Hindi Speaking Markets (HSM). With a greater proportion of Southern markets currently un-digitised, Pay TV platforms are would look to garner additional market share in them.
- Almost all DTH players have launched INR99 + (Add On) entry level packs to counter the FreeDish value proposition, with the FTA channels a part of this package.

The FreeDish platform could also emerge as an intermediate medium for a subscriber coming into the C&S fold for the first time. Pay TV operators could use this opportunity to upgrade such potential users to a premium content viewing experience.



29. Based on industry discussions

30. Based on industry discussions, KPMG in India's analysis



While Freedish has indeed registered impressive growth in 2016, it has the potential of opening up new markets for distributors. With about 30 mn HHs in India coming into the C&S fold, FreeDish as a first step connection for them, as compared to Analog TV, presents an opportunity for the Pay DTH market in the long run. Having said that, both broadcasters and distributors need to be cognizant of ensuring a Pay TV subscriber continues to be delivered value for the share of his/her wallet

Harit Nagpal
Chief Executive Officer
Tata Sky



While the Pay TV distributors are likely to continue to devise strategies in order to ensure capturing bulk of the incremental and non-digitised households (HHs) in the market, it's the broadcasters who could potentially be the key influencers in determining the long term impact of the FTA channels.

For the broadcasters, a balance around provisioning of differentiated content for a Pay TV user, recovery of input content costs and the need to garner a chunk of the rural advertising pie, would need to evolve over a period of time. Both broadcasters and distributors would need to work together to help ensure minimal leakage of revenues from an Indian TV market, already reliant on advertising revenues.

Consolidation

Consolidation emerged as one of the biggest themes in the television and broadcasting space in 2016 with deal activity witnessed across broadcasting and distribution.

Broadcast segment

In September 2016, Zee Entertainment Enterprises Limited sold their sports business under the TEN Sports umbrella, to Sony Pictures Networks India for INR25.84 billion.³¹ This put Sony's sports profile at par with Star India's. It ensured round the year cricket offering by Sony, along with inclusion of properties like WWE (World Wrestling Entertainment), football tournaments such as

the UEFA Champions League and Europa League and the US Open tennis, along with others³².

In November 2016, Zee Entertainment Enterprises Ltd. (ZEEL) consolidated their presence in the GEC segment through the acquisition of television and radio businesses of Reliance Broadcast Network for INR18.72 billion³³. The acquisition consisted of FM brand 92.7 Big FM and two TV channels - Big Magic (comedy entertainment) and Big Ganga (Bhojpuri entertainment), along with four other TV licenses.³⁴ The two channels strengthen ZEEL's offerings in the growing FTA segment.

The television industry is moving towards further consolidation with players across the value chain eyeing inorganic expansion opportunities. With the rapid growth of OTT platforms and the TRAI tariff orders leaving viewing choices entirely in the hands of consumers, niche channels could look at consolidation opportunities in the near future.

Distribution segment

The DTH sector too saw consolidation with Essel Group's, Dish TV acquiring a controlling stake in Videocon Industries Limited's, Videocon D2H. Essel Group will hold 55.4 per cent, while Videocon will hold the balance 44.6 per cent in the merged entity³⁵. The merged entity will constitute 27.6 million³⁶ net subscribers, making it the largest DTH player in the country³⁷.

Future outlook – Vertical integration of media and telecom operators

OTT Video has emerged as an important media consumption platform in the last 2 years and stakeholders across the TV value chain have looked to establish their presence on this growing medium. However, the proliferation of OTT platforms brings with it challenges around fragmentation. A successful OTT play needs to have two key elements – Strong content creation capabilities; and an ability to reach the end consumer through a wide distribution platform. In India, both broadcast network based platforms and telecom providers have strong and upcoming OTT platforms, however, lack an element of the end-to-end capability as outlined above.

The global markets point towards a unique trend of potential consolidation between content creators and telecom service providers, in creating an integrated media play. With Reliance's investments in media assets of Network 18 and an integrated telecom play in the form of Reliance Jio³⁸, vertical integrations of such nature could play out in the years to come.

31. Zee Entertainment sells Ten Sports to Sony Pictures for Rs 2600 Crore, The Hindu, <http://economictimes.indiatimes.com/industry/media/entertainment/media/zee-entertainment-sells-ten-sports-to-sony-pictures-for-rs-2600-crore/articleshow/53941547.cms> accessed on 29 January, 2017

32. Based on industry discussions

33. Zee to buy Anil Ambani's Reliance Broadcast Networks for 1872 crore, Economic Times, <http://economictimes.indiatimes.com/industry/media/entertainment/media/zee-to-buy-anil-ambanis-reliance-broadcast-networks-for-rs-1872-crore/articleshow/54819612.cms>, accessed on 20 January, 2017

34. ZEE announces acquisition of Anil Ambani's TV, radio business, Economic Times, <http://economictimes.indiatimes.com/industry/media/entertainment/media/zee-announces-acquisition-of-anil-ambanis-tv-radio-business/articleshow/55682020.cms>, accessed on 20 January, 2017

35. Dish TV, Videocon D2H to merge as single DTH company, Economic Times, http://economictimes.indiatimes.com/articleshow/55371934.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst, accessed on 3 February, 2017

36. Dish TV, Videocon d2h merger creates leader, The Business Standard, http://www.business-standard.com/article/companies/dish-tv-videocon-d2h-to-merge-11611101475_1.html, accessed on 5 February, 2017

37. Dish TV, Videocon d2h merger creates leader http://www.business-standard.com/article/companies/dish-tv-videocon-d2h-to-merge-11611101475_1.html accessed on February 24, 2017

38. Based on industry discussions

AT&T Time Warner acquisition – A case study

In October 2016, telecom giant, AT&T Inc. announced the acquisition of media house, Time Warner Inc. The deal is currently pending regulatory approvals.³⁹

AT&T Inc. - AT&T is the second largest wireless internet providers and one of the largest broadband internet providers in the US. It has a subscriber base of 133 million.⁴⁰

Time Warner Inc. - Time Warner is one of the largest creators of TV programming in the U.S. with media assets such as CNN, TNT, HBO, Warner Bros. film and TV studio.

Terms of the proposed deal - AT&T to pay USD 107.50 a share, evenly split between cash and stock in a deal worth USD 85.4 billion⁴¹

Outcome of the proposed deal - If the deal goes through, it could bring content and distribution together under a single roof, and certain synergies are expected to flow through

- Since the wireless companies in US are seeing their growth stagnate, AT&T's acquisition of Time Warner is likely to bring growth to AT&T's business
- AT&T's subscribers will get access to Time Warner's media library and media assets. This can help differentiate AT&T's wireless services
- AT&T will get large subscription revenue stream from HBO, and syndication revenue from Time Warner's library

- AT&T will also fuse investments into additional programming and films
- The combined entity will launch an online-video platform to compete with traditional cable companies. It aims to disrupt traditional entertainment delivery, by moving consumption to mobile screens
- Targeted advertisement on online video platform will offer an additional stream of revenue
- The deal will also complement AT&T's latest offering DirecTV Now, that offers cable television over the internet

Potential synergies - The synergies from this vertical merger are expected to accrue to reduction in company's costs and increase in profits, with part of the savings being passed on to consumers in the form of lower prices. Both players are expected to innovate collectively, instead of going through the cumbersome and competitive process of negotiating usage rights.

Despite being a vertical merger, the deal is being looked at as potentially resulting in the concentration of too much power in the hands of a few. Owing to the magnitude of the transaction, close regulatory scrutiny is in process.

TRAI Tariff and Interconnect Regulations – A Game Changer?

The Telecom Regulatory Authority of India (TRAI) ushered in the cable TV digitisation process in 2012⁴², which was aimed at tackling issues around a non-addressable base leading to a lack of transparency across the value chain, non-uniform pricing, sub-par quality to consumers and continued litigations between stakeholders.

Even post sizable digitisation, the following challenges persist:

- Discrimination and non-transparency in distribution, with most deals between broadcasters and distributors being signed on a fixed fee basis, and enforcement of RIO only deals is non-existent in the market

- Deep discounting of packages over a-la-carte pricing, leading to some non-performing channels piggybacking on the top channels
- Carriage fee still remains a significant payout for broadcasters, creating entry barriers for new entrants
- Installation of Subscriber management systems, implementation of channel packaging and choice to the consumer at MSO end remains patchy
- The sharing of revenue between MSOs and LCOs remains non-transparent, leading to non-realisation of intended revenue benefits of digitisation.

39. AT&T reaches deal to buy Time Warner for \$85.4 Billion, The Wall Street Journal, <https://www.wsj.com/articles/at-t-reaches-deal-to-buy-time-warner-for-more-than-80-billion-1477157084>, accessed on 10 February, 2017

40. Mossberg: Why the AT&T-Time Warner merger is dangerous, The Verge, <http://www.theverge.com/2016/12/14/13941266/walt-mossberg-att-time-warner-merger-deal-danger> accessed on 16 February, 2017

41. AT&T reaches deal to buy Time Warner for \$85.4 Billion, The Wall Street Journal, <https://www.wsj.com/articles/at-t-reaches-deal-to-buy-time-warner-for-more-than-80-billion-1477157084>, accessed on 10 February, 2017

42. DAS Reference material for Nodal Officers www.digitalindiamib.com/DAS_Reference_material_for_Nodal_Officers.pdf accessed on February 25, 2017



The Consultation on draft tariff and interconnect regulations, initiated by TRAI in October 2016 and subsequent tariff orders released in March 2017, aim to address the above concerns and provide the consumer with complete choice in terms of selection and payment of only the content they would wish to view. We summarize the salient points of the orders and stakeholder views as below:

Salient features of the orders and impact on stakeholders

1. Tariff and Interconnect Orders 2017^{43,44}

Pricing and packaging of channels

1. Channels to be offered a-la-carte to subscribers, with broadcasters declaring the Maximum Retail Price (MRP) (exc. Taxes) of each channel, and the same is to be mentioned as a part of the Reference Interconnect Order (RIO), which is to be published by the broadcaster
2. If a pay channel is part of a bouquet, the MRP of such a channel not to exceed INR19. Broadcasters free to price channels above this limit, if offered only on a-la-carte basis
3. Promotional scheme on MRP allowed to broadcasters for a period of 90 days, only on a-la-carte pricing, maximum twice in a calendar year
4. Bouquets of pay channels formed by broadcasters not to have discount exceeding 15 per cent of the sum of individual channel MRPs, with separate bouquets for FTA and pay channels
5. All distribution platforms are mandated to offer all pay channels available on their network either on a-la-carte basis, or through a bouquet. Distributors to declare 'Distributor Retail Price (DRP)' of each channel and the bouquets not to have more than 15 per cent discount from the a-la-carte DRP or bouquet pricing of broadcaster
6. Distributors to offer at least one bouquet of 100 FTA channels as a part of their packages.

Distribution of channels

1. A common interconnect framework for all addressable systems i.e. DTH, DAS, HITS and IPTV
2. Non-discriminatory provision and carriage of channels, by broadcasters and distributors, respectively (subject to availability of carrying capacity by distributors)



3. The Distribution platforms to charge a rental of INR130 (excluding taxes) per month per set top box from a subscriber for providing signals of up to 100 SD channels, including mandatory channels of Prasar Bharti. An HD channel will be equivalent to two SD channels. Each DPO can further offer slabs of 25 channels at a rental amount up to INR20 (excluding taxes) per slab per set top box per month
4. Broadcaster to offer a distributor, a minimum of 20 percent of the MRP of a-la-carte or bouquet of channels, as a distribution fee. Broadcasters can offer discounts on MRP to distributors, however, the sum of discounts and distribution fee not to exceed 35 per cent of the declared MRP of the channel/ bouquet
5. The distribution fee and rental to be shared between Multi System Operators (MSOs) and Local Cable Operators (LCOs), on a mutually agreed basis. In case an agreement cannot be arrived at, the same is to be shared in a 55:45 ratio for MSOs and LCOs respectively.

43. Telecom Regulatory Authority of India's (TRAI's) Telecommunication (Broadcasting and Cable Services) (Eighth) (Addressable Systems) Tariff Order, 2017

44. Telecom Regulatory Authority of India's (TRAI's) Telecommunication (Broadcasting And Cable Services) Interconnection (Addressable Systems) Regulations, 2017

Carriage fee

1. Every distributor to publish a draft RIO laying out the following terms for interconnection – technical terms, carriage fee, subscriber base and discounts (if offered).
2. The carriage fees to be capped at 20 paisa per SD channel per subscriber/month, and 40 paisa per HD channel per subscriber per month. Further, the carriage fees of a particular channel shall decrease with the increase in subscribers for that channel, becoming nil if the subscriber base of that channel equals or exceeds 20 per cent of the average subscriber base of the DPO in that month in that target market.
3. Distributors can decide to stop transmission of channels whose monthly subscription is less than 5 per cent of the target market of the distributor in the preceding six months. Re-transmission to be possible post one year from the date of stopping of transmission.
4. The discount on carriage fees offered by the distributors to the broadcaster shall not exceed 35 per cent of the declared carriage fees

Potential pricing and tariff related impact

Impact on Broadcasters⁴⁵

Niche Channels – Potential adverse impact

Consumers would need to pay MRPs for each channel over and above the fee to the distributors, which could result in a decline in viewership of niche channels

Decline in Revenues

- Packaging to be impacted with the 15 per cent cap on discounts. The same could result in little incentive for consumers to go in for a pack as compared to a-la-carte choice.
- Broadcasters are of the view that the draft orders are in contradiction to the Copyright Act 1957, which grants freedom to content owners for monetisation of the same
- No bouquet packaging of channels above the MRP of INR19 could impact revenues of broadcasters, considering the rising content costs. With more than 800 channels in India⁴⁶, and Cable Television affordable, pricing in India is a function of the market dynamics

Premium Content could see better monetisation through investment in compelling content

- With no price caps envisaged by the regulator (except in the case of bouquets), broadcasters could look at monetisation of premium content by suitably pricing their offerings keeping in mind the target audience

Impact on Distributors⁴⁵

Constraints around packaging and upselling

- The Channel packaging and pricing could be constrained, as the distributors will only be able to offer bouquets benchmarked on declared MRPs of channels by broadcasters, with overall possibility of discounting limited to 30 per cent (15 per cent at wholesale and 15 per cent at retail level)
- This may limit the ability of distributors to leverage investments in their customer analytics in terms of upselling to customers

Distributors business model could be drastically altered

- The distributors could witness a fundamental shift in their business model, in terms of just acting as an infrastructure platform, with a constrained ability to differentiate offerings vis a vis any other distributor

Subscriber Management Infrastructure and Education challenges

- The draft order could theoretically mean distributors offering millions of potential channel combinations to consumers. The same would involve substantial investments in subscriber management systems
- Distributors would also need to invest in consumer awareness to educate them about choosing from these potential combinations. The same could be a challenge for all stakeholders

45. Based on industry discussions

46. India has now more than 800 private satellite TV channels http://www.abu.org.my/Latest_News-@-India_has_now_more_than_800_private_satellite_TV_channels.aspx accessed on February 25, 2017



The tariff orders could potentially lead to consumers subscribing to fewer news channels and that will lead to established brands taking preference over tabloid channels. We could also see some consolidation due to the same in the News Channel space

Saurav Banerjee

Director Finance and Group Chief
Financial Officer

NDTV Limited



Potential interconnect and carriage related impact

Impact on Broadcasters⁴⁷

Clarity on Carriage, silent on Marketing and Placement

- The regulation of carriage fee could be a positive for the broadcasters as the same would bring in certainty and rationalisation to the entire concept
- However, the regulations do not stipulate a minimum carrying capacity for the distributors, which implies constraints around carriage could still remain
- Since the draft orders do not regulate Placement and Marketing fee, it could act as an alias for the Carriage fee arrangements, thereby not achieving the intended benefits

Subscription challenges for Small/Niche channels

- Smaller/niche/new broadcaster channels could be adversely impacted as the carriage is directly linked to subscription numbers; and the same may result in an overall contraction of the number of channels going ahead
- Decrease in number of channels could lead to a decline in inventory, resulting in a potential advertisement revenue loss. However, with transparency around revenue sharing with distributors, better realisations from subscription income could help recoup some of the above potential loss

Higher monthly outlay for subscribers in Phase 3 and 4

- The monthly outlay for some of the end consumers would increase, and a base level Phase 3/4 subscriber would need to pay INR130 for 100 SD channels, higher than the current entry level C&S prices for DTH and MSOs. The same could result in a slowdown in digitisation in the above phases, and since top end consumers could also cut down on channel subscriptions, the overall viewership in the industry could see a negative impact

Impact on Distributors⁴⁷

Near Term ARPU gains likely

- The clear demarcation between rental income and distribution fee could be a near term positive for the distributors, as it provides them a certainty of income from each subscriber, which in turn would reduce their dependence on carriage fee
- The unit economics of MSOs are likely to improve significantly, especially in Phase 3 and 4; with defined minimum cash flows from each subscriber. The per subscriber operational profitability of DTH operators is also likely to improve, with INR130 replacing INR99 as the commitment from an entry level subscriber
- The above may lead to an ARPU uptick in the near term, leading to improved industry profitability

Distributors to effectively become a data pipe, long term differentiation in offerings a challenge

- The distributors would need to make fresh investments in their internal subscriber management systems to make the mandated shift to a 'single subscriber level monitoring'. This will entail a significant cost and time element for the platforms
- While near term positives are evident, the long term ability of distributors in terms of increasing ARPUs, innovating around packaging and upselling to customers could be negatively impacted. The same may stunt the long term subscription revenue growth of the industry

Revenue sharing with LCOs might entail challenges

- However, considering the continuing issues between the LCOs and MSOs over revenue sharing, and the existing skew towards LCOs, the 55:45 ratio as outlined in the tariff order may be a challenge to implement

47. Based on industry discussions



The objective of the new tariff orders is to bring about a level playing field across the value chain. If the carriage fee can be phased out, distributors, especially MSOs would need to garner a higher share of the ARPUs in order to be sustainable, which should improve the ARPU realisations across the industry.

Rajeev Dalmia
Chief Financial Officer
 Dish TV India Limited



- Significant investments by Broadcasters and distributors in Subscriber management systems to offer 100 per cent a-la-carte choice to consumers. In fact, a basic version of these systems remain a concern at the MSO/LCO end currently.
- Concerns around viable business models for smaller/ niche channels in case of a true a-la-carte regime
- Lack of clarity around placement and marketing fee
- Persisting issues between MSOs and LCOs on revenue sharing. Ironing out these concerns would not only help speed up the process of digitisation, but ensure that revenue leakages are plugged and up-streaming of consumer ARPU is carried out in a fair manner.

The litigation process around the draft orders has been initiated by industry stakeholders, with the Madras High Court restraining TRAI from issuing the tariff orders in December 2016. The Hon'ble Supreme Court, however, allowed TRAI to go ahead with the consultation process in January 2017, but said that TRAI cannot notify these without referring them to the apex court.⁴⁸ Basis the same, TRAI has released the regulations on 3 March 2017⁴⁹.



The tariff order is a step in the right direction and will further streamline our business model, provided that the revenue share agreement suggested by TRAI is made mandatory and is not recommendatory in nature

V.D Wadhwa
Executive Director & CEO
 SITI Networks



The regulator has allowed broadcasters to offer channels on a-la-carte basis without price caps; or in bouquet with price cap of INR19; by allowing INR130 access fee per month. This will result in DPO/MSOs get certainty in terms of visible cash flows as a compensation for their investments in networks. Consumers can also exercise their power to pay for content based on their choice. The tariff and interconnect orders are thus a step in the right direction, and the stakeholders across the industry would need to come together to ensure that the intended benefits of digitisation flow through to everyone

Shaji Mathews
Chief Operating Officer
 GTPL Hathway Limited



Industry stakeholders recognise the need for consumer choice, transparency and the revenue benefits of digitisation that form the core of these regulations. However, the following concerns might require tweaks for the industry to collectively embrace the change.

- Concerns of distributors around long term viability of their business models in terms of packaging and upselling to end consumers.

48. SC asks TRAI not to notify tariff order, Madras HC case to continue, <http://www.livemint.com/Consumer/wtD3ig5zV3l8nDZsll76mO/SC-allows-Trai-to-finalize-draft-tariff-order-for-broadcast.html> accessed on 3 February, 2017

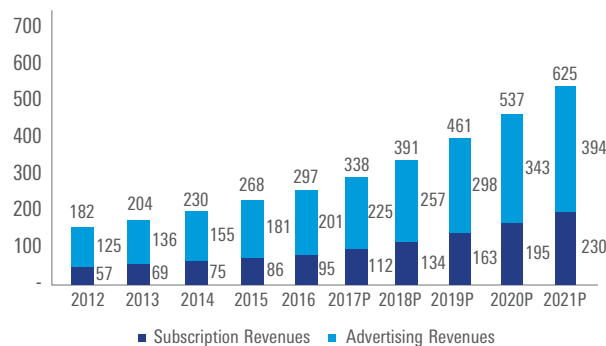
49. Telecom Regulatory Authority of India's (TRAI's) Telecommunication (Broadcasting and Cable Services) (Eighth) (Addressable Systems) Tariff Order and Interconnection (Addressable Systems) Regulations, 2017



The TV value chain – Broadcasting

The Television broadcasters had a steady year in terms of advertising revenues in 2016, with the segment registering a growth of 11 per cent despite the event of demonetisation, to stand at INR201 billion, as compared to our previous growth estimates of 16 per cent. The subscription revenue growth for broadcasters stood at 11 per cent, helped by the ongoing digitisation process which results in a higher share of revenues for broadcasters and compared to Analog cable⁵⁰.

Broadcaster Industry Size (INR billion)



Source: KPMG in India's analysis based on data collected from industry discussions and secondary research. The subscription numbers take into account higher than envisaged growth for DD FreeDish in 2016 and beyond

Television advertising

The television advertising industry grew by 11 per cent in 2016, and was essentially a story of two parts. Pre-demonetisation, the industry was expected to register a steady growth in the range of 13-14 per cent, lower than our expectation of 16 per cent⁵¹ as outlined in last year's report. The same was on account of slower than envisaged consumption growth across core sectors, cutback in spends by E-commerce and the industry calibrating their internal planning processes to the BARC data.

The event of demonetisation in November 2016, was a further blow to the growth rate, with Q4 of CY'16 traditionally contributing a large chunk of TV advertising revenues. With cash drying up and consumption levels declining sharply, the latter part of November and entire month of December bore the major brunt, with advertisement spends by sectors like FMCG, Real Estate and Automobiles cut by up to half of their planned levels⁵².

Despite the short term blip due to demonetisation, India's consumption story remains on track. It is likely to be boosted further by the implementation of the GST regime, 7th pay commission payouts and formalization of the economy. This is bound to have a positive effect on ad-spends in the medium term. As industry leaders we need to continue to do what we do best: invest in differentiated content and experiential touch-points that resonate with our consumers and build strong, future-ready organisations.

Soumen Ray
Chief Financial Officer
Viacom 18



The regional channels were affected more than National GECs, primarily due to a significant share of advertisements from local/regional brands, as well as national advertisers effecting a higher budget cut when it came to the regional channels. On an annualised basis (CY'16), demonetisation led to a further 200 bps decline⁵³ in growth that was envisaged pre-November 2016. The impact however, is short term in nature and full recovery is expected by end of Q1 2017.

The Ad growth in 2016 was progressing at a rate of 13-14 per cent pre-demonetisation. Demonetisation led to a ~2 per cent cut on TV advertisement growth. Start-ups continue to spend, contributing between INR1,000 and INR1,500 crores consistently. FMCG has been cutting spend and now constitutes ~40 per cent of the TV advertisement pie, from the earlier ~45-50 per cent. Financial technology is one sector that is seen to be aggressively spending and this trend is expected to continue

Anurag Bansal
Chief Financial Officer
DDB Mudra Group



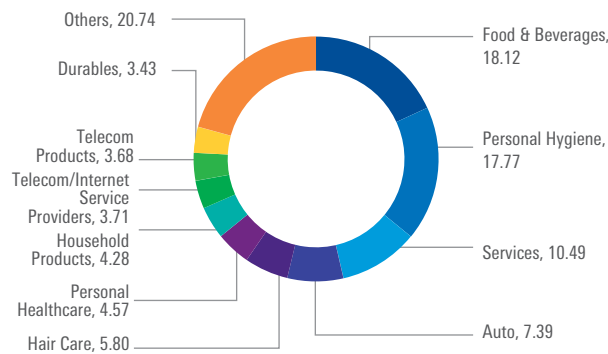
50. KPMG in India's analysis

51. Based on industry discussions

52. Based on industry discussions

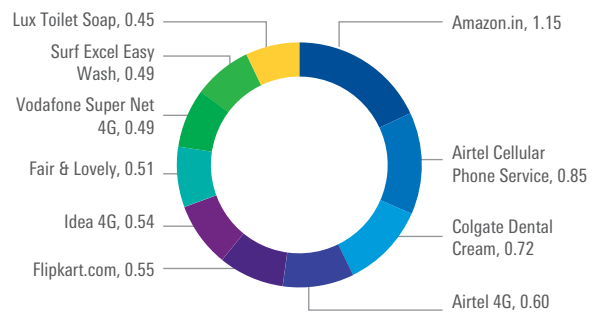
53. Based on industry discussions, KPMG in India's analysis

Top 10 Categories Advertising on TV - 2016 (Value Share%)



Source: TAM Media; 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.

Top 10 brands advertising on TV - 2016 (Value Share %)



Source: TAM Media; 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.

While the core consumption sectors like FMCG, Auto, Real Estate and BFSI kept on making steady contributions in terms of the advertising spends, the E-commerce companies cut back on their outlay in 2016, with their focus towards unit profitability. Spends by E-Commerce companies were in the range of INR100-120⁵⁴ billion in 2016, lower than last year's outlay. Of the overall TV advertising pie, the food and beverage and personal hygiene segments contributed nearly 36 per cent in terms of value, with a decline observed in the contribution of services sector in 2016, down to 10.5 per cent in 2016, from 12.2 per cent share in 2015⁵⁵.

There were some bright spots in the FMCG category like Patanjali, which kept up the advertising momentum even during the Nov-Dec 2016 period. The company inserted 1.14 million advertisements across various TV channels in 2016, translating into nearly 20 hours of TV advertising per day, of which more than 80 per cent is on news channels⁵⁶. In the e-commerce segment, Amazon as a brand emerged as the second largest spender across television, with a 1.15 per cent value share of the total television advertisements⁵⁷.

The launch of 4G services by Reliance Jio and other incumbent telecom operators was an important development in the latter half of the year, which helped mitigate the demonetisation impact to a small extent. The share of telecom related advertising grew to 7.4 per cent in value terms in 2016, up from 7.1 per cent in 2015. Airtel was the largest spender across television, with a 1.75 per cent value share of total television advertisements. Vodafone 4G and Idea Cellular 4G were also amongst the top 10 brands in 2016 by value share⁵⁸.

The sports genre also performed well in 2016, with two major cricket properties, IPL and T20 World Cup (hosted by India), clocking advertisement revenues of around INR10-11 billion and INR2.5-3 billion⁵⁹ respectively.

2017 is likely to see the introduction of GST and subsequent calibration time frame that the industry would require coupled with the Q1 impact of demonetisation. However, with four state elections in 2017, and robust growth expected across the government, telecom and fintech sectors, 2017 is likely to register a steady growth of 11 per cent.⁶⁰

Growth rates of E-commerce, Durables, Retail and FMCG sectors slowed down even before demonetisation in 2016. The impact of demonetisation has further affected ad spends of most consumption led sectors. This sluggishness is expected to continue till around April. Looking ahead, sectors like Auto, Media, BFSI, Fintech and the Government sector are likely to be growth drivers for TV in 2017

C.V.L. Srinivas
Chief Executive Officer - South Asia GroupM



54. Based on industry discussions
55. TAM Media; 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.
56. Baba Ramdev advertises Patanjali on TV for almost 20 hours a day, Economic Times, <http://brandequity.economicstimes.indiatimes.com/news/advertising/baba-ramdev-advertises-patanjali-on-tv-for-almost-20-hours-a-day/56884531>, accessed on 14 February, 2016

57. TAM Media; 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.
58. TAM Media; 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.
59. Based on industry discussions
60. Based on industry discussions, KPMG in India's analysis



India remains a strong consumption story in the long run, with GDP growth expected to be at 7 per cent levels and above in 2018⁶¹. With marquee events like IPL, T20 and ODI world Cups scheduled, and general elections in 2019, a healthy CAGR of 14.4 per cent for the TV advertising industry is projected over 2016-2021.

Broadcaster subscription revenues

The subscription revenue growth for the broadcasters stood at 11 per cent in 2016, lower than last year's estimates of 16 per cent⁶². The same was on account of the following:

- Impact of robust subscriber additions by FreeDish
- Slow progress on digitisation process with Phase 3 and 4 deadlines revised to January and March 2017, respectively
- Challenges around non-transparency of deals between broadcaster and distributors, non-ubiquitous implementation of subscriber management systems at MSOs/LCOs and incremental addition of lower ARPU customers to the digitised base, leading to marginal ARPU growth for Pay TV operators.

The subscription revenues for broadcasters are expected to grow at a CAGR of 19.3 per cent from 2016-2021 to reach a size of INR230 billion, translating into a 30 per cent share of the total TV subscription revenues⁶³. We expect the following growth drivers enabling this:

- Growth of HD subscription
- Increasing addressability on ground in Phase 3 and 4

- Implementation of TRAI orders in the near future to foster channel packaging and increased transparency amongst the stakeholders, resulting in higher ARPU growth and equitable up-streaming of revenues.

Genres

The Indian television viewership continues to be dominated by the general entertainment genre, with hindi and regional GECs leading the way. The viewership share of GECs stood in the range of 55-60 per cent in 2016, at similar levels of 58 percent in 2015⁶⁴

The movies genre accounted for 22-25 per cent viewership share in 2016, slightly higher than the 20 per cent share in 2015, with hindi movies garnering bulk of the same. News channels had an 8-10 per cent viewership share in 2016 with regional news accounting for the majority share. The kids genre remained at a 4-6 per cent share in 2016, on the same lines as last year.⁶⁵

Hindi GECs

The Hindi GECs continue to be the leaders in terms of advertising spends on TV. The inclusion of rural data in BARC measurements led to the opening up of an entire FTA 'Genre' with FTA variants of the major broadcasters i.e. Star Utsav, Zee Anmol, Rishtey (Colors) and Sony Pal, consistently featuring in the Top 10 channels list (U+R) throughout the year.

Fiction shows continued to be the viewership drivers in the Hindi GEC space, accounting for 8 spots out of 10 in terms of top primetime TV shows in 2016.

Top 10 Programs - HINDI GEC (Fiction + Non-fiction) (HSM U+R)

Rank	Channel	Description	Category	Impressions(000s)
1	Colors	Naagin	Fiction	17,694
2	Colors	Naagin-2	Fiction	13,752
3	Colors	Sansui Colors Stardust Awards	Non-Fiction	12,600
4	Zee TV	Kumkum Bhagya	Fiction	12,300
5	STAR Plus	Ye Hai Mohabbatein	Fiction	10,269
6	STAR Plus	Saath Nibhana Saathiya	Fiction	10,265
7	Zee TV	Brahmarakshas Jaag Utha Shaitaan	Fiction	9,335
8	Colors	Shakti-Astitva Ke Ehsaas Ki	Fiction	9,021
9	Zee Anmol	Jodha Akbar	Fiction	8,849
10	Sony Entertainment Television	Super Dancer	Non-Fiction	8,614

Source: Retrospect 2016 – Fiction or Reality, What India watched on Hindi GECs <http://www.bestmediainfo.com/2017/01/retrospect-2016-fiction-or-reality-what-india-watched-on-hindi-gecs/> accessed on March 3, 2017 (NCCS: All, Prime Time (18:00-23:30 hrs.) 4+; Week 1-48, 2016, ratings by BARC

61. Cash crunch causes economic engines to sputter, The Hindu Business Line, <http://www.thehindubusinessline.com/economy/fitch-lowers-fy17-gdp-growth-to-69/article9398928.ece>, accessed on 15 February, 2016

62. Based on industry discussions, KPMG in India's analysis

63. KPMG in India's analysis

64. Based on Industry discussions

65. Based on Industry discussions

The mass market genre remains strong in India, with content creation centered on the same. 'Naagin's' performance went from strength to strength in 2016, with Season 2 topping the charts as well, and other shows like 'Bramhrajshas' and 'Kavach' kept the supernatural/fantasy genre going. With the BARC rural ratings playing a major part in channel rankings, stories connected to the masses are likely to gain traction in the near future.

The non-fiction genre witnessed a plethora of shows such as 'The Voice Kids' (&TV), 'Power Couple' (Sony), 'Comedy Classes' (Life OK), 'So You Think You Can Dance' (&TV), 'Sa Re Ga Ma Pa' (Zee TV), 'Comedy Nights Kapil' (Colors), 'Comedy Nights Bachao' (Colors), 'India's Got Talent' (Colors), 'MasterChef' (Star Plus), 'Super Dancer' (Sony), 'Jhalak Dikhhla Jaa' (Colors), 'Big Boss' (Colors) and the ongoing shows 'Indian Idol' (Sony), 'The Kapil Sharma Show' (Sony), 'The Voice (&TV)' etc.⁶⁶ One of the most popular comedy shows on TV, Kapil Sharma's show, switched channels from Colors to Sony in 2016, and was the most loved character on TV.⁶⁷

In spite of the high costs associated with Non-Fiction shows (INR3-5 million per episode) vs Fiction (INR0.7-0.9 million per 23 minute episode), the focus of broadcasters on these was non-wavering, owing to the diversity and demographics that they bring to the channel⁶⁸.



India remains a mass market consumption story, and that translates to content on TV as well. While we have a Naagin with a blend of modern and traditional mythology rack up ratings, differentiated content on television may not grab the eyeballs. And with BARC now also measuring rural, the stories on TV are becoming increasingly localised, appealing to both the urban mass markets and the hinterland. Premium fiction content will find expression on OTT platforms, not broadcast television.



Sameer Nair

Group Chief Executive Officer
Balaji Telefilms Limited



Characters India loves

Rank	Character	Show	Channel
1	Kapil Sharma	The Kapil Sharma Show	Sony
2	Jethalal	Taarak Mehta Ka Ooltah Chashmah	SAB
3	Ishita	Yeh Hai Mohabbatein	Star Plus
4	Akshara	Yeh Rishta Kya Kehlata Hai	Star Plus
5	Ashok	Chakravartin Ashok Samrat	Colors
6	Pragya	Kumkum Bhagya	Zee TV
7	Dr. Mashoor Gulati	The Kapil Sharma Show	Sony
8	Sandhya	Diya Aur Baati Hum	Star Plus
9	Daya	Taarak Mehta Ka Ooltah Chashmah	SAB
10	Angoori	Bhabhiji Ghar Par Hain	&TV

Source: Ormax Media

2016 also saw broadcasters introduce original content in the early prime time band starting 5.30 PM. Star Plus introduced 'Jana Na Dil Se Door' at 5.30 PM, Colors had 'Ishq Ka Rang Safed' running at 6 PM, Sony had 'Mann Mein Hai Vishwas' at 7 PM and Zee has the likes of

'Sarojini' and 'Vishkanya' at 6-7 PM slot. With rural markets also in the measurement mix, these shows across early time bands hold good promise for the broadcasters.⁶⁹

66. Retrospect 2016: Fiction or Reality, what India watched on Hindi GECs, Bestmediainfo, <http://www.bestmediainfo.com/2017/01/retrospect-2016-fiction-or-reality-what-india-watched-on-hindi-gecs/> accessed on 2 February, 2017

67. Ormax Media

68. Based on industry discussions

69. Will early prime time programming work in favour of Hindi GECs?, Exchange4media, http://www.exchange4media.com/tv/will-early-prime-time-programming-work-in-favour-of-hindi-gecs_64759.html, accessed on 27 January, 2017



Regional channels

The regional channels continued their steady performance with an overall growth in line with the industry. The four southern language markets continue to account for nearly 2/3rd of the regional viewership in 2016. Telugu and Tamil channels garnered the highest viewership share amongst the regional channels at 23-25 per cent in 2016 with Kannada and Malayalam at 10-12 per cent and 6-8 per cent respectively. The Marathi and Bengali channels maintained their dedicated base in 2016 with around a 5 per cent viewership share each⁷⁰.

Regional markets continue to be lucrative for broadcast networks. The advertising potential of the four southern markets is estimated at around INR45-50 billion, with the Tamil Market at INR17-18 billion, Andhra at INR12-16 billion and Karnataka and Kerala at INR7-8 billion each. However, the regional channels have not seen as significant an interest from large GEC advertisers including the E-commerce segment, as compared to Hindi GECs⁷¹.

2016 saw the launch new channels in the GEC space and HD variants of existing channels. Colors launched its second Kannada GEC called Colors Super, along with HD variants of their portfolio in Kannada, Bangla and Oriya languages. Zee launched its youth targeted channel Zee Yuva and the HD version of Zee Marathi. Other channel launches include that of Madhimugam TV, a news and entertainment channel and of Saral Jeevan, the first Kannada infotainment channel⁷².

The industry has seen quality and breadth of regional content improve in 2016, with an increasing focus on Non-fiction shows like 'Dadagiri' (Zee Bangla) or 'Chala Hawa Yeu Dya' and 'Saregama' (Zee Marathi)⁷³. Fiction, though, still continues to be the main driver for ratings, and the content is intended to be mass based and relatable for the regional audiences. Channels across the board are focusing on original regional series, which has implications on content costs.

Regional language content is far more rooted and relatable as compared to Hindi GECs. Differentiated, mass based drama series work well in Marathi and Gujarati, with the market not having much inclination towards dubbed series

Anuj Poddar

Senior Executive Vice President

Viacom 18



The content production costs for southern market channels are at about INR0.12- 0.15 million, Bangala and Marathi at about INR0.12- 0.15 million and Gujarati at about INR0.1 million, marginally rising as compared to 2015⁷⁴

The content costs in Southern markets are rising due to continuous demand from customers for better quality. However, with a large number of channels in each language and subscription revenues still forming about 15 per cent of the overall Southern revenue pie, there is a need to ensure the intended implementation of DAS, in order to overcome the reliance on advertisement revenues

K Madhavan

Managing Director

South, Star India Private Limited



70. Based in Industry discussions

71. Based on industry discussions

72. KPMG in India's analysis

73. Here's how regional channels are giving Hindi GECs a run for their money, Economic Times, <http://brandequity.economicstimes.indiatimes.com/news/media/heres-how-regional-channels-are-giving-hindi-gecs-a-run-for-their-money/51951673>, access on 27 January, 2017

74. Based on industry discussions

Sports

The sports genre continued with 2015's strong momentum, with the major cricket properties, IPL and T20 World Cup recording revenues of around INR10-11 billion and INR2.5-3 billion respectively. Including the rural markets, the IPL reported a reach of more than 360 million in 2016.⁷⁵ Summed across the five channels over five weeks, the total viewership stood at 1.02 billion⁷⁶ BARC impressions, the highest in the history of the event. The continued success of IPL is likely to result in a bidding war for broadcast rights which are coming up for renewal in 2017⁷⁷.

Sony emerged as a major player in the genre in 2016, with the acquisition of Ten Sports' bouquet of channels and the launch of Sony ESPN (including HD version) in partnership with Walt Disney⁷⁸. With Sony holding rights to major overseas cricket properties and European football, the sports broadcast genre would effectively be a two player market in India.

Star Sports added more channels to their bouquet, with Star Sports Select HD 1 and 2 launched in July 2016⁷⁹. The HD only channels are intended to offer English Premier League, Bundesliga, Tennis Grand Slams and Formula 1. The Star group also continued investments and development of league based properties like Pro Kabaddi League, Indian Soccer League and Premier Badminton League. The Pro Kabaddi league had two editions in 2016, with an average impressions of 10 million⁸⁰.

The year also witnessed the rise of the digital platform in terms of sports viewership. For example, Hotstar bought the digital rights of IPL in 2016, and while 41 million people had watched the IPL on the platform in 2015, the numbers more than doubled to 100 million in 2016⁸¹. With Sony Liv's sports properties available on their digital platform, the viewership across the second screen is set to grow in 2017.

The IPL broadcast right renewals in the first half of 2017 will set the tone for the genre. Further, with major FIFA events like Confederations Cup and U-17 World Cup being held in India for the first time, are likely to spur football viewership further.

Kids

Television continued to top media consumption among kids of seven to fourteen age group with a penetration of 97 per cent⁸². The Kids entertainment genre is estimated at a size of ~ 400 million at present⁸³. It witnessed advertisement as well as subscription revenue growth of ~12 per cent in 2016⁸⁴.

Even though the potential of Kids genre remains under-indexed as compared to GECs; there has been a correction witnessed in the last year with advertisement rates rising by ~20 per cent⁸⁵. Current advertisement rates range between INR3,000-3,500⁸⁶. Animated content dominates kids' genre on TV, with the ability to transport kids to an imaginary world. Further, younger kids and toddlers, who have no preference for content view the same animations continually. The cost of animated content saw an increase in 2016, going up to INR2-4 million per 30 minute episode, having grown at 20-35 per cent⁸⁷.

The Kids genre has continued to attract audiences from both urban and rural markets, and the growth in terms of viewership and ad spends has been in line with the industry growth. Animation will continue to be dominant in the Kids content play, with rising efforts by the content producers and broadcasters to bring in more locally produced content. However, with cost of content rising, strong subscription growth would be essential to ensure profitable growth

Nina Elavia Jaipuria

Business Head - Kids Entertainment

Viacom 18



75. With over 357 million viewers, IPL 9 was a hit on and off the field, Economic Times, <http://brandequity.economictimes.indiatimes.com/news/digital/with-over-357-million-viewers-ipl-9-was-a-hit-on-and-off-the-field/52565075>, accessed on 7 February, 2017

76. 1.02 billion viewers watched IPL 9: BARC India, Best Media Info, <http://www.bestmediainfo.com/2016/06/1-02-billion-viewers-watched-ipl-9-barc-india/>, accessed on 7 February, 2017

77. Based on industry discussions

78. ESPN returns to India, ties up with Sony <http://www.vccircle.com/news/media-entertainment/2015/10/07/espn-returns-india-ties-sony> accessed on February 25, 2017

79. Sports TV 2016: Digital Explosion, player consolidation & confusion, Indiantelevision, <http://www.indiantelevision.com/specials/year-enders/sports-tv-2016-digital-explosion-player-consolidation-confusion-170102>, accessed on 27 January, 2017

80. http://www.business-standard.com/article/news-ians/pro-kabaddi-league-records-fourth-consecutive-season-of-viewership-growth-116081202025_1.html accessed on 17 February 2017

81. <http://techcircle.vccircle.com/2016/06/06/how-india-tuned-into-hotstar-to-watch-ipl-2016/> accessed on 25 February 2017

82. Turner-New-Generations-2016-Report

83. Nickelodeon sees a 40 per cent jump in ad sales in a year, Indiantelevision, <http://www.indiantelevision.com/television/tv-channels/kids/nickelodeon-sees-a-40-per-cent-jump-in-ad-sales-in-a-year-160425> accessed on 14 February 2017

84. Based on industry discussions

85. Based on industry discussions

86. Based on industry discussions

87. Based on industry discussions



2016 also saw an increasing shift in content from international to local production. Nickelodeon's local animated production 'Motu Patlu' performed well on the viewership charts, validating the growing popularity of local Indian content⁸⁸. Local content constitutes ~50 per cent of programming for segment leaders like Sonic-Nickelodeon and Nick Junior⁸⁹. From a supply side perspective, local production is an attractive proposition for broadcasters as it gives the flexibility of IP ownership/retention which does not exist while acquiring international content

The year also saw the launch of Maha Cartoon by the DV Group, the first FTA kids channel. The channel aims to benefit from being the first-mover in the FTA segment and reach out to the 65 per cent kids target audience in rural and semi-urban India, with a focus on animated characters created by local production teams.⁹⁰

Digital media too has contributed to kids' content consumption, with major platforms viewing the smartphone as a complementary medium to television, than being a cannibalising force. Popular international show 'Peppa Pig' experienced a unique entry in India, by being offered first on VOOT (Viacom18's digital platform) and in stores (through the merchandising arm of Viacom18) and then airing on television on Nick Jr⁹¹

News

The News genre has seen a surge in viewership in the last quarter of 2016 due to various political news pieces, demonetisation announcement and subsequent budget build-up. However, the impact of this viewership growth did not translate into commensurate advertising growth due to the effects of demonetisation.

The year witnessed conversion of many pay news channels to FTA, with Zee News (Hindi) and News 18 (Hindi, Kerala, Tamil Nadu and Assam) making the switch, and joining leading channels like Aaj Tak and India TV on the FTA platforms. The impact was felt on subscription revenues that fell ~40 per cent for Zee Media Corporation (Q2' FY'17 YoY)⁹². Top spenders in news advertisements have been BFSI, Telecom, FMCG, Education and Automobile sectors. Patanjali has the bulk of its advertisement insertions on news channels (>80 per cent)⁹³

However, rural markets continue to contribute to less than 10 per cent⁹⁴ to TV news ad revenues, and that remains a potential growth area for broadcasters.

Channel launches in 2016 include that of WION, a FTA global English News channel by Zee TV Group and of Maay Marathi, News 18 Assam/North East, News18 Kerala and News18 Tamil Nadu amongst regional channels. Digital news gained popularity, boosted by expansion of traditional TV and print players in digital and rising penetration of social media. Lower data prices and rising adoption of smartphones have further caused time shift in news consumption from the traditional morning routine to anytime, anywhere consumption.

While the count for advertisers in print was above 2 lakhs in 2016, the same didn't even touch 15,000 when it comes to Television advertising. With a deeper insight into rural viewership through BARC ratings, this gap is expected to decline, as more and more advertisers take note of the potential of reach of news channels, and progressively engage with news broadcasters

Avinash Kaul

Managing Director, A+E Networks | TV18
and President - Strategy, Product
& Alliances
Network18



English

The english genre had a challenging 2016, marked by the issue around decline in BARC ratings for english entertainment and movies. With the weightage of english genre in the panel altered drastically due to the rural inclusion, many channels saw a drop in ratings, when in fact the absolute number of viewers for the english entertainment genre increased from 7.22 million impressions in December 2015 to 7.67 million impressions in December 2016.⁹⁵

The number of viewers of english language content in India today is ~220 million⁹⁶, out of which 60 per cent comes from six metros and 40 per cent comes from non-metros. Viewership contribution from non-metros has risen from 20 per cent earlier⁹⁷. Channel launches of Sony Le Plex HD, by Sony Pictures Network and of Movies Now 2 SD and HD by Times Network⁹⁸, further validate the growing english viewership.

88. Nick's Motu Patlu regains top position: BARC week 49, Indiantelevision, <http://www.indiantelevision.com/television/tv-channels/viewership/nicks-motu-patlu-regains-top-position-barc-week-49-161215> accessed on 20 February, 2017

89. Based on industry discussions

90. Maha Cartoon targets 65 per cent rural HSM via DD FreeDish, 2000 LCOs, Indiantelevision, <http://www.indiantelevision.com/television/tv-channels/kids/maha-cartoon-targets-65-per-cent-rural-hsm-via-dd-freedish-2000-lcos-161027> accessed on 14 February 2017

91. Nick Jr to premiere 'Peppa Pig' show in India, Indiantelevision, <http://www.indiantelevision.com/television/tv-channels/kids/nick-jr-to-premiere-peppa-pig-merchandise-in-india-161228> accessed on 14 February 2017

92. Subscription revenue drying up for news broadcasters with Hindi news channels going FTA, Televisionpost, <http://www.televisionpost.com/television/subscription-revenue-drying-up-for-news-broadcasters-with-hindi-news-channels-going-fta/> accessed on 20 February, 2017

93. <http://brandequity.economicstimes.indiatimes.com/news/advertising/baba-ramdev-advertises-patanjali-on-tv-for-almost-20-hours-a-day/56884531> accessed on 21 February 2017

94. Based on Industry Discussions

95. #OpinionsThatCount: Are niche channels getting their due in expanded BARC universe?, Bestmediainfo, <http://www.bestmediainfo.com/2017/01/opinionsthatcount-are-niche-channels-getting-their-due-in-expanded-barc-universe/> accessed on 17 February, 2017

96. Based on industry discussions

97. English Entertainment TV channels: At inflection point?, Indiantelevision, <http://www.indiantelevision.com/television/tv-channels/english-entertainment/english-entertainment-tv-channels-at-inflection-point-160418> accessed on 14 February 2017

98. KPMG in India's analysis

Contrary to popular perception, the English genre in 2016 witnessed a growth in the absolute number of viewer impressions. With significant push towards digitisation and smartphone proliferation, English as a language is making inroads into homes across India. We believe there is room for double digit growth in the genre for 2017

MK Anand

Chief Executive Officer and
Managing Director

Times Network



The same can be credited to English-speaking population in smaller cities, increasing simulcast of fresh content, growing theatrical distribution of international films in more screens dubbed into different languages and greater investment in quality content acquisition/production

The content costs demanded by international studios and distributors have gone up by 150 per cent in the last three-four years. The cost per hour for an international TV series is between INR0.45 million and INR0.6 million, irrespective of whether it is a hit overseas or not. Also, with the entry of global SVoD platforms Amazon and Netflix and their investments in acquiring English content has further put strain on the content costs. However, English broadcasters are negotiating lower sums in case of rights being digital first and non-TV exclusive.

English entertainment genre has seen an advertisement growth of 10-12 per cent, which is in line with the overall broadcasting average. English GECs attract premium brands who enter into large inventory deals as advertisers. They are selected in media plans for premier viewership, relevance and frequency, since the entry cost is lower, taking the ratings into account. TV spot rates for this genre is INR4,000 for 10 seconds during weekdays and INR40,000 for the weekend marathons.⁹⁹

The entry of global digital platforms, offering large libraries of English content, is likely to change the dynamics of English entertainment viewing. With premium content being available on-the-go and on demand, OTTs are likely to eat into customer viewership share of Television. While advertising on digital has not progressed in a commensurate manner, with third party measurability on digital being envisaged by BARC, English broadcasters could face a tough battle on their hands.

Hindi movies

The year for hindi movies genre has been marked by launch of FTA channels by major broadcasters to cater to the unserved rural and small-town population. Rishtey Cineplex, Sony Wah, Star Utsav Movies and Zee Anmol Cinema were launched by Viacom18, Sony Pictures Networks, Star India and Zee Enterprises Entertainment, respectively¹⁰⁰. This is largely because of recalibration of viewership measurement in favour of rural markets by BARC and the penetration of Free Dish in rural and semi-urban India.

The year also broke the highest historical record of film C&S rights with Dangal being sold at INR75 crore to Zee Entertainment¹⁰¹. The overall C&S revenues of Bollywood films registered a growth of 10 percent in 2016 as compared to the previous year. However, over 50 per cent of movies remain unsold to C&S and the rights value for medium to small budget movies has not kept pace with time¹⁰². Yet, with aggressive channel launches by broadcasters and growing OTT VoD viewership, the pricing of movie rights is expected to see some competition and unsold inventory will be monetised going forward.

The threat from OTT VoD however, has been limited when it comes to hindi movies, because the same kind of audience uses both mediums – TV and digital – to watch movies. The content gap that existed in television shows, was never present in movies. TV is catering to the masses – whereas, films have retained their presence across categories. High budget movies are likely to continue seeing demand on the C&S platforms while small budget/independent movies could find digital as an attractive medium to reach their targeted audiences.

99. English Entertainment TV channels: At inflection point?, Indiantelevision, <http://www.indiantelevision.com/television/tv-channels/english-entertainment/english-entertainment-tv-channels-at-inflection-point-160418> accessed on 14 February 2017

100. KPMG in India's analysis

101. Dangal Satellite Rights Sold To Zee For Rs 75 Crore. Biggest Deal Cracked In Bollywood?, spotboye, <http://www.spotboye.com/bollywood/news/dangal-satellite-rights-sold-to-zee-for-rs-75-crore-biggest-deal-cracked-in-bollywood/58512d45db04aa66a5ee57e?fromNewsdog=1> accessed on 20 February, 2017

102. Based on industry discussions



There has been an overall growth of 13-15 per cent as far as C&S budgets of broadcasters are concerned. The reasons for the same are the launch of new channels in the genre and the correction in pricing over the years. Digital rights of movies have started to be unbundled from their C&S rights, especially with OTT players on a rights acquisitions spree

Hiren Gada

Director

Shemaroo Entertainment Limited

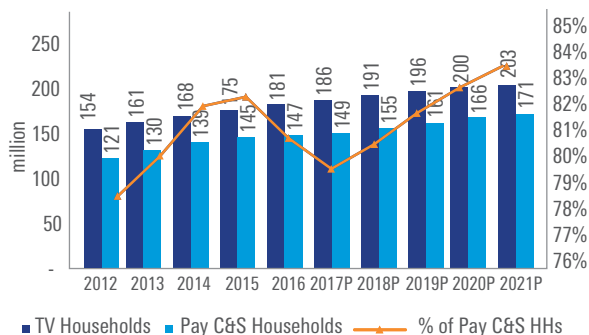


The TV value chain - distribution

Television subscriber base

The number of TV households in India increased to 181 million in 2016, resulting in a TV penetration of 63 per cent. The industry witnessed net addition of 9 million Cable and Satellite (C&S) subscribers in 2016, ending with a C&S base of 169 million. The net additions were short by about a million due to slowdown in acquisitions owing to demonetisation. The short term blip of demonetisation is not likely to affect the long term macro-economic indicators, with the TV households estimated to reach 203 million by 2021, implying a total TV penetration of 67 per cent¹⁰³.

TV households and Pay C&S penetration



Source: KPMG in India's analysis 2016 based on data collected from industry discussions

103. KPMG in India's analysis
104. KPMG in India's analysis

The Pay C&S subscribers are estimated at 147 million in 2016, 81 per cent of the overall TV households. The same is estimated to rise to 164 million with the Pay C&S penetration reaching 84 per cent by 2021, after a decline in the near term. The same is due to FreeDish projected to continue its robust subscriber growth, from an estimated 22 million in 2016 to 31 million subscribers by 2018. However, potential upgrades from FreeDish to Pay C&S is expected to result in the FreeDish subscriber base bottoming out at 30 million by 2021. An approximately equal distribution between Pay DTH and Digital cable is projected, at 86 and 84 million subscribers for the respective platforms by 2021¹⁰⁴.

We see a majority of digitisation complete in DAS 3, with the court orders likely to help the same further. However, it may realistically take 15 months to reach a significant penetration of Digital TV in DAS 4. FreeDish has emerged as a serious contender to garner a substantial market share of the incremental additions from DAS 4. However, this remains a mostly Hindi phenomenon, with negligible South presence on the DD Platform

Anuj Gandhi

Group Chief Executive Officer

IndiaCast



TV subscription revenues

The overall TV subscription revenue growth was tepid at 7 per cent in 2016 with a size of INR387 billion, lower than the 13 per cent growth projected¹⁰⁵ in last year's report. The decline in growth was due to the following factors:

- Higher than anticipated uptake of FreeDish, with the platform's subscriber base estimated at 22 million impacting the share of Pay C&S TV
- Slower than envisaged pace of digitisation, with Phase 3 and 4 still having an analog base of 47 million subscribers¹⁰⁶.
- Concerns around the readiness of subscriber management systems for channel packaging, transparent revenue sharing arrangement across the value chain, leading to non-realisation of the intended revenue benefits of digitisation
- Marginal ARPU growth due to incremental customer additions coming in at lower ARPU levels.

105. KPMG in India's analysis
106. KPMG in India's analysis, Based on industry discussions

The tariff orders and interconnect regulations released by TRAI in March 2017 could be a game changer for the industry and unit economics of each player. The regulations intend to usher in everything that addressability intended to; but with significant changes to business models and internal systems that these guidelines could bring about for all stakeholders, implementation is foreseen to be a long-drawn challenge.

Nonetheless, we envisage some form of these regulations, taking into account the concerns of all stakeholders, to emerge within the coming couple of years. The same are expected to result in better ARPU realisations and along with HD adoption and upselling to consumers, the subscription revenues are expected to grow at a CAGR of 14.8 per cent from 2016-2021 to reach a size of INR771 billion¹⁰⁷.

Status of digitisation as on Dec 2016

	Regulatory Sunset Date	No. of C&S Subs (mn)	Non-Digitised Base (mn)	Digitisation per cent
Phase 1	Jun-12	14	0.2	100 per cent excluding Chennai
Phase 2	Mar-13	28	0.3	100 per cent excluding parts of TN
Phase 3	Jan-17	44	5	~90 per cent
Phase 4	Mar-17	83	42	~50 per cent
Total		169	47	~70 per cent

Source: KPMG in India's analysis based on data collected from industry discussions

Television remains amongst the most important entertainment mediums in the country. The process of digitising this medium began with Phase 1 in 2012 and has progressed slowly, with persistent challenges. At the end of 2016, the digitisation of C&S households was around 70 per cent¹⁰⁸, up from 60 per cent in 2015, with parts of Phase 3 and a substantial base in Phase 4, still non-digitised. The Ministry of Information and Broadcasting (MIB) extended the deadline for Phase 3 and 4 of DAS to 31 January 2017 and 31 March 2017 respectively¹⁰⁹.

With around 47 million estimated C&S households yet to be digitised, the resurgence of FreeDish observed in 2016 is likely to gather further momentum in 2017. As per our estimates, the active subscribers for Pay DTH and Digital Cable grew by 24 per cent in 2016, reaching a base of 54 and 45 million respectively. The subscriber growth for FreeDish was impressive at 47 per cent YoY, touching an active base of 22 million subscribers at the end of 2016¹¹⁰.



DAS-4 is a big subscriber acquisition opportunity for Distribution Platforms, especially DTH. While there are around 80 mn total C&S homes in these geographies; half of these have already become Digital. The remaining 40 mn will be converting from Analog to Digital. That decision point will be the moment of truth. Some states like Punjab and Gujarat are already well on their way towards complete Digitisation. While seeding of STBs is continuing by cable operators in DAS-4 geographies, monetisation remains an issue. Momentum towards DAS-4 implementation at the ground level will build up only after the final Sunset date is announced; and even after that, full rollout will take 18-24 months.



Arun Kapoor
Chief Executive Officer
Dish TV



107. KPMG in India's analysis

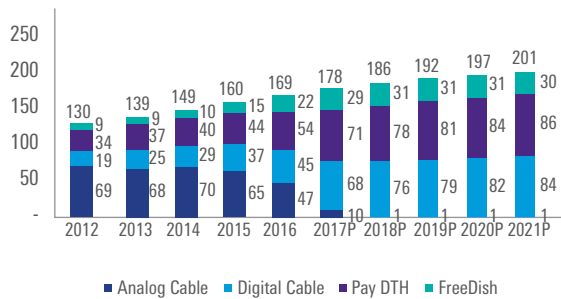
108. Industry Discussions, KPMG in India's analysis

109. Govt extends deadline for Phase III and IV of cable digitization <http://www.livemint.com/Politics/4nnlcvsgPN6adyonkN4W6N/Govt-extends-deadline-for-phase-III-and-phase-IV-of-cable-di.html> accessed on February 25, 2017

110. Industry Discussions, KPMG in India's analysis



C&S subscriber split by distribution platform (million)



Source: KPMG in India's analysis based on data collected from industry discussions and secondary research. Pay DTH numbers have been analyzed taking into account reported subscriber base of listed players and TRAI data; and have been adjusted downwards taking into account the rolling monthly churn and inactive subscribers, based on industry discussions. FreeDish numbers are based on industry discussions and estimates. Our numbers assume Phase 4 digitization to reach a maximum of 98 per cent, spilling over to CY'2018

Phase 1 and 2

The process of digitisation has been largely complete in both phases, with the exception of Chennai and some parts of Tamil Nadu where the matter is under litigation. MSOs with an established customer connect stand to garner the majority of Phase 1 and 2 additions (residual non-digitised base and New market additions) in the near future.

Phase 3 and 4

Phase 3 and 4 digitisation was slow in 2016, due to ongoing litigation around the process. Upon the direction of the Hon' Supreme Court, the Delhi High Court dismissed petitions from Karnataka (Riddhi Vision, Victory Digital, Sri Chowdeshwary Cable Network, Yogesh Cable Networks, Amma TV), Kerala (Athulay Infomedia), Andhra Pradesh and Telangana (Panchajanya Media), and Uttar Pradesh (Sai Cable TV Network, Sunil Kr Singh) against Phase 3 implementation, in November 2016¹¹¹.

Subsequently, the MIB extended the deadline for switching off Analog cable signals for Phase 3 and 4 to 31 January 2017 and 31 March 2017 respectively, as compared to the earlier date of 31 December 2016. While the Government claimed an almost 100 per cent seeding of STBs in Phase 3¹¹², the estimated completion stands around 90 per cent by 2016¹¹³.

Our discussions with industry stakeholders indicates that on ground implementation of Phase 3 and 4 may take another 3 and 12-15 months respectively.

Digital Cable is poised to gain significantly from DAS 3 and 4 incremental additions. We envisage Digital Cable to take a sizable share in the C&S market space and in the long run, with the deep customer connect; Digital Cable has a definite edge over DTH. However, the major challenge for MSOs presently remains the ARPU realisations, which are not even 30 per cent of what the customer pays, and a share of that goes to the broadcasters as well. We believe that the TRAI draft tariff orders are a step in the right direction toward ensuring better revenue realisation across the TV value chain, provided litigations around the orders are addressed

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Senior Vice President- Operations,
IMCL (InCable)

Hinduja Media Group



The rapid growth in FTA channels and consumers looking at FreeDish as an alternative entertainment platform means that there is now a three way battle between platforms for the residual analog market.

The DTH industry with its capability for quick deployment in difficult terrain, is likely to see a higher share of additions as compared to Phase 1 and 2. MSOs with a personalised customer connect and local channel presence, are estimated to continue seeing significant traction. However, both Pay TV platforms will face competition from FreeDish, which as per industry estimates, could end up with a 15-20 per cent share of the residual analog base.¹¹⁴

The impact of FreeDish could be even higher at around 30-35 per cent share for new C&S additions to the market, with a first time cable TV consumer likely to have higher propensity towards going in for the most cost effective option, and yet not getting left behind on the entertainment quotient.¹¹⁵

The Government is continuing its initiatives to enhance viewer choice and experience on FreeDish. Currently, the platform is capable of carrying 80 TV channels, however, consumers would need to obtain iCAS (Indian CAS) enabled MPEG-4 set top boxes to view an additional 24 channels, envisaged by March 2017. In the long run, the plan is to expand the FreeDish capacity to 250 channels¹¹⁶.

111. Delhi HC clears cable digitization hurdles, removes stay on DAS Phase 3, business-standard, http://www.business-standard.com/article/current-affairs/delhi-hc-clears-cable-digitization-hurdles-removes-stay-on-das-phase-3-116110701239_1.html accessed on 20 February, 2017

112. Minutes of 15th Meeting of Task Force http://mib.nic.in/writerreaddata/Minutes_of_the_15th_meeting_of_task_force_held_on_30.05.2016.pdf accessed on 17 February 2017

113. Based on industry discussions, KPMG in India's analysis

114. Based on industry discussions

115. Based on industry discussions

116. FreeDish's first e-auction after upgradation in Mar, Indian Television, <http://www.indiantelevision.com/television/tv-channels/terrestrial/freedishs-first-e-auction-after-upgradation-in-mar-170206>, accessed on 15 February, 2017

However, the relatively weak presence of south Indian-based content on the FreeDish platform could be an opportunity for MSOs and DTH players. As per Chrome Data Analytics and Media, as on Dec '16; large parts of the HSM markets had moved towards digitisation, while a significant portion of southern markets remain analog.

Challenges plaguing realisation of digitisation benefits

Digitisation was intended to bring in significant long term benefits for the entire TV Value chain in terms of addressability at the LCO level, choice to the consumer, plugging the leakage of revenues which would result in an ARPU increase across the value chain and higher taxes for the government, minimisation of carriage fees and increased transparency across industry stakeholders.

More than 3 years into Phase 2 digitisation completion, and many of these issues still remain. The up-streaming of revenues from LCOs to MSOs and eventually the broadcasters, has not materialised as envisaged. The Billing in Phase 1 and 2 based on channel packages is not ubiquitous, resulting in MSOs continuing to collect a fixed amount from the LCOs. The above factors have resulted in ARPUs remaining stagnant across phases.

DTH and digital cable ARPUs

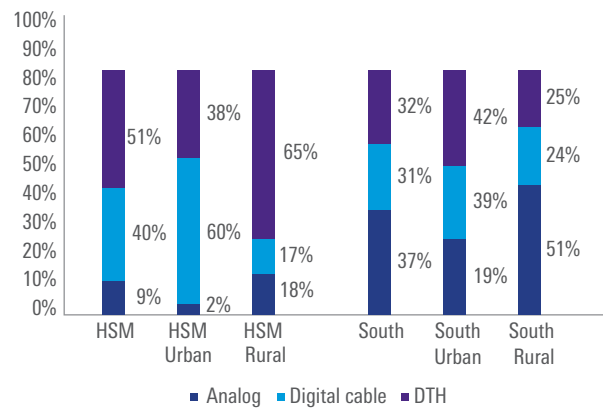
ARPU (INR)	2015	2016	2017P	2018P	2019P	2020P	2021P	5 Year CAGR
DTH	248	255	266	290	325	361	400	
% Growth YoY		3%	4%	9%	12%	11%	11%	9%
Digital Cable	214	217	224	251	286	326	368	
% Growth YoY		1%	4%	12%	14%	14%	13%	11%

Source: KPMG in India's analysis based on data collected from industry discussions

The net ARPUs for MSOs stand at INR95-105 for Phase 1, INR80-90 for Phase 2 and INR35-40 for Phase 3 and 4, implying a marginal growth from 2015¹¹⁷. Stakeholders have also pointed out that in spite of STB deployment in Phase 3 and 4, the realisations per subscriber are still based on old analog rates, as on ground digital collections have not yet materialised. Further, implementation of subscriber management systems at the MSO end is not widespread, leading to challenges around broadcasters ascertaining their share of the subscriber revenues.

These factors have ensured that content deals between broadcasters and distributors remain largely on a fixed

Digitisation status - HSM vs South – December 2016



Source: Chrome DM

fee basis, with only a few broadcasters dealing on a Cost per subscriber (CPS) basis. Also, contrary to expectations on carriage fee decline, the same remained flat in 2016, due to new channel launches, especially broadcasters launching HD versions of their popular channels. In the absence of an uptick in subscription revenues, MSOs continue to be dependent of carriage fee to sustain their cash flows. As a result, content deals between broadcasters and distributors net of carriage has become a norm.

117. Based on industry discussions, KPMG in India's analysis



The Pay DTH operators witnessed flat to marginal growth in ARPU in 2016 as well. Pack price increases ranging from 5-8 per cent in March 2016 by leading players (excluding the INR99 packs)¹¹⁸, and efforts towards upselling of HD channels were neutralized by incremental

subscribers from Phase 3 and 4 coming in at lower price points. To encounter the FreeDish threat, major DTH operators launched entry level packs at INR99, consisting of FTA channels with a mandatory regional/add-on pack.

Entry level packs by major DTH players

Operator	Pack Pricing	No. of Channels	Conditions
Airtel DTH	My Plan 99	Upto 120	Mandatory Add-On/Regional Pack ranging from INR36-120/month
Dish TV	Dish 99	Upto 180	Regional Add-on/3 Entertainment Add On packs; Starting INR40/month
Videocon D2H	Flexi 99	Upto 156	Minimum 2 FlexiAdd- on packs ranging from INR30-110/month
Tata Sky	My 99	Upto 246	Atleast one Add-on Pack starting INR35/month

Source: KPMG in India's analysis based on information provided on DTH operators' websites

The ARPU growth for the Industry remained largely subdued in 2016. While the pack price increases effected by most players, along with efforts to drive HD adoption were Pull up factors, the majority of the incremental subscriber additions were from DAS 3 and 4, which came in at lower ARPUs than average, resulting in muted ARPU growth

G Sambasivan
Chief Financial Officer
Tata Sky

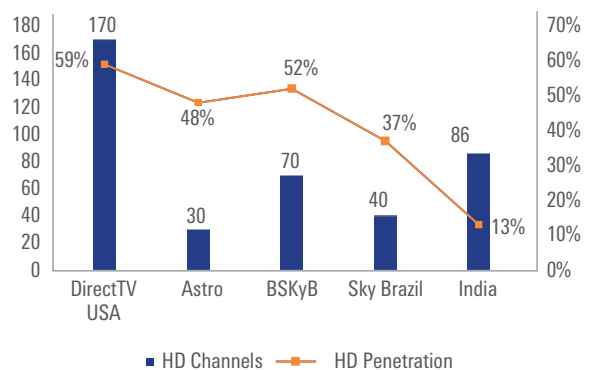


The ARPU growth for 2017 is expected to remain flat, for both Pay TV platforms, owing to the immediate focus on completion of the digitisation process. Further, despite foreseeable challenges around litigations on the tariff and interconnect regulations; their eventual implementation by the regulator, in a form and manner acceptable to the stakeholders, is essential to realise the monetisation benefits from the entire digitisation process. Post 2017, an uptick in the ARPUs is estimated, with a 2016-2021 CAGR of 9 per cent and 11 per cent respectively for Pay DTH and MSOs¹¹⁹.

Uptake of HD channels and value added services

The year saw a steady uptake of HD channels, with an estimated ~7 million HD connections in India, majority of them on the DTH platform. The number of HD offerings increased across the board, including regional channels, leading to ~80 HD channels being offered to consumers by the end of 2016. HD channels are dominated by Sports and movies genres, while Hindi and regional GECs are also seen to be catching up. However, the HD penetration of India stands at ~12-15 per cent (of total DTH subscribers)¹²⁰, significantly lower as compared to global peers, thus indicating a huge growth potential.

HD penetration - India vs Global players



Source: Nomura Report – India media sector: Digitization to drive monetization, January 2017
The number of HD channels in India takes into account the maximum HD channels available across platforms, as on Feb 25, 2017. The HD penetration denotes overall HD industry subscribers as a % of total DTH subscribers

118. DTH subscription price increase and its impact on ARPU, TelevisionPost, <http://www.televisionpost.com/dth/dth-subscription-price-increase-and-its-impact-on-arpu/>, accessed on 5 January, 2017

119. KPMG in India's analysis

120. Nomura report - India media sector: Digitization to drive monetization, January 2017

The incremental adds for DTH operators are seeing a ~30 per cent representation of HD subscribers, across Phase 1, 2 and 3. The same results in an ARPU uptick, as a HD subscriber pays INR100-125 more than a comparable SD subscriber.¹²¹ Although HD penetration amongst MSOs has not picked up steam, an increased focus on this segment is expected in 2017.

Some DTH players are also trying to integrate global OTT offerings into their platforms, with a view to provide diversified offerings to their consumers and a potential uptick in the ARPUs. For example: Netflix has tied up with Airtel DTH and Videocon D2H, wherein Netflix content shall be available on television using a Smart HD box.¹²²

Broadband subscriber base of major MSOs

No. of Broadband Subscribers ('000s)	Dec-15	Dec-16	YoY Growth %
Hathway Cable and Datacom	567	860	52%
Den Networks	76	159	109%
Siti Networks	107	213	99%
Total	750	1,232	64%

Source: KPMG in India's analysis

Hathway Cable and Datacom broadband revenues were reported to be higher than their Cable TV subscription revenues for two straight quarters (Sept and Dec'16), with healthy ARPUs at INR654 for the Dec-16 quarter. Ortel Networks, Odisha's largest MSO, has planned an outlay of INR3 billion over the next 2 years on expansion of their broadband infrastructure.¹²⁴ Most of the MSOs are now moving to the DOCSIS 3.0/3.1 technology in order to provide higher data speeds and capacities to their customers¹²⁵.

Investments in network maintenance and customer service would be the key for MSOs as most of their networks are overhead, which are prone to frequent faults, as compared to a completely underground network.

“ HD uptake holds promise with Phase 3 likely to be the largest contributor to the adoption. The industry is pushing a HD box to the consumer, even if the pack subscriber is a SD pack, as that allows for an opportunity to upsell. HD sachets can play an important role going ahead in giving consumers a taste of the HD experience ”

Anil Khera
Chief Executive Officer
Videocon D2H



Broadband services by MSOs – The key focus area

Wired broadband in India lags behind wireless internet by a large margin, with 21.3 million wired internet subscribers as compared to 346.2 million wireless broadband subscribers, as on 30 September 2016¹²³.

The Pan India reach of MSOs represents an opportunity for the industry to tap into the rapidly growing needs of a data hungry nation, by providing cost effective, high speed connectivity to users; as traditionally wired internet does not have to contend with high spectrum costs.

The MSOs made rapid strides in terms of their subscriber acquisitions with the top 3 MSOs registering a 64 per cent growth in broadband subscriptions over 2016.



121. Based on industry discussions

122. Netflix signs deal with Airtel, Videocon D2H and Vodafone <http://economicstimes.indiatimes.com/industry/tech/internet/netflix-signs-deals-with-airtel-videocon-d2h-vodafone/articleshow/57490898.cms> accessed on 6 March 2017

123. Telecom Regulatory Authority of India Performance Indicator report for QE September 2016

124. Ortel to invest Rs 300 Crore to spruce up infrastructure, Economic Times, <http://economicstimes.indiatimes.com/industry/media/entertainment/media/ortel-to-invest-rs-300-crore-to-spruce-up-infrastructure/articleshow/56722633.cms>, accessed on 10 February, 2017

125. Based on industry discussions



The GST impact on television

The Goods and Services Tax (GST) is envisaged to be implemented by the Central government in FY'2018 and is expected to simplify the multiple incidence of taxes currently being levied by Central and State governments.

The GST impact on TV distributors (DTH and MSOs) is expected to be largely positive, with the tax incidence likely to come down with the single GST rate as compared to the current levy of Service tax at 15 per cent and Entertainment Tax (depending upon the state). The MSOs however, might have a higher tax outgo for broadband services, which current attract a Service tax of 15 per cent

TV broadcasters would likely see a rise in taxation from the current service tax to the final GST rate. The broadcasters though, have been pitching with the government for parity with print for being considered as an item of mass consumption. The availability of input tax credit for production companies could help bring down their tax outgo.

“ We are entering a new age of story-telling and content. Technology has changed habits and content structure dramatically. Today's viewer is seeking out breakthrough stories in more on-demand platforms. Currently, the industry effectively serves and addresses only some of these content experiences. In partnership with the creative ecosystem, we should make more relevant shows and stories that resonate better and connect with viewers in the new digital world

Mahesh Samat
Managing Director
Disney India



OTT – Complimenting the TV screen

The year witnessed a proliferation of Over the Top (OTT) video platforms across the value chain, with broadcasters, content creators, independent players and telecom operators, all staking a claim to the fast growing digital consumption pie.

India saw the entry of two of the largest international Video on Demand (VoD) players – Netflix and Amazon Prime Video. It also witnessed the entry of Reliance Jio network with its bouquet of media services, free of cost for a specified time period. Following Jio's launch, aggressive data price cuts by telecom players further facilitated high speed internet to become more mainstream¹²⁶. Internet consumption habits of Indians are getting revolutionized and the share of video as a percentage of data consumption is on the rise.

In spite of the crowding in the OTT space, YouTube remains the largest destination for video content supply and consumption¹²⁷, and has been the original vehicle carrying media libraries of broadcasters to consumers.

The year also saw country's major TV broadcasters consolidate their digital offerings by focusing on catch up television and live sports.

While the likes of Zee and Sony continue to provide content on YouTube, others like Viacom18 have moved all their content exclusively to their own platform, VOOT to ensure better customer experience and monetisation.

Hotstar and VOOT are amongst the leading OTT video platforms in India after YouTube. They have fared well on their strategy to deliver existing content across all platforms and screens. For example, Big Boss bags amongst the highest viewership for Viacom18 on both VOOT and Colors. VOOT has generated over hundred million views for Big Boss, and the average time spent daily on the show online is 70 minutes.¹²⁸

The advertiser interest in digital is likely to grow due to the medium's inherent ability to accurately target consumers. However, digital currently lacks an independent measurement system to ascertain advertisement efficiency, leading to constant CPMS at around USD 2-3 (INR135-200) during last year¹²⁹. Looking ahead, with third party measurement systems like BARC's on the anvil, and evolution of science to evaluate advertisement efficacy, the growth of digital advertising is not likely to abate.

On the monetisation front, Advertisement Video on Demand (AVOD) has emerged as the business model of choice for most players. AVOD intends to build habit amongst consumers to experience online video and allows platforms to achieve critical viewership. Of Hotstar's total revenues of INR1.85 billion in FY'16¹³⁰, 75 per cent was contributed by advertising and only 13 per cent was subscription based. To extract both data costs and subscription revenues from Indian consumers would need high quality tentpole content.

With VOD consumption envisaged to spread across a wider demographic with large scale proliferation of

126. Based on industry discussions

127. Based on industry discussions

128. Based on industry discussions

129. Based on industry discussions

130. Hotstar's revenue grows amid losses, Televisionpost, <http://www.televisionpost.com/special-reports/hotstars-revenue-grows-amid-losses/> accessed on 20 February, 2017

131. Based on industry discussions

smartphones, content creators are looking at differentiated content, ranging from episodic web series, stand-up comedy, sketches to movie reviews and short films, to be made specifically for digital audiences. Focus on creation of original entertainment content is expected to continue and gather more steam in 2017. Players like Balaji's ALT, Arre, TVF, etc. have based their business models around originals¹³¹. However, originals come with a cost that can be recovered in a sustainable model through SVOD, which is essential in the long run.

On the capability side, boundaries between different layers of the digital video value chain are blurring as companies are looking to build end to end competencies to reach the consumer. Examples can be seen in telecom players launching their OTT platforms (Jio Play, Airtel Wynk), traditional TV content producers launching their own platforms (Balaji ALT), and so on. A collaboration between various players in the value chain, for example, telecom operators and content creators/broadcasters, to leverage each's core capabilities and build a compelling end to end offering for the consumer, can be expected from the sector going forward

The concept of 'Cord-cutting' in terms of OTT taking over Television is not likely to play out anytime in the near future. Television remains extremely affordable and the dominant family screen across India and with

the digitisation process and rural India coming into the measurement fold remaining key plays, TV growth does not seem to be under threat. Digital is likely to co-exist and complement TV, with stakeholders working towards realizing synergies from best of both worlds.

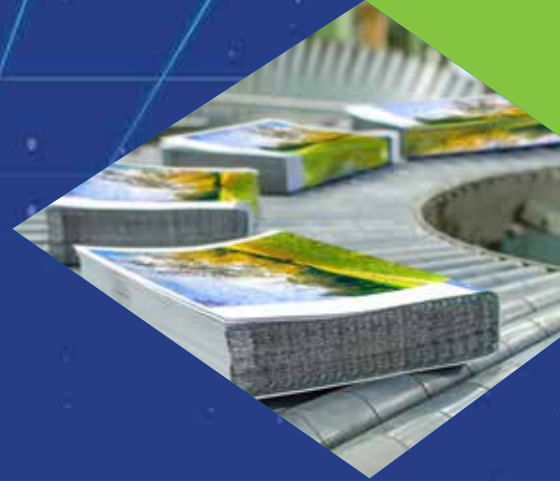
With rising media consumption, both in terms of users and engagement; and a multitude of outlets to choose from; the opportunity for the industry to innovate across genres and platforms is more than ever before. The industry should look to capitalise on this and create compelling customer experiences across the board.

Uday Shankar

Chairman and Chief Executive Officer

Star India Private Limited

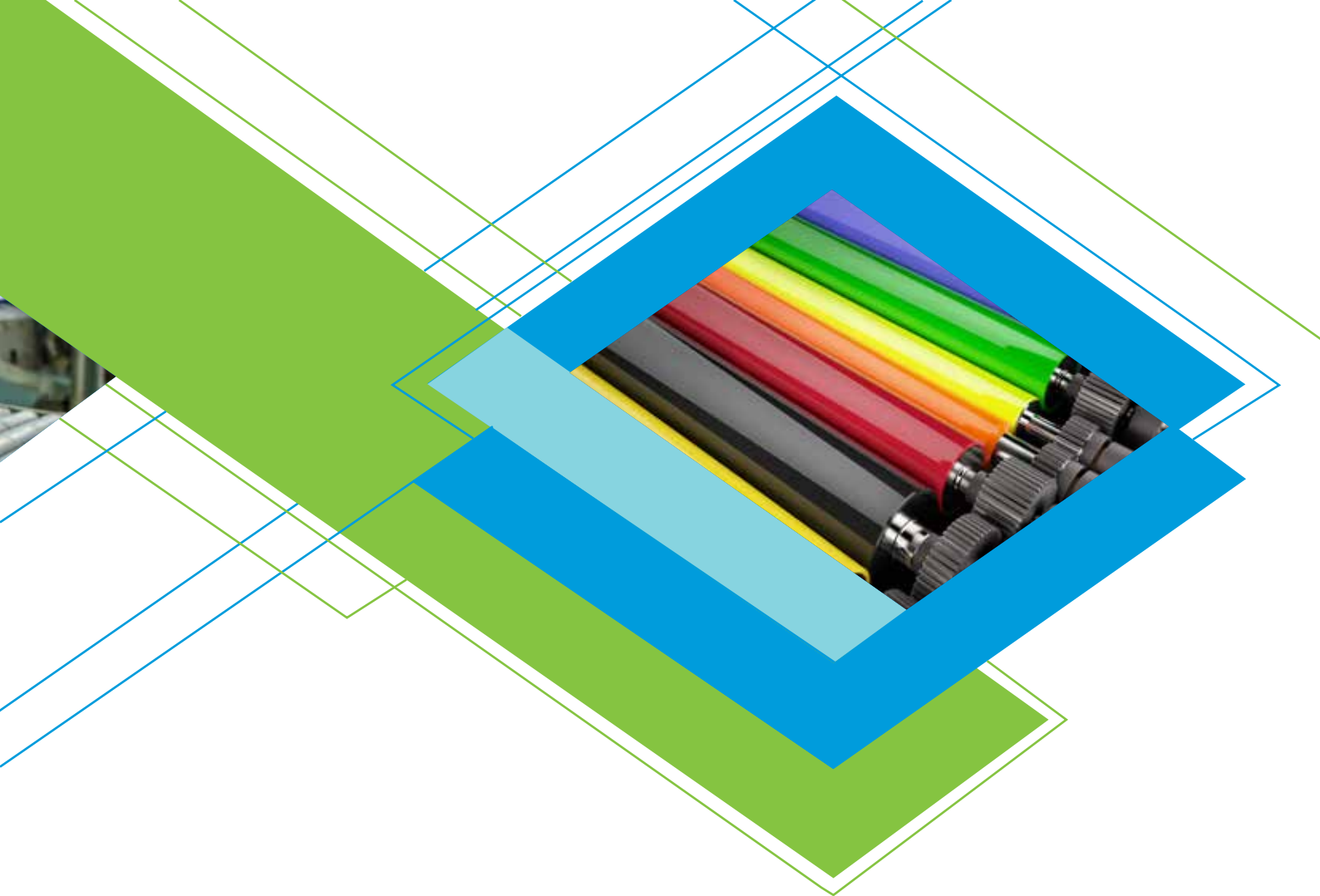




Print

The digital debate continues





Overview

The Indian print industry witnessed many ebbs and flows in 2016. While factors such as steady revival of the consumption cycle driven by better monsoons, the 7th Pay Commission payout and productive festive season gave the industry much needed impetus, this growth was counterpoised by demonetisation towards the end of the year.

Size of India's print industry

Values in INR billion

Segments	2011	2012	2013	2014	2015	2016	Growth in 2016	CAGR % 2011 – 2016
Advertising	139.4	149.6	162.6	176.4	189.3	201.3	6.3%	7.6%
Circulation	69.4	74.5	80.6	87.0	94.1	102.0	8.4%	8.0%
Total	208.8	224.1	243.2	263.4	283.4	303.3	7.0%	7.8%

Note – above numbers exclude the revenue from digital mediums
Source: KPMG in India's analysis, 2016-17.

Segment-wise size of India's print industry

Values in INR billion

Segments	2011	2012	2013	2014	2015	2016	Growth in 2016	CAGR % 2011 – 2016
Newspaper revenue	196.7	211.1	229.6	249.2	269.0	289.9	7.8%	8.1%
Magazine revenue	12.1	13.0	13.6	14.2	14.4	13.4	-6.9%	2.1%
Total print market	208.8	224.1	243.2	263.4	283.4	303.3	7.0%	7.8%

Note – above numbers exclude the revenue from digital mediums
Source: KPMG in India's analysis, 2016-17.



In 2016, the Indian print industry grew at 7.0 per cent. This growth was driven by regional language newspapers, followed by Hindi and English at 9.4 per cent, 8.3 per cent and 3.7 per cent, respectively¹. While English newspapers struggled, Hindi and other regional language newspapers continued their growth story. The readership for English newspapers is concentrated largely in Tier I cities with approximately 10 per cent of Indian population speaking English, leaving 90 per cent of the population to be catered by regional dailies². The switch to digital platforms continued rapidly in Tier I cities, this further dented the growth of English newspapers. The revenue landscape for traditional newspapers saw familiar trends - advertising dominating circulation revenue, local advertisers increasingly contributing to ad spends and ad revenue in English newspapers continuing to lead Hindi and regional language newspapers. Except for a few magazines with niche content, the print magazines segment continued to struggle during the digitalisation era.

In contrast to the developed markets, the print industry in India continues to grow on the back of demographic and socio-economic factors, rising literacy levels, improved penetration and hyper-localisation. However, improved bandwidth with the launch of 4G network and the increased focus of the government on implementing 'Digital India' had all industry players wary of the threat of digital media and changing consumer habits. Most traditional Indian players have embraced a two-fold approach by investing in digital news to explore new opportunities presented by digital disruption. Also, while digital news is burgeoning, the struggle to get the business model right and monetise the segment intensifies.

Globally, over the past decade, the industry continues to reinvent itself to be relevant in a market continually threatened by digital medium which has resulted in a swing in consumption habits of readers where the preference is more towards mediums which are available 24x7. Also, increased dependence on ad revenue keeps the industry vulnerable, as the share of print in the overall advertising pie is persistently on a decline.

While the industry in India faces similar challenges, it continued to grow at a steady 7.8 per cent from 2011 to 2016¹ and this trend is expected to continue over the next five years, primarily on account of the factors explained below:

First, over the past decades, there has been an increase in literacy levels in India (from 64.8 per cent in 2001 to 74.0 per cent in 2011)³ which has expanded the target

market for the industry. Second, India being a multi-culture and multi-lingual country, there is strong depth in language readership, particularly, Hindi, Marathi, Urdu, Gujarati, Malayalam, Tamil and Telugu among others. Regional focus has further resulted in hyper-localisation with more local advertisers being added to the overall advertising pie. Last, Indian newspapers are priced significantly lower than their global counterparts to enable a wider reader base; annual subscription for an average Indian newspaper is less than INR1,000 i.e. USD15 (USD1 = INR67)⁴.

The increase in affluence and consumption levels in regional markets has been the key growth driver for print over the last decade. This trend is likely to sustain with increase in literacy as well as emergence of a younger generation that is more aspirational. This has attracted the attention of both advertisers as well as content creators across all media types – cinema, television, print, radio, etc.

01. KPMG in India's analysis, 2016-17

02. The future of India's newspapers lies in the hinterlands, Quartz India, 25 March 2016

03. 2011 Census, conducted by Government of India

04. Why India's newspaper business is booming, The Economist, 22 February 2016



Media for the masses: The promise unfolds

Print - The digital debate continues



“ The year 2016 was a year that continued to test one’s resilience. Globally, the year threw up some unpredictable events such as Brexit and a Republican win in the U.S. elections; while domestically, India took some tough stands with a long-term view through the GST Bill and most recent currency purge, which are steps intended to consolidate the economy in years to come. The Indian Media and Entertainment industry is undoubtedly coming of age. For the past five years, the industry has been growing at a stable 10 per cent year-on-year (YoY) and has gained significant presence on the world map.

With India going the reform way, I believe the foundation is in place that will help capitalise the potential in India’s unsaturated markets that brim with opportunity and more latent consumer segments will be further tapped.

India is already facing an explosion in electronic content consumption and news is being voraciously consumed through smart phones, tablets, laptops and Personal Computers (PCs). We are already tracking new consumption behaviours with on-the-go, on-demand solutions, leveraging consumer and digital trends and taking steady strides in the rapidly growing non-print businesses.

Girish Agarwal

Promoter Director
Dainik Bhaskar Group





Advertising, sustenance of newspapers

Globally, print readership is dwindling in favour of the digital medium and advertisers have already reduced their print spending in response to the change in readership base. The worldwide share of newspapers in the overall ad spend in 2015 was 19 per cent, and across geographies was averaging from 12 per cent to 25 per cent, with Western Europe being the highest at 25 per cent.⁵ Comparatively, television advertising had the highest share at 37 per cent followed by Internet at 30 per cent.⁵

In India, traditional newspapers are better positioned with a share of nearly 38 per cent of the overall ad spend in 2016 and 7.6 per cent CAGR in ad revenues over the last five years.⁶

Year-on-Year language wise ad revenue

Values in INR billion

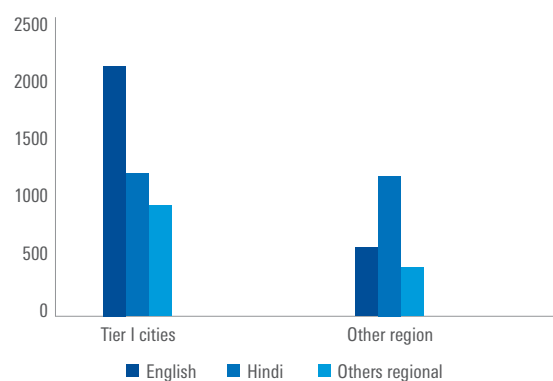
Languages	2011	2012	2013	2014	2015	2016	Growth in 2016	CAGR % 2011 – 2016
English	57.2	59.4	62.5	65.5	68.6	71.0	3.5%	4.4%
Hindi	40.6	44.5	49.5	54.4	58.8	63.0	7.1%	9.2%
Other regional languages	41.6	45.7	50.6	56.5	61.9	67.3	8.7%	10.1%
Total print market	139.4	149.6	162.6	176.4	189.3	201.3	6.3%	7.6%

Note – above numbers exclude the revenue from digital mediums
Source: KPMG in India's analysis, 2016-17.

In India, unlike other countries, newspapers are relatively low-priced including various subscription schemes (effectively the average price paid for a newspaper by a reader averages less than INR2); thus, revenue is skewed towards advertising. This dependency makes a newspaper more vulnerable to market forces as was witnessed during the demonetisation phase where decline in ad revenues resulted in de-growth for the industry. In terms of the split between national and local advertisers or advertising in English and Hindi/other regional language newspapers, two trends emerged.

There was a shift to regional language newspapers with advertisers increasingly looking at opportunities in Hindi and other language markets due to their direct connect with readers in prospering Tier II and III cities/regions of the country. This was demonstrated by the fact that Hindi and other regional language newspapers managed to retain all key sectors as their customer source. With growing focus on these cities, the industry expects the ad premium gap between English and Hindi/other regional language newspapers to narrow as the value proposition of a strong and expanding regional readership base gains momentum. Also, there was increased focus on localised messaging, driven by better consumer connect that regional newspapers enjoy. In 2016, the split between national and local advertisers was 80:20 for English and 60:40 for Hindi and other regional languages⁶.

Language wise advertising rates per sq. cm. in Tier I cities and other regions



Source: releasemyad.com, accessed on 27 January 2017 and KPMG in India's analysis, 2016-17

05. Advertising Expenditure Forecasts, Zenith, September 2016

06. KPMG in India's analysis, 2016-17

Year-on-Year Top 10 (Sector-wise) contributors to newspaper advertisement

Categories	2014	2015	2016	Change from 2015
FMCG	13.5%	14.6%	15.0%	▲
Auto	11.9%	12.8%	14.0%	▲
Education	9.4%	9.8%	10.0%	▲
Real estate	8.0%	7.0%	6.0%	▼
Clothing/fashion/jewellery	6.1%	6.0%	5.0%	▼
E-commerce	2.2%	4.3%	3.0%	▼
Telecom/internet/DTH	3.7%	3.8%	3.0%	▼
Retail	5.3%	5.6%	5.0%	▼
BFSI	4.8%	4.7%	5.0%	▲
HH durables	4.2%	4.6%	5.0%	▲
Others	24.9%	22.5%	25.0%	▲

▲ Increase ▼ Decrease

Source: The Pitch Madison Advertising Report, 2017

In 2016, revival of consumption cycle on the back of improving macro factors in the pre-demonetisation period led advertisers to all major consumption sectors, key being Fast Moving Consumer Goods (FMCG), Automobile and Education.

- The FMCG sector is one of the largest contributors to ad spent across media and competition among existing players has further stepped up since the entry of a new player in the market (Patanjali). Apart from the large national brands, regional FMCG and consumer goods companies are also gradually shifting spends towards regional publications as it enables them to reach audiences in their target regions.
- Automobile sector's ad spend in 2016 was driven by new launches and increase in Education sector's ad spend is in line with growing literacy levels in Tier II and Tier III regions.
- The Real Estate sector has been struggling over the past few years and it was further impacted by demonetisation.
- Contribution of e-commerce sector declined as players reduced their ad spends across all traditional mediums i.e. television, radio and print.

The newspaper industry got the much needed boost to ad revenue with the intervention of the nodal agency, the Directorate of Advertising and Visual Publicity (DAVP), responsible for advertising on behalf of various government units. The agency rolled out its new policy for fixing the rates for ads by government in newspapers after three years.

Key highlights of the policy are as follows⁷:

- Three categories - small (under 25,000 copies per day), medium (25,001 to 75,000 copies per day) and big (over 75,000 copies per day).
- Scoring matrix for newspapers on six objective criteria with maximum points allocated to the circulation figures. Mid-sized newspapers scoring less than 45 marks will not qualify for government ads. Also, the policy streamlined the procedure for quick and timely payment by ministries to DAVP.
- English newspapers to receive 30 per cent of spend, Hindi newspapers to receive 35 per cent and regional language newspapers will receive remaining 35 per cent.
- Premium for specific placement of ads i.e. 50 per cent premium above normal rates for front page, 20 per cent premium for third page, 10 per cent premium for fifth page and 30 per cent premium for back page.

07. New DAVP policy to benefit certified newspapers, Live Mint, 16 June 2016



Demonetisation in November 2016 had an adverse impact on the advertising sector. Both local and national advertisers pulled back pre-planned campaigns due to the intense negative effect of demonetisation on primary sales and consumer off-take. Large FMCG companies with shorter sales cycles were among the first to be impacted. Urban demand and rural demand also abruptly crashed on the back of shortage of cash. In sharp contrast, activation of mobile wallets increased and m-wallet ad spends grew by 32 per cent⁸, but the base was too low to offset other losses.

Circulation: Regional to drive

Year on Year language wise circulation revenue

Values in INR billion

Languages	2011	2012	2013	2014	2015	2016	Growth in 2016	CAGR % 2011 – 2016
English	26.3	27.1	29.0	30.7	32.3	33.6	4.0%	5.0%
Hindi	21.7	23.8	26.0	29.1	32.5	35.8	10.2%	10.5%
Other regional languages	21.4	23.6	25.6	27.2	29.3	32.6	11.3%	8.8%
Total print market	69.4	74.5	80.6	87.0	94.1	102.0	8.4%	8.0%

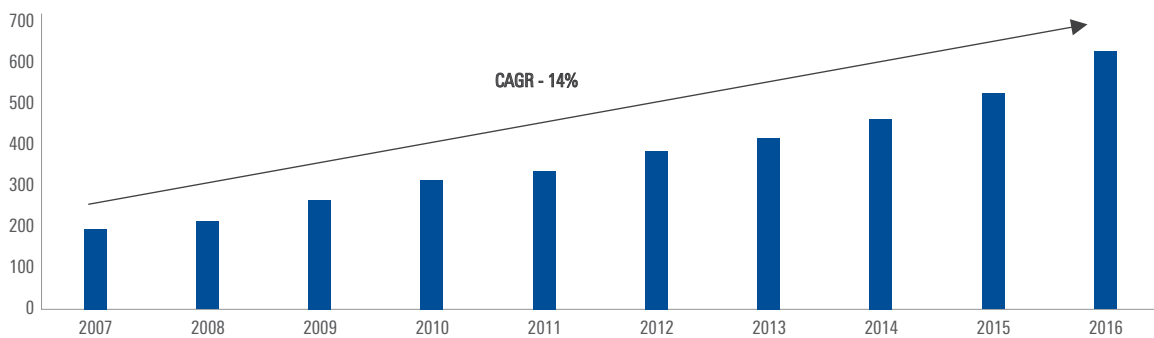
Note – above numbers exclude the revenue from digital mediums
Source: KPMG in India's analysis, 2016-17.

India is considered to be the world's largest newspaper circulation market.⁹ For instance, Dainik Bhaskar has been ranked as the world's fourth largest circulated news daily by the World Association of Newspapers and News Publishers (WAN IFRA)¹⁰.

There are over 16,000 newspapers and about 94,000 periodicals listed with RNI, an increase of nearly 5,400 publications in Financial Year (FY) 2016.

However, the Indian newspaper industry is vastly fragmented. As per the Registrar of Newspapers of India (RNI), there were approximately 16,136 registered newspaper dailies as of 31 March 2016; however, none has a national circulation.¹¹

Financial year wise total circulation (dailies) of registered publications (in millions)



Source: The Registrar of Newspapers of India, Annual Report FY 2015 and FY 2016

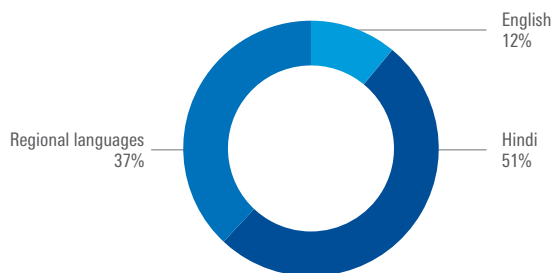
08. The Pitch Madison Advertising Report, 2017

09. Newspaper Final Report, DAVP, 8 January 2017

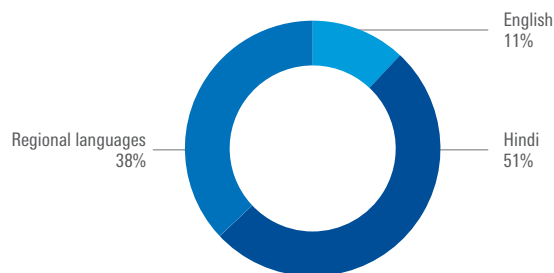
10. Dainik Bhaskar is world's fourth largest circulated newspaper, Television post, 21 January 2016

11. The Registrar of Newspapers of India, Annual Report FY 2015 and FY 2016 and KPMG in India analysis, 2016-17

Language wise circulation split in FY 2015



Language wise circulation split in FY 2016

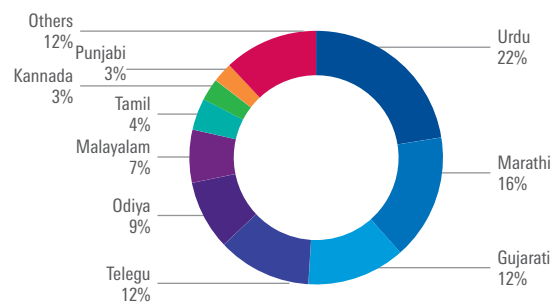


Source: The Registrar of Newspapers of India, Annual Report FY 2015 and FY 2016 and KPMG in India's analysis, 2016-17

Further analysis of RNI data for FY 2016 shows that Hindi newspapers continue to dominate the circulation pie with 51 per cent share while share of other regional language newspapers increased to 38 per cent and English newspapers continued to decline, its share was pegged at mere 11 per cent. English and Hindi together account for more than 62 per cent share of the newspaper media market and the balance 38 per cent is shared among the other regional language newspapers - Urdu, Marathi, Gujarati, Telugu, Odiya, Malayalam, Tamil, Kannada, Punjabi and others, in that particular order. However, if we include Hindi in the other regional language newspapers, the share increases to staggering 89 per cent¹².

Given that Hindi is India's official language, it is used widely in the country especially the north and is expected to dominate the newspapers in India. In case of other regional languages, local players over the past few years have created a brand equity and strong customer loyalty.

Regional language wise circulation share for FY 2016



Source: The Registrar of Newspaper of India, Annual Report FY 2015 and FY 2016 and KPMG in India's analysis, 2016-17

Regional is our new national

India being a multi-lingual country has different dialects in every 100 kms. People want to consume what is around them. Taking an example of Kerala, though it has the highest recorded literacy rate in the whole of India, yet people prefer regional newspapers. For regional players, brand loyalty is way higher owing to less competition.

R Lakshmipathy

Business Head

Dinamalar



12. The Registrar of Newspapers of India, Annual Report FY 2015 and FY 2016 and KPMG in India analysis, 2016-17



Audit Bureau of Circulations (ABC) – Language-wise certified circulation (dailies) figures for the audit periods January to June 2016 vs January to June 2015

Language	January to June 2016 circulation	Editions	January to June 2015 circulation	Editions	Change in circulation
Hindi	21,735,853	173	20,277,741	174	▲
English	7,868,389	103	8,128,262	102	▼
Malayalam	4,321,396	35	4,166,724	34	▲
Tamil	4,228,242	48	4,140,915	47	▲
Telugu	3,607,164	64	3,532,263	64	▲
Marathi	3,392,802	44	2,963,865	28	▲
Bengali	2,968,861	12	2,720,746	11	▲
Kannada	2,616,913	46	2,370,596	36	▲
Gujarati	891,617	8	855,736	8	▲
Punjabi	795,956	4	789,642	4	▲
Oriya	720,631	2	575,216	2	▲
Assamese	337,674	11	391,137	11	▼
Bi-lingual (Hindi/English)	176,943	5	107,288	5	▲
Manipuri	137,552	3	112,562	2	▲
Urdu	128,751	4	128,685	4	▲
Khasi	35,245	1	35,424	1	▼
Nepali	34,205	1	35,098	1	▼

▲ Increase ▼ Decrease

Note – ABC data/trends are based on publications registered with the body and based on data shared by these publications thus may not be representative of Print industry
Source: Highest Circulated amongst ABC Member Publications (across languages), the Audit Bureau of Circulations, Audit period January to June 2016 and KPMG in India's analysis, 2016-17

Key highlights of ABC data are as follows

- Hindi dailies continue to lead the circulation, followed by English dailies though their share decreased on the back of digital shift.
- Malayalam, Tamil, Telugu, Marathi, Bengali and Kannada dailies grew at a steady rate with higher regional penetration driven by increasing literacy rates.

Highest circulated dailies among ABC member publications (across languages) – Changes to top 10 rankings for the audit periods January to June 2016 vs January to June 2015

Newspaper	Language	Change
Dainik Bhaskar	Hindi	●
Dainik Jagran	Hindi	●
Amar Ujala	Hindi	▲
The Times of India	English	▼
Hindustan	Hindi	●
Malayala Manorama	Malayalam	●
Eenadu	Telugu	▲
Rajasthan Patrika	Hindi	▼
Daily Thanthi	Tamil	●
Mathrubhumi	Malayalam	●

▲ Increase ▼ Decrease ● No change

Source: ABC Highest Circulated amongst ABC Member Publications (across languages), the Audit Bureau of Circulations, Audit period January to June 2016 and KPMG in India analysis, 2016-17

Newspaper circulation in India continues to grow despite its global counterparts in America and Europe struggling for survival. The growth of the industry can be appraised by circulation and readership, with readership being the more apposite basis as generally in India a copy of the newspaper is shared by an entire family.

In 2016, the average cover prices for English newspaper saw a minimal increase in the range of 2 to 5 per cent, for Hindi newspapers the increase was in the range of 10 to 12 per cent and for other regional language newspapers was 14 to 18 per cent depending on the market.¹³

The growth in circulation is driven by the following factors:

Demographical changes

Over the past few decades, India has experienced many demographical changes. Literacy level across states has seen an upswing including literacy among women. This has primarily contributed to growth in readership as more people are being initiated into the world of reading and writing. The fastest growth in newspaper circulation was in states with strongest growth in literacy. India's literacy rate stands at 74.0 per cent with rural literacy rate at 68.9 per cent and urban literacy rate at 84.9 per cent.¹⁴

Language newspapers – Penetration and hyper-localisation

Trends in traditional newspaper readership in India show greater inclination towards regional language newspapers. In addition to growing literacy, there are other factors that have contributed to this growth. First, the Indian economy is a rural economy with more than 65 per cent of India's population residing in the rural areas.¹⁵ A paradigm shift is visible in the rural population over the past five decades as they become one of the most influential consumer groups with increased income levels and changing tastes and preferences. Second, the coverage of local news by regional language newspapers has given circulation the much need momentum as it provided the people in the rural areas a medium to express their grievances and aspirations. Third, localisation led to multi-edition newspapers with publishers syndicating national content with regional news and expanding their content diversity with supplements. The success of hyper-localisation is also attributed to readers' predilection to read content in their first language.

13. KPMG in India's analysis, 2016-17

14. 2011 Census, conducted by Government of India

15. The future of India's newspapers lies in the hinterlands, Quartz India, 25 March 2016



Potential is not just a gap in number of the readers and the literate population, it is also mix of the intent and the ability to buy. Ability to buy is linked to certain level of disposable income which cannot be expected to be achieved overnight for everyone. As an industry, we have to continuously work for creation of content which our readers intend to buy unlike western countries where publishers were pushing down to the readers what they liked.

Current economic environment is uncertain and this uncertainty is not going to last any time soon. We have to therefore be extra cautious and keep check over the cost.

R.K. Agarwal

Chief Financial Officer

Jagran Prakashan Limited



Low pricing and an efficient distribution system

The increase in cover price of an average Indian newspaper today has not kept pace with the multi-fold inflation in the past two decades. At under INR1,000 for an average annual subscription, newspapers in India are cheaper than in any other large newspaper market in the world.¹⁶ The difference between India and other countries is the population density and labour cost in newspaper distribution. In India, newspapers are delivered door-to-door and at very low cost. As many as 500 newspapers are delivered in an hour, while in the U.S. given the suburban spread it would be just a fraction of that.¹⁶

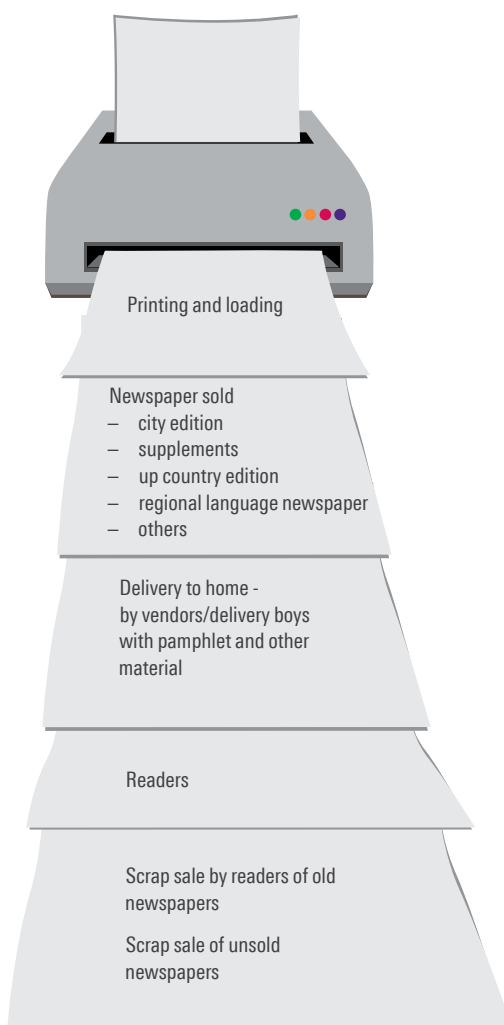
In India, newspapers are priced low or coupled with discounts or complimentary supplement/edition thereby making price a non-issue for the reader and building a loyal readership base which advertisers can target. This pricing model continues to pay rich dividends to the Indian newspaper industry.



16. Why India's newspaper business is booming, The Economist, 22 February 2016 and Why are newspapers in U.S. so costly when compared to India, Quora, 6 March 2016

Another differentiator of Indian newspaper circulation is the effective and efficient distribution network. India's newspaper distribution chain is unique and multi-tiered; newspapers are sold through an extensive network of agents and vendors.

Newspaper distribution chain in India



Printing and loading - The distribution chain commences with printing, typically a newspaper is printed by 4.00a.m. Printed newspapers are then counted, bundled and loaded into vehicles carrying the copies to various point of sale known as depots.

Delivery to door – Distribution from depots to the readers is entirely performed by the vendors. The vendor unbundles purchased copies, inserts any supplements, pamphlets and other promotional material and segregates them as per demand of the readers.

Value to vendors - Vendors form the lowest part of distribution chain and are paid commission as a percentage of the cover price by the newspaper companies. Newspaper companies regularly float promotional offers for vendors and in some rare cases also pay cash incentives. Vendors also have additional sources of income example pamphlets, which are manually inserted in the newspaper, are used by local advertisers as a mode of advertising; however, rates vary based on language of the newspaper, locality and consumer demographic. Similar to pamphlets, sometimes, stickers and small replica of a product are pasted on top of the newspaper for advertisement.

Noteworthy features of Indian newspaper distribution chain are:

- Distribution chain operates with limited resources, the entire distribution in managed manually with no use of technology and delivered on bicycles to readers at their door. The delivery charges are nominal. Also, entire circulation is usually completed within three hours and with two holidays in an entire year.
- Despite the huge scale of operations, the error rate is very low.

Thus with minimum costs, use of technology and investment, they achieve highest levels of customer satisfaction.



Technology

With growth in printing technology, better paper quality and new printing equipment has made it commercially viable to print in a variety of languages rather than predominantly either in Hindi or English. This has led to an expansion of newspapers even into small cities and towns.

Print industry and revenue enhancement avenues

Obituary for the print industry has been written and re-written many times over the past few years. Invasion of digital media, explosive growth of mobile platform and growing popularity of radio industry have all been touted to state that 'writing is on the wall' and death is not too far. In spite of all of this, print industry in India continues to survive and even in some segments grow. Will this change? What should companies in this sector be doing?

Print media industry growth or lack of it tends to be dependent on the economic scenario. The industry often acts a lead indicator of economic uncertainty/downtown while it is a laggard when the recovery starts. This year companies have borne the brunt of economic revival having still not happened at the pace it was supposed to and demonetisation added to the chaos. From here on, it is expected that things can only improve though the speed at which the tide will turn remains a bit uncertain.

While both digital media and radio has seen exponential growth in terms of adoption from all segments of industry, print naturally lends itself to certain type of advertising (example a new launch of car/property) and so while digital and radio will grow, print will co-exist. This is apart from the fact that there is large vernacular market which remains relatively untapped by new age media and continues to be a huge growth driver for the traditional media given the Indian demographic profile.

News had stopped being the prerogative of print media industry as online space saw a spate of news sites based on aggregator model. But with more and more of such sites coming up, credibility has now become even more of a key pillar which works in the favour of print industry the benefits of which flow into online space as well.

So the overall environment should be conducive for growth. However, companies should be evaluating what could be done differently.

- Developing new categories: Some of the traditional categories such as real estate, education and others which contributed a big share of revenue is struggling. So developing new categories of customers becomes key. These could be new industries such as e-commerce or industries which have traditionally relied more on other forms of media.
- Customer oriented solutions: Sales orientation need to change from pure space selling to offering solutions to customers. Creates stickiness of business while benefits are more intangible and therefore can command better pricing.
- Circulation revenue: To move away from selling cheap and price right. Newspapers to be priced to make money on just cover price.
- Combined offerings: Provide multimedia solutions to extent relevant and applicable. So companies which can offer print plus radio plus digital would be better placed.
- Better monetisation of online properties: Through combination of creating smart verticals and appropriate segmentation to own audiences by segment. Target selling can then be offered to customers.

Piyush Gupta

Group Chief Financial Officer

HT Media Limited



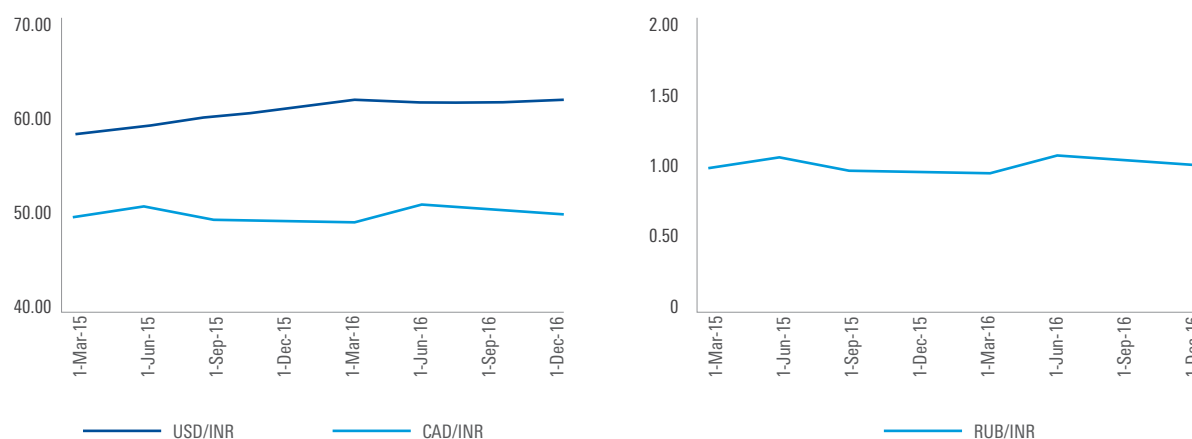
All views and opinions expressed herein are those of the author and do not necessarily represent the views of KPMG in India.

Roadblocks ahead for traditional newspapers

As internet access expands, the digital threat continues to worsen for the newspaper industry. Changing news consumption habits and access to news on mobile has already been assigned the blame for declined growth rates in the English market. As social media and internet access penetrates smaller towns and villages, in medium to long-term, there is a belief that the same could happen to the language newspapers.

Though the digital avalanche seems to be at some distance at least for now, nonetheless, the industry continues to grapple with broader challenges requiring close attention.

Impact of rising cost of newsprint



Source: Oanda.com - Quarterly USD/INR, CAD/INR and RUB/INR accessed on 7 March 2017

The Indian newspaper industry imports more than 50 per cent of its paper consumption, mainly from the U.S., Russia and Canada.¹⁷ Being a significant component of cost, players are sensitive to price fluctuations. Crude oil prices are the major drivers of the newsprint prices as they influence the shipping rates thereby affecting the cost of production. Rising prices and depreciation of the Indian rupee are therefore a cause of worry for the industry, especially for players with a higher import ratio.

“ Since November 2016, turbulence unleashed by operation ‘currency swap’ has cast a shadow on print media top-line. Publishers are making a valiant effort to recalibrate their cost structures, in a bid to restore the viability of their business, notwithstanding the volatility in exchange rate of Indian rupee, coupled with the destabilising impact of imminent GST roll-out in July 2017. ”

Mohit Jain
Executive President
The Times of India Group



17. KPMG in India's analysis's 2016-17



Further, in the current year, the Directorate General of Foreign Trade (DGFT) allowed newsprint imports only for actual users holding registration certificates from RNI.¹⁸ Since a large portion is imported through independent traders, DGFT's notification has posed a threat on its availability as most newspaper houses (other than few large publishers) require traders' services due to their inability to import container loads of the material. Also, local newsprint manufacturers have raised their product prices by INR1,000 to 2,000 per tonne.¹⁹ Added to this, availability of domestic newsprint is also not guaranteed to feed the entire industry due to closure notices issued by the National Green Tribunal (NGT) to many Indian mills owing to pollution and also due to closure of many loss making Indian paper mills.

Lack of robust and acceptable readership measurement

The newspaper industry currently uses the circulation data of Audit Bureau of Circulation (ABC) as a benchmark. However, there are some ambiguities regarding this data and its interpretation, one of them being inclusion of lower priced versions of the same newspaper in the same market, adding to its circulation figures. The bigger issue though is that media planners and advertisers generally do not rely only on circulation figures as they are only indicative about the reach of the newspapers and not the readership or demography of the reader. For campaigns which are driven by discounts or offers over a limited period, media planning is largely based on sales and response generated from advertisements in papers. Secondly, most of these newspapers have substantial share of local clients. For these advertisers, the key priority is the local perception of the publication, responses generated through advertisements and inputs from local dealers and staff. In the absence of readership numbers, newspapers are losing out on additional revenues to other mediums where measurement is more conclusive.

The newspaper industry is in the process of launching a revamped Indian Readership Survey (IRS) and is expected to be rolled out later in 2017. The newer version is expected to share quarterly data as against erstwhile semi-annual data and is expected to be more robust. Many large players have also started deploying data analytics to help advertisers target the desired population.

English readership waning

The English newspaper industry continues to face headwinds with flat or low single digit growth as its reader continues to access news digitally. As per RNI data for FY 2016, share of English newspaper to the circulation pie reduced to 11 per cent from 12 per cent in FY 2015.¹⁹ Similarly, ABC circulation data for January to June 2016 showed decrease in circulation of English newspapers.²⁰ Traditional newspapers seem to be losing young readers to digital media as they can control and customise content, time of access and the medium itself i.e. mobile applications, tablets, laptops etc. Although all English newspaper players have digital presence and to some extent the readership lost out on traditional newspapers has been reclaimed through mobile applications and websites, however monetisation of digital platforms continues to remain a challenge for the industry as a whole.

Impact of regulatory changes

The effects of demonetisation - Post demonetisation, newspapers, like any other advertising medium, were adversely impacted. While there have been signs of improvement in recent days, many players estimate normalcy to return by the end of second quarter of 2017.

It was a pretty good year until demonetisation. After demonetisation, we have seen a slowdown and it is difficult to predict the next six months. We are evaluating our plans and we hope we will see a positive change in the coming months for media and entertainment.

Jayant Mammen Mathew

Director

Malayala Manorama



18. Newspapers prices rise by 5.5% in one month, Business Standard, 26 July 2016

19. The Registrar of Newspapers of India, Annual Report FY 2015 and FY 2016 and KPMG in India analysis, 2016-17

20. Highest Circulated amongst ABC Member Publications (across languages), the Audit Bureau of Circulations, Audit period January to June 2016

The Wage Board effect - Newspapers is the only industry in the Indian private sector where a government-appointed Wage Board fixes wages of the employees. Post implementation of the Board's recommendations in 2014, the newspaper houses were required to raise salaries by 45 to 50 per cent along with arrears. This has led to an increase in the overhead costs whereas the cover price of Indian newspapers is among the lowest in the world. Already striving to stay relevant, the industry believes that the government should reassess the Wage Board's recommendation and remove non-journalist staff from its ambit. Also, the very concept of a 'print journalist' no longer exists as journalists have become platform-agnostic, moving from filling for online to writing for print to appearing on television, all in the course of a single workday. The National Commission on Labour in 2002 had unequivocally recommended that there was no need for a Wage Board to be constituted for any industry.

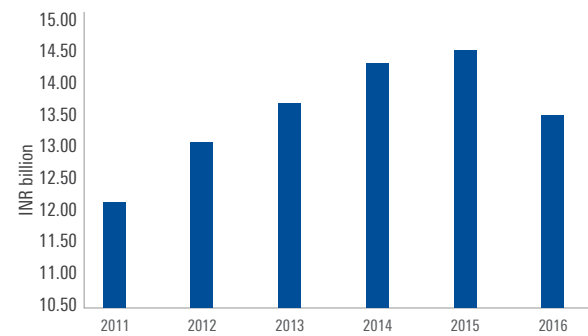
The GST regime - The industry is uncertain about applicability of the Goods and Service Tax (GST). The industry hopes for newspaper to be under the 'zero' tax bracket i.e. advertisements in print media and sale of newspaper be exempted from GST. Further, industry also expects the news reel (paper) to be exempted from GST as currently it is exempt from Excise Duty and from Value Added Tax (VAT) in most states. However, if under the new regime news reel is subjected to tax, it will result in additional cost. Many players state that the Supreme Court's interpretations of constitutional protection for newspapers hold that any tax on newspapers is a tax on knowledge and has an effect on the spread of literacy and distribution of news.

Magazines

The traditional magazine segment is waning in India just like its global counterpart. In 2016, magazine segment accounted for 4.4 per cent share of the India print industry as compared to 5.1 per cent in 2015. The magazine segment continues to compete with other mediums as most of the content is always available on the television or internet. However, niche magazines continue to enjoy loyal readership and regional magazines continue to attract readers based on factors similar to those driving regional newspapers.

Over the past couple of years, players are increasingly transforming themselves from pure magazine players to content players. They are investing heavily in alternative revenue streams such as digital content, e-magazines, videos, events, live streaming, etc. The aim is to create niche content and monetise the same through either a subscription model or through advertising/sponsorship fees. Further, they are increasingly selling combined subscription for hardcopy and online version.

Year on Year size of Magazine segment



Source: KPMG in India's analysis, 2016-17

Few niche launches during the year:

Magazines	Genres
The Cofounder	The Cofounder, India's first magazine giving insights into the country's start-ups. The Cofounder writes stories regarding the early stage of start-ups and journey of the entrepreneurs. ²¹
Luxury Travel Times	MakeMyTrip, India, has launched a mobile-only magazine which is targeted at luxury travellers and is released through innovative ad platforms. Spacation, Heaven on Earth & Heritage were first few themes of the magazine presenting exotic choices to explore fine living. ²²

21. India's first start up magazine launched, The Hindu Business Line, 23 October 2016

22. MakeMyTrip launches India's 1st social luxury travel magazine, Inshorts.com, 26 January 2017



Magazines are gaining momentum in evolving as a digital mode of consumption. Many leading magazines now have robust digital content and a strong social media footprint. The print medium has huge synergies with digital and they strengthen and complement each other. If the brand is credible, magazines will continue to thrive, flanked by a strong digital strategy.

Sourav Majumdar

Editor

Forbes India



Risk to traditional media business houses can only be mitigated by a robust digital strategy and diversification driven by strong intellectual properties and brand equities.

Alex Kuruvilla

Managing Director

Condé Nast India



Digital news: Disruption or opportunity

Across the world, the newspaper industry is adapting itself to opportunities presented by digital disruption and resulting economic shifts. Newspaper players are evolving into a more 'reader focus' approach by reaching out to audiences through all media. Some are cutting down on their print frequency with a focus on growing digital properties, others moving to a three-day-a-week or weekend-only edition or in some cases, moving entirely to the digital platform. For instance, The Pittsburgh Tribune has become a free digital-only publication, Seattle Post Intelligencer and the Ann Arbor News which maintains a print edition twice a week²³ and recently U.K.'s The Independent announced that it shall become the first national newspaper title moving to only digital newspapers²⁴.

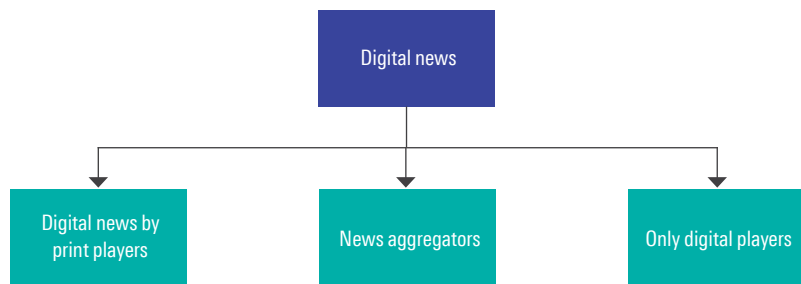
Dawn of digital news in India

Increasing penetration of internet enabled mobile phones and dropping data cost is increasing digital news consumption. The Indian newspaper industry is a peculiar paradox, while traditional newspapers are still growing, in parallel, the digital media is also becoming more important to its future. Digital platforms are rapidly changing the overall media environment in terms of how people find information, engage with public affairs, and entertain themselves, and in terms of where advertisers invest their money.

Digital transition is driven by changing readers' preferences. The Indian readers are craving for content, the need is for appealing content easily available on a click. By noon, newspapers are pure recycle and audience switch to other medium for news consumption. With this growth there has been a perceptible shift of readership and ad spend away from legacy media such as print and television and towards digital platforms

23. Stop the press!, KPMG U.S, 2016

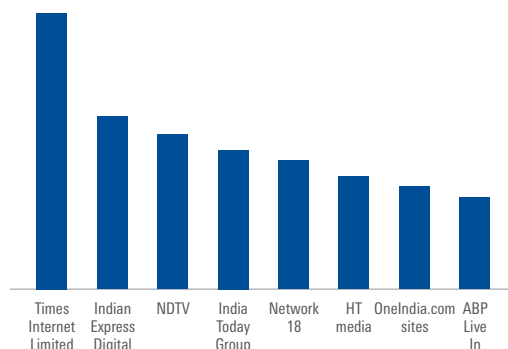
24. The Independent becomes the first national newspaper to embrace a global, digital-only future, Independent, 2016



In the monthly ComScore rating for December 2016, based on the number of unique visitors to websites and mobile applications, Times of India ranked one, followed by the Indian Express and NDTV²⁵. Given the growth of the digital medium in India, especially in language markets, traditional players are innovating to adapt. They are looking to build on audience reach, brand reputation and editorial resources developed by them to maintain an edge over pure digital news start-ups and international news providers. While some players such as Dainik Jagran and Malayala Manorama, have built separate digital assets from the printed newspaper, others like the Hindustan Times aim to integrate print and digital²⁶. The cultural hierarchy is gradually transforming as more reporters engage with their digital audience across websites, applications and social media so as to inform the public and shape public discussion, as digital news becomes a more important part of the overall business. In the short-term, the reach and profits come from newspapers, but in long-term, players have to build a strong digital presence to succeed editorially and commercially. The combination of a robust print business and an expanding digital audience puts Indian newspapers in an advantageous position.

The digital news space has also seen the launch of new digital media start-ups in India and as well as the expansion of the news offerings of international technology companies investing in the Indian market. Traditional newspapers face competition from both domestic digital-born startups such as Scroll, Quartz India and the Quint and also aggregators such as Inshorts, Firstpost, DailyHunt, as well as, perhaps more importantly, from large international non-news players such as Yahoo, Google and Facebook because of their large user base.

Number of unique visitors based on desktop and mobile



Source: Indian express digital continues to surpass expectations becomes India's no. 2 digital media group, The Financial Express, 20 February 2017

25. Indian express digital continues to surpass expectations becomes India's no. 2 digital media group, The Financial Express, 20 February 2017

26. Indian Newspapers' Digital Transition, Reuters Institute for the Study of Journalism, December 2016



Creating value through better monetisation

Though companies are investing in digital news platforms, monetisation is a key challenge. The industry needs to look beyond immediate returns, initial financial viability and tread unknown waters rather than follow the herd. Some models which are currently prevalent include:

Type	Advertisement		Subscription
	Free	Freemium	Pay per view
How does the model work	Free access to content with an aim to capture market share and advertising is the only source of revenue.	Basic content is hosted for preview. Full content is only available on subscription basis.	Compulsory payment to subscribe to content. Initial few days of free trial to readers
Example	Times of India, Yahoo news and FirstPost	The Telegraph, Economist	Forbes India Magazines and Business Today Magazines
Pros	+ Easier development of readership base	+ Steadier source of revenue, more revenue combinations available	+ Minimal dependence on advertising to monetise content
Cons	- Dependence on one revenue source, revenue fluctuations depending on advertising environment	- Requires strong value proposal and brand	- Difficult development of readership base, high customer acquisition costs

Source: KPMG in India's analysis, 2016-17

Globally, newspaper players are experimenting with their digital business models to attract/retain readers, grow revenues and achieve profitability. In India, for digital players, however, the quest for a successful revenue stream remains elusive, leading them to experiment with all three revenue models in parallel. While it seems logical to spread the risk, this can also work against them. What is often forgotten is that these three revenue models all have fundamentally different factors for success.

Few other financial models operating globally include the sponsorship model, pay what you want model (where customer is given the discretion of setting the price), bundling model, crowd funding model (micro sponsorship) and the gamification model.

Digital news is still in its nascent stages in India, and the search for a model to monetise digital news continues.

The Washington Post has successfully transformed itself by making aggressive changes to its business and operating model

How the Washington Post grew its digital subscriptions by 145 per cent
 Genres

Circulation	<ul style="list-style-type: none"> Lowered its paywall to give free access to subscribers of more than 100 local papers Offered free, six-month subscriptions to members of Amazon Prime Leveraged social media by publishing all of its stories to Facebook Instant Articles Expanded overseas by adding a London sales team
Content	<ul style="list-style-type: none"> Expanded opinion and political coverage Launched a new blog storyline, which allows for storytelling in different formats and over days and months
Customer loyalty	<ul style="list-style-type: none"> Leveraged over 50 types of e-mail newsletters to increase traffic to the site by 129 per cent Partnered with The New York Times and Mozilla to create an online community commenting system that would allow journalists to better interact directly with readers
User experience/ technology	<ul style="list-style-type: none"> Reduced page load time by 85 per cent Improved the article experience by focusing on cleaner article pages with sharing features and better resolution photo galleries Mined and studied reader behavior to determine what articles to offer next

Source: Stop the press!, KPMG U.S., 2016

With the advent of digital, especially manifested through social media, most print business have seen a clear shift in their reader profile and demographics. While 'revenue opportunity' for publishers in this space may still not be very large through last year, the 'audience opportunity' in building a sustainable reader base, and hence future revenue sources, remains high on radar of all print majors such as ourselves. I believe the publishers this year will continue to work very hard in building the supply side economics – 'repurposed content from traditional print sources' and 'ad-inventory on portals and mobile application apps' to cover as many users as possible. The demand side ecosystem remains dominated by the search majors and RTB (Real-Time-Buying) Engines, and transformation of selling model, metrics and mind-set, all set to change rapidly in the coming year. At Sakal, we are working to ensure that our traditional reader base gets enhanced with next generation of readers of our digital publications and we are in parallel y we are able to add new discerning audience that wants credible news from Maharashtra & and Goa, both domestically and internationally.

Pradeep Dwivedi
 Chief Executive Officer
 SAKAL Media Group



The future challenge of media will be to enroll digital subscribers, and that of journalism will be to generate quality digital content, which those consumers would pay for with satisfaction.

Shreyams Kumar M V
 Director
 Mathrubhumi





Digital tale driven by content, innovation and multiple

The digital news providers ought to develop content that is unique to the platform. By their very nature, digital platforms are interactive, fast, can handle huge content, accessible on multiple devices and paperless giving an opportunity to content creators to truly engage the reader through multiple media, frequency and personalisation. Digital news is an opportunity to disrupt rather than be disrupted, companies should look at developing content which can overcome the limitation of traditional medium. The ability to seek that audience, the ability to make that audience interested in your content, the ability to get those audience to engage with your content depends on understanding the digital consumer and using the right technology.

The audience for digital news is very different from newspaper, the average time spent by a reader at a time is less than ten minutes thus news has to be short, engaging and to the point. Digital news providers have to acknowledge that the mobile generation is looking for personalised, fast, reliable and continuous flow of information and news. News based applications, in particular, have developed an experience that facilitates consumption of breaking news on the go. For instance, in India there is an enormous rise in the popularity of news applications such as Inshorts that summarises latest news in crisp sixty words for individuals with less time, but like to stay updated. The traditional newspaper houses need to leverage their brand reputation on social media platforms so their news feeds reach a far wider audience.

It is early stages for rural internet usage, more than 60 per cent²⁷ of rural users have been online for less than two years and are relatively digitally immature and are still not using the internet to its maximum potential. However, as internet penetration increases and service quality improves, this can be expected to evolve.

Reinventing digital news

Algorithms have prioritised breaking news, news-related videos, live streams, and other visual content, while global players have been stepping up their efforts to publish native formats.

Videos, the next future

In India, 40 per cent²⁸ of the data consumption is towards audio and video services. Driven by high speed broadband services at affordable rates and technical improvements, news consumption through videos is on

the rise as the digital news providers are investing in new visual storytelling formats. The videos are exclusive to digital, short (under one minute) and designed to focus on soft news. A few newspaper players have already embraced this format and are planning to increase their investments over the years. The format and production of digital videos is likely to see considerable innovation over the next few years, however it is hard to see video replacing text in terms of the range of stories and the depth of comment as most players see them complement each other. Currently, the industry is looking to monetise the format with pre-roll and mid-roll ads.

Social media for news distribution

Social media has shaken up content delivery, enabling news delivery within nano-seconds. For the millennial, news means what one sees on social networking websites and the like, while for the older generation social media complements their already existing news sources. Social media is probably considered as the biggest medium to share any kind of information. Based on a report by Reuters covering 26 countries, in the United States the percentage of people saying they use social media as a source of news has risen to 46 per cent, almost doubling since 2013, and the average for 26 countries is at 51 per cent.²⁹ Facebook, with more than 1.5 billion users worldwide, has more reach than any news media organisation has across the globe.²⁹ The future of news consumption on such medium is more like, content looks for the right users instead of users looking for content - with machine learning and big data analysis, applications are able to deliver news that audience care about.

The year 2016 has been eventful for India. Some examples of use of Facebook, Instagram and Twitter for news consumption in India are:

Twitter - Twitter rated Indian Prime Minister Narendra Modi's move of demonetisation as most influential moment of the year and 650,000 messages on the move were sent on its network. The performance of India's female athletes at the Rio Olympics* in August ranked second on Twitter and #Rio2016 was the social networking site's top hashtag of the year.³⁰

Facebook - After Diwali and cricket, the most talked about topic was the Uri attack, surgical strikes. Some other events that trended globally, like the U.S. Presidential elections and Brexit, didn't register on any of the Indian lists, though Cricket, Pokemon Go and the iPhone 7 launch were among Facebook's most discussed topics in India.³⁰

*IOC Trademarks, the IOC logo, and any other product or service name or slogan contained in this document are trademarks of the IOC.

27. Internet usage picks up in rural India, Live mint, 12 August 2016

28. The future of digital content and media disruption in India, Yourstor.com, 5 December 2016

29. 'Indian Newspapers' Digital Transition', a Report by Reuters institute for the Study of Journalism, December 2016

30. This Is What Lit Up Social Media in India in 2016, The Wall Street Journal, 14 December 2016

Instagram - The year's most instagrammed day was Diwali, while the most popular location to post photos was Marine Drive in Mumbai. India's most-used hashtag on Instagram was #love.³¹

While social media is an attractive and convenient news carrier, people in India are still dependent on traditional newspapers for reliable content. A research paper titled - Impact of Online News Media on Consumption Habits of People released by International Journal of Advanced Research in Computer Engineering & Technology (IJARCET) in 2016 indicated that of the total persons who participated in the survey, 53.6 per cent of people prefer reading offline news with the balance preferring online mediums. For both reader bases, most of the surveys trusted the news provided by the respective mediums.³¹

Close collaboration between newspapers and social media could help ensure credibility and authenticity of information, leading to a win-win situation for both. The challenge is to maintain financial strength (of media houses/newspapers) and technological savviness (of social platforms) to foster those brands.

Launch of The Journalism Project by Facebook - Facebook is expected to collaborate with other news organisations to develop products, as well as help journalists in learning how to use social media as a reporting tool and also promote the importance of news literacy. New storytelling formats using upgraded versions of Live, 360, Instant Articles, etc. which adapt according to needs and even build new ones are a part of the collaborative development of news products. The project has also planned to launch educational material for normal users so that they can be smart about the news that they consume, which will eventually enable news literacy.

Use of social media for languages other than English - Readers in Indian languages are starved for content on the web. A study of the growing popularity of news stories in Hindi and other regional languages is an important barometer to gauge the changing complexion of the internet user base.

A study conducted by Storynomicx on the most shared 5000 news stories in India in 2016 indicated the following:³²

- Hindi news stories received higher share in social media compared to English news in the last six months, Indian media witnessed more than 2.25 billion shares in 2016 on Facebook, Twitter and LinkedIn with an average share of 2,587 per story.
- English content retained its leadership in 2016 but Hindi is catching up.

- The study observed distinct divide in news preferences of Hindi and English readers. Hindi readers, according to the study, prefer to share stories on nationalistic, religious and political themes while stories on entertainment, human interest and consumer-focused dominate sharing amongst English readers.

The Indian internet user base is set to see a shift, with majority of the new users coming from towns and villages – who will consume content in regional languages. We are already seeing the user base on regional content more than doubling over the last year, with the government mandating regional language support mandatory on smartphones. This will definitely be the next big wave to hit the digital media industry.

Manish Maheshwari

Chief Executive Officer

Network18 Digital



Live streaming

Live streaming over digital platforms is on the rise. The trend started with few digital platforms such as Facebook and YouTube, however, many traditional players with digital presence such as Times Now and NDTV are using it rapidly for events such Budget speech, election results among others. For instance, recently digital born Firstpost.com successfully leveraged Facebook Live to broadcast news on its platform to cover the assembly elections live from five states. It used multiple broadcast feeds anchored by a host in Mumbai with additional inputs and commentary from a panel of experts in its studio. The coverage ran uninterrupted for four hours live, and engaged a total of one million users.

31. Impact of Online News Media on Consumption Habits of People, IJARCET, March 2016

32. Hindi May Topple English on Social Media in India But Ignores Critical Issues, News18, 27 February 2017



The digital news consumer, especially in India, has got used to the idea of free content. So I do not see a great future for putting news content behind pay walls in India. That means the monies will have to come from advertising. But with ad blockers, what the news consumer is telling us is that not only will they not pay us, but they will not allow us to make money from advertising either.

That leaves us, pretty much, with video as the only exception in digital news content that can drive revenues.

The Union Budget 2017's digicast is an example of driving revenues through video news content. Many more will open up in the coming months and years. Facebook has already thrown open possibilities for monetisation of Facebook Live and instant articles.

So, yes, video is the way forward not just because the audience is moving there but also because it promises to be a great way of funding news operations.

B V Rao

Editor
Firstpost



Key challenges for delivering news on digital platforms

As per a recent study conducted by Journal of Socialomics in July 2016 on Indian internet users on challenges in reading news online, the major challenges identified were slow internet speed, heavy content and disrupting advertisement.

Internet related problems

Internet usage in India is still overwhelmingly an urban phenomenon in a predominantly rural country. A research by International Journal of Scientific Research and Education suggests that about a third of India's population live in urban areas, but they make up about two-thirds of Indian internet users.³³ Less than half of Indian internet users have broadband access and the majority are narrowband or 2G users with low data speeds and often limited data packages. Internet penetration is limited in the Tier II and Tier III cities,³⁴ in 2016 out of the total 462 million internet users, 309 million users were from urban areas and only 153 million in rural areas.³³ In India, the average mobile-connected end-user device generated around 251 megabytes of

mobile data traffic per month in 2016 compared to 151 megabytes per month in 2015³⁵ though increasing the surfing speed in India is frail and results in buffering.

Monetisation of digital medium

India is behind the curve compared to its global counterparts as far as digital engagement in news is concerned, audience base is still small and thus the segment is largely dependent on advertising. Indian consumers are used to the idea of free digital news, and surveys suggest that more than 70 per cent³⁶ of the current subscribers of online news will withdraw if it is not free. Currently, advertisement rates on the digital platforms are lower than in traditional newspapers; as more readers switch to the digital medium the ad dollars are expected to increase. The digital players are gearing up to innovate by leveraging webinar sponsorships, event sponsorships and selling subscriber lists to monetise the digital content. As it is an evolving medium, returns on investment in newer technologies and innovative engagement remains a concern.

Huge and unstructured content

In case of the traditional newspaper, the content presented to readers is far more structured and on point. Also, the editorial pages are a much sought after section of the newspaper as these writings tend to be articulate, well researched and thoroughly represented with an aim to engage readers and uphold the positioning of the newspaper. In case of many digital news platforms, with no constraint of space, content can be unstructured and challenge to curate.

Another concern today is the copyright infringement and protection of intellectual property on the internet. Since the Internet is in public domain, there are issues regarding copyright on content. Anonymity and low accountability – especially on social media leads to questions on how to deal with fake news and defamation on digital media.

Resistance to change

Digital transition has come across the kind of inertia common to all incumbents, where people are invested in traditional newspapers even though less viable in some cases. The most significant barrier has been an apparent cultural hierarchy, profoundly deep-rooted belief that newspapers journalism is inherently superior to digital journalism, and a lack of effective synergy between editorial leaders and managers, often combined with a lack of technical knowhow. In the long-term, management and the editorial team will have to work and change together to secure Indian newspapers' role in an increasingly digital environment.

33. Digital Media Reach: A Comparative Study of Rural and Urban People in India', International Journal of Scientific Research and Education, July 2016 Edition and KPMG in India's analysis, 2016-17

34. The Rising Connected Consumer in Rural India, BCG, July 2016

35. VNI mobile forecast Highlights, 2016-2021, Cisco accessed on 24 February, 2017

36. The Habits of Online Newspaper Readers in India, Socialomics, 2015

The future of digital news in India

If you ask anybody, as I have been for the purpose of this article, 'what is the future of digital news in India?' they will have no hesitation in saying: bright, very bright, actually, extremely bright. Especially if that somebody is from Facebook, Google, Twitter, YouTube or sundry social media platforms that feast on free content.

But if you ask a slightly moderated version of the same question, 'what is the future of the producers of digital news in India?' they'll hem and haw. That's because while the news consumer is speeding on the digital content fast track, the digital news business is still a slowcoach; always a step or two behind in this journey of digital news evolution.

How to build a sustainable digital news business is going to be the dominant concern of digital news producers for the next few years. It will defy easy answers. Digital ad spends are growing at a fair clip, but most of that growth is happening in non-news, transactional categories such as e-commerce. News in India is eons away from becoming transactional.

News, even in its earlier two avatars -- print and broadcast -- is served free or almost free to the consumer even when competition is limited to a few top brands per city. So, it is not difficult to foresee that the news consumer -- pampered over four decades of content-giveaways -- will be loath to giving up their 'right' to free content in a hurry. As revolutionary a medium as digital is, it still is not revolutionary enough to command a price for its content.

Quite to the contrary, actually. Digital is the medium that is made-for-free. In the print and broadcast news space, competition is limited by geography (local/national), number (five or ten top brands in any particular geography) and genre (news competes with news). For example, the Washington Post was never competition for the Times of India in its print version, but can be in its virtual version. But when the whole world collapses into your handset, things change.

In the digital space, none of the limitations listed above exist. All news publications across the globe are competition for any news website. There are thousands, if not hundreds of thousands, of options before a news consumer. What one website might want to charge will be available free in a

thousand other sources. And news competes for space on the consumers' mobile screen with texting, mailing, e-commerce, gaming, social media banter, cat-and-dog videos, baby-babble... just about anything.

Some publications have recently put content behind a pay-wall. But it is too early to either pronounce a verdict on this brave venture or foresee the possibility of this becoming a big trend in the near future.

That takes us back to the amended question: 'what is the future of producers of digital news content?' What are they in business for, if there is no light at the end of the tunnel?

Actually, there is. The inalienable fact that mobile phone is becoming, or has already become, the most-used platform for consuming content is that light at the end of the tunnel for news producers. But news consumption on mobile phones has perhaps not yet reached that tipping point where it can impact the viewership or the revenues of broadcast news.

Even though large swathes of news consumers have moved to digital platforms, the advertiser, or more precisely, the advertising agency, has still not made the inevitable switch to digital yet. It is just about now that many advertisers and media buyers are apportioning substantial amounts for digital splash -- much of which goes to non-news products.

This lag in advertiser movement from broadcast to digital has meant that broadcast (and even print, especially in the post-truth Trump era) has not yet felt much pressure to change format or content. This has given linear, appointment content-viewing an extra run.

This bonus run has got a further boost from the fact that digital news producers live at the mercy of the 'cable operators' of the digital age: Google, YouTube and Facebook. Content producers feed them free content and get peanuts in return (just like broadcast in the pre-DTH era was hostage to the cable operator).



Looking at the explosion of mobile and mobile data usage, all this has got to give some time in the near future. News producers are forced to be where the news consumer is: social media. It will not be very different for the advertisers who seeks the news consumers. They will have to take their products to platforms frequented by news consumers. So digital news will discover its DTH-equivalent in some ways. One of which is for the 'cable operators' to start sharing revenues (as Youtube does and Facebook has begun to) or other big platforms, such as Jio* for example, will emerge to challenge the hegemony of the Big 3.

When and how soon that will happen is difficult to say, but it cannot take too long. Until then here is one prediction I'm willing to make: Original content, especially video, will be king again. And, right now, since there is very little original content on digital mediums (which carry second-hand content from their print/broadcast versions or curated content from sundry sources), digital news production is going to cost more. Which in effect means that only those willing and able to invest in original content will remain standing at the time the tide turns in favour of digital. That in turn means things will get a lot worse for everybody before they get better for a few.

(* Jio is a Reliance group company, as is Firstpost)

B V Rao

Editor

Firstpost



All views and opinions expressed herein are those of the author and do not necessarily represent the views of KPMG in India.



Indian print industry- road ahead

Language-wise size of India's print industry

Values in INR billion

Particulars	2016	2017P	2018P	2019P	2020P	2021P	CAGR % 2016 – 2021
English	104.6	108.4	112.7	117.3	121.6	125.1	3.7%
Advertising	71.0	73.6	77.2	81.0	84.7	87.5	4.3%
Circulation	33.6	34.8	35.5	36.3	36.9	37.6	2.3%
Hindi	98.8	107.2	117.4	128.6	138.5	148.2	8.4%
Advertising	63.0	68.0	74.9	83.1	90.3	97.5	9.1%
Circulation	35.8	39.2	42.5	45.5	48.2	50.7	7.2%
Other languages	99.9	109.4	120.3	132.6	145.5	157.8	9.6%
Advertising	67.3	73.4	81.2	90.8	101.2	111.0	10.5%
Circulation	32.6	36.0	39.1	41.8	44.3	46.8	7.5%
Total print market	303.3	325.0	350.4	378.5	405.6	431.1	7.3%

Note – above numbers exclude the revenue from digital mediums
Source: KPMG in India's analysis, 2016-17

The projected growth of Indian newspaper industry is pegged at 7.3 per cent. The growth will be driven by a growing Indian economy, increasing literacy levels, performance of Hindi and other regional language newspapers, increase in consumption, GST rollout and an ever changing digital landscape.

The advertising and circulation is expected to grow by 8.0 per cent and 5.8 per cent, respectively, with growing focus on Hindi and other regional language newspapers driven by higher literacy levels and consumption in Tier II and Tier III cities.³⁷ The traditional newspapers would continue its dependence on advertising which is expected to grow at a steady pace, however its share in advertising pie is expect to shrink to 27 per cent in favour of digital media.³⁷ The English newspaper industry continues facing headwinds with flat or low single digit growth resulting from acceptance of digital news among English readers.

Newspapers are aware of the need to change for a digital future, most of them are already invested in multiple digital platforms, implementing social media and digital integrated newsroom strategies, targeting niche audience markets and cutting costs with innovative production processes. In the future, consumption patterns are expected to add digital to the overall media consumption hours in the language news space. Further, the overall movement is also towards more engaging patterns with an audience that is much more local and that is where regional media comes into play. A number of new providers are vying for viewers' attention. There is a huge opportunity in mobile growth, with more than 70 per cent of readers in western countries reading newspaper via mobile device. Similar trends could be seen in India as internet usage is increasingly shaped by mobile growth.

37. KPMG in India's analysis, 2016-17



Print is the second largest medium in the Adex. Regional language newspapers are expected to grow in double digits, both in circulation and ad revenues, and its popularity among aspirational classes will continue to rise.

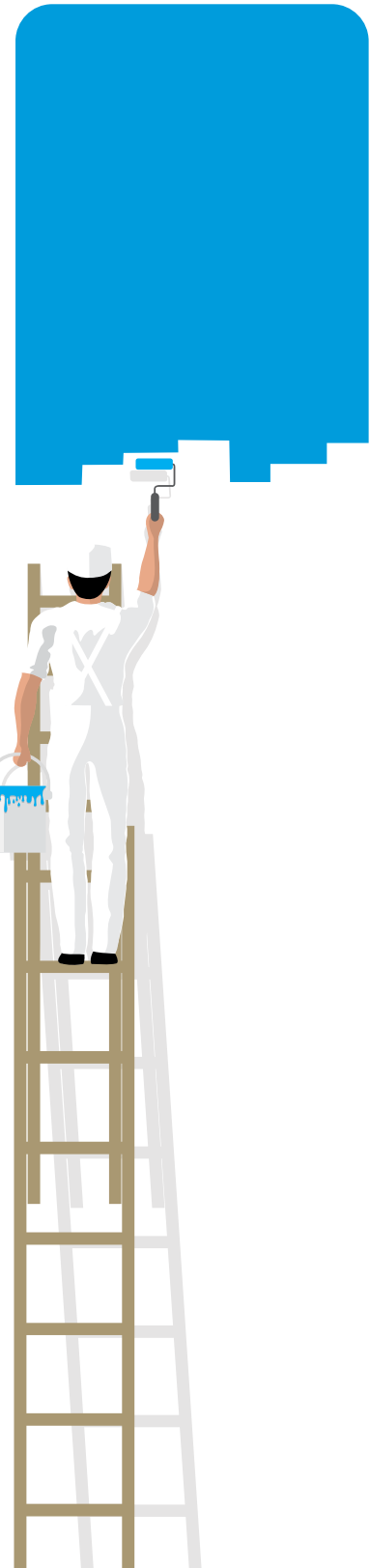
Traditional metros have been the home of English newspapers where circulations are on a downward swing. On the other hand, markets beyond the traditional metros are in overdrive economically and consumption wise – these are the home of language newspapers. The advertiser cannot afford to be blinkered to the rise and rise of India's markets beyond the metros when planning media weight.

It is imperative for the print industry to strengthen its long-standing association with high quality legit information. Given the recent deluge of fake news and noise in the digital domain, reputation of newspapers for delivering credible and accurate information is very attractive to major marketers who want their communication to be seen in trusted environments.

As newspapers focus on engaging with their readers in the most compelling ways possible with news and relevant information, their fingers are on the pulse of their readers to continuously enhance their content experience. Dainik Bhaskar's Kendra Mein Pathak philosophy & 'No Negative News on Monday' is live and relevant case studies in this area.

Kaacon Sethi

Chief Corporate Marketing Officer
Dainik Bhaskar Group







Films

In slow motion...





Introduction

In year 2016, Indian film industry continued to face headwinds. The industry's revenue declined to a small extent – largely as a result of the slowdown in two of its key revenue streams – domestic theatricals and cable and satellite (C&S).¹

The overall box office collections of Hindi movies declined compared to the previous year. Some content driven movies, although a handful, received appreciation from audiences, thus strengthening the belief around changing consumer preferences and their appetite for differentiated content, across movies of all budgets.¹

Regional markets continued to grow with the increasing reach of Marathi, Punjabi and Gujarati markets starting to demonstrate greater depth in addition to major South India language markets. However, demonetisation dampened the overall box office collections by reducing footfalls especially in single screen theatres and the overall number of movie releases. It affected regional markets more due to the greater dominance of the cash economy in the regional film industry. Hollywood movies recorded steady growth and increased their market share with increasing revenues coming from dubbed versions.¹

The film exhibition industry continued to face its long persisting challenge – screen density. While multiplexes grew both through an increase in ticket prices and addition of new screens, single screens continued to struggle leading to continued closures or conversion of

single screens into multiplexes. Various initiatives were taken by players to strengthen the ancillary revenue streams such as food and beverages (F&B) and in cinema advertising.¹

While the C&S market witnessed a steep decline for certain regional markets, the sale of digital rights emerged as a key new revenue stream for the film industry due to global players investing substantial amounts to build their Indian content libraries. The small to medium budget film segment which had been facing a weak C&S uptake has been a major beneficiary. Additionally, investments in the development of original content by these platforms have opened new avenues to showcase work by production houses and individual talent. This segment is expected to grow at a fast pace and contribute significantly in coming years.¹



01. KPMG in India's analysis based on industry discussions conducted by KPMG in India



Industry performance and projections

Film industry performance

Revenues (INR Billion)	2012	2013	2014	2015	2016	2017p	2018p	2019p	2020p	2021p	2015-16 (YoY growth)	CAGR 2016-2021
Domestic Theatrical	85.1	93.4	93.5	101.4	99.8	106.6	111.8	117.9	124.2	131.2	-1.60%	5.6%
Overseas Theatrical	7.6	8.3	8.6	9.6	10.9	11.8	12.5	13.4	14.3	15.3	14.0%	7.2%
Home Video	1.7	1.4	1.2	1.0	0.9	0.8	0.7	0.6	0.6	0.5	-13.0%	-11.2%
Cable & Satellite Rights	12.6	15.2	14.7	15.9	15.3	16.2	17.0	18.0	19.1	20.2	-4.0%	5.7%
Ancillary Revenue Streams	5.4	7.0	8.4	10.2	15.5	19.6	23.9	28.3	33.4	39.4	51.0%	20.6%
Total	112.4	125.3	126.4	138.2	142.3	155.0	166.0	178.2	191.6	206.6	3.0%	7.7%

Source: KPMG in India's analysis

In CY 2016, the Indian film industry grew by a mere 3 per cent over the previous year to reach INR142.3 billion.² Domestic theatricals and Cable & Satellite rights segments, the two major contributors to the industry's revenues, along with the home video segment witnessed a negative growth. Overseas theatricals along with the sale of digital rights and in cinema advertisements became lifeline for the industry.²

CY 2017 is expected to witness recovery of the domestic theatricals from the impact of demonetisation. Films, especially regional, which postponed their release to 2017 are likely to contribute to the revenues of 2017 along with the originally planned releases. The multiplex industry is projected to add screens at a similar pace (150 – 200 screens per annum) while single screens are likely to recover from the drop in occupancy levels. The competition for digital rights is anticipated to get intensified, lasting 18-24 months, thereafter the growth is expected to plateau. The C&S market is expected to resume spends on films, especially in regional markets, and return to initial levels.²

Overall, the industry is projected to grow at a CAGR of 7.7 percent till 2021 to be worth INR206.6 billion.² The growth is expected to be driven by additional new revenue streams in the form of sale of digital rights, resurgence of C&S market in the light of competition from digital platforms, continuing growth of the overseas

market and growth of ancillary revenue streams such as in cinema advertisements.²

Domestic theatricals

Domestic theatricals has remained the main source of revenue with a 70 per cent share in the total revenues of the Indian film industry.² However, this share has reduced by around 4 per cent over the last three years.³ In 2016, the segment witnessed a decline over the previous year due to weak box office performance of Bollywood and Tamil movies, which have been the top two contributors to the segment. Hollywood content continued to increase its share – now contributing around 10 per cent to the segment.³ Some regional markets such as the Malayalam, Marathi, Punjabi and Gujarati markets performed exceptionally well at the box office but due to their small overall share, they could not compensate for the decline of domestic theatricals.²

This segment is expected to grow at a CAGR of 5.6 per cent over the next five years.² This is likely to be a combination of expansion in the exhibition sector – addition of multiplex screens and conversion of single screens into multiplex along with increase in average ticket prices (ATPs) - with converted single screen moving into higher ATP brackets.²

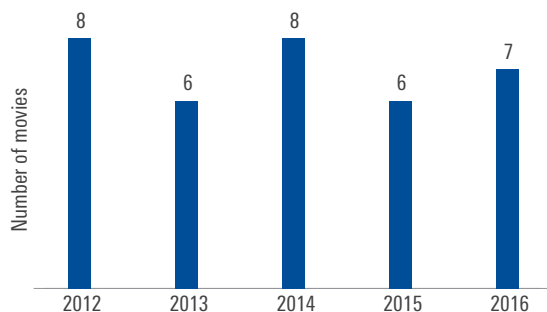
02. KPMG in India's analysis based on industry discussions conducted by KPMG in India

03. KPMG in India's analysis

Bollywood

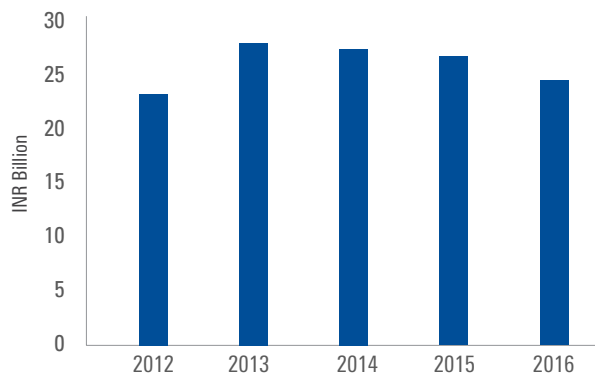
The box office collection of Bollywood movies declined in 2016 over the previous year and the total gross box office collection was around INR37 billion.⁴ 'Aamir Khan' starrer, 'Dangal' became the highest grossing Bollywood movie of all time but as it was released in the last week of the year, it could contribute only a limited share of its revenues to the overall collection in 2016 (January to December).⁵ A total of 225 movies got released in 2016 and the top 50 movies contributed around 96 per cent of the overall net box office collection. The box office collection of the top 50 movies has been on a decline since 2014, indicating that the domestic theatricals' revenue from Bollywood movies hasn't grown over the last three years. Only 26 movies were able to garner more than INR300 million (net) each and contributed around 80 per cent to the overall net domestic box office collection. Further, only seven movies were able to cross the INR1 billion mark in terms of net domestic box office in 2016. This number remains almost the same since the last five years.⁶

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



Source: <http://boxofficeindia.com/> accessed on 01 March 2017

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



Source: <http://boxofficeindia.com/> accessed on 1 March 2017 and KPMG in India's analysis

“ The number of Bollywood movie releases should reduce in India to strongly support the economics. This can be achieved by ensuring film slate discipline through the tightening of the selection and development funnel. As the number of low budget movies with good content have been increasing due to shift in consumption patterns, content making should move towards creating tent pole eventful movies on one side and strong content driven low budget movies on the other. ”

Shibasish Sarkar
Chief Operating Officer
Reliance Big Entertainment



“ The film business is going through a very interesting phase - on one hand the business is growing single digit - but on the other hand, we are seeing the audience adopt good content & more so, differentiated content. In addition, there is a greater commitment to backend actor fees and working with tighter budgets..exciting times! ”

Vijay Singh
Chief Executive Officer
Fox Star Studios



04. KPMG in India's analysis based on industry discussions conducted by KPMG in India
05. Hindustan Times, 08 January 2017, Aamir Khan's Dangal has overtaken his previous film PK to become the highest-grossing Hindi film in History'

06. KPMG in India's analysis



Some of the notable trends in 2016 were:

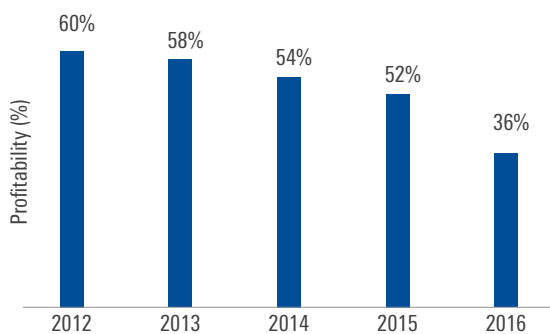
Increasing success of content driven movies

Differentiated, strong, message-based quality content became the indispensable factor for the success of a movie in 2016, further highlighting the fact that audiences have become more discerning in content consumption. Marquee names (actors/directors) continue to drive opening week collections, however, the long term success of films at the box office has come to be defined by the quality of its content. Movies (with top actors) such as 'Sultan' and 'Dangal' performed exceptionally well at box office because the content was appreciated. Similarly, 'Akshay Kumar's' movies ('Airlift' and 'Rustom') with differentiated content performed better than his franchise movie ('HouseFull 3') at the box office. Low budget movies with strong storyline ('Pink' and 'Neerja') were commercially successful pointing towards a consumer need for quality content.

Decreasing profitability of Bollywood movies

Of the leading 50 Hindi movies, the number of movies which were able to record a positive return on investment reduced from 27 in 2014 to 18 in 2016.⁷ Movies with well-known actors such as 'Shivaay' and 'Fan' failed to generate profits in spite of being among the top 10 grossers of 2016, suggesting good box office performance does not secure profitability.⁸

Profitability analysis of the top 50 Hindi movies: Percentage of profitable movies



Source: <http://www.koimoi.com/> accessed on 01 March 2016 and KPMG in India's analysis

07. KPMG in India's analysis

08. 'Box-Office Verdict 2016', Koimoi.com, <http://www.koimoi.com/box-office/hits-flops/verdict-2016/> accessed on 30 January 2017

Content has become indispensable for the movie's success irrespective of movie's budget and star cast. Movies with differentiated content performed well. The digital rights segment has evolved as a strong revenue stream due to aggressive acquisitions by OTT players. This has ensured that some movies were profitable despite having weak theatricals and C&S revenue streams.

Aashish Singh

Vice President - Production

Yash Raj Films



Extreme consciousness and discipline in movie budgets is really important. Profitability across the value chain can be realised by fairly structuring deals between all stakeholders. Producers/Studios who take on the financial risk, must have an upside on profit too commensurate with their investment and their risk. Producers face profitability issues as talent cost is sometimes not fair and the most bankable actors have also become producers, hence work on a higher share in the profits. Most importantly, if we see the movies that are working and breaking out, it is mainly the high concept movies. So content is way more important than talent in movies today.

Amrita Pandey

Vice President - Studios

Disney India



Rise of biopics

Biographical or biopics dominated the box office collections in 2016. 'Dangal' became the highest grossing Bollywood movie of all time. 'M.S. Dhoni: The Untold Story' and 'Rustom' were among the top five in the domestic box office collection. 'Neerja' also performed well by garnering around INR717 million as net box office domestic revenue.⁹

Sports oriented biopics have found an audience over the last few years. 'Dangal' and 'MS Dhoni – The Untold Story' in 2016 were sports biopics. 'Bhaag Milka Bhaag' and 'Mary Kom' released in 2013 and 2014 respectively were also built on sports personalities. 'Akshay Kumar' starrer, 'Gold' and 'Sachin – A billion dreams' are much anticipated sports biopics to be released.¹⁰

Technology is playing an increasingly important role in creating such movies which showcase the entire journey of the movie's protagonist. This includes depicting the protagonist at different ages and integrating the films shot footage with actual news, sports or documentary footage seamlessly. For example, in the movie 'M.S. Dhoni : The Untold Story', actor 'Sushant Singh Rajput's' younger, teenage version was created and the actor was inserted into archive broadcast footage of the key cricket matches of cricketer 'M.S. Dhoni's' career. To 'de-age' the actor a three-fold technique was employed to digitally adjust the actor's facial and physical characteristics to give him the appearance of a teenager. Similarly, a mixture of head and full body replacement techniques were used to insert the actor into the original broadcast match footage along with background alterations to fix temporal continuity issues in real locations.¹¹

Regional Industry

While the Hindi films struggled to perform at the box office, some of the south Indian films pushed the envelope and registered revenues to be categorised as blockbusters, thus opening up new possibilities for the regional film industry. However, the growth in regional industry was dampened in the last quarter of the year due to the impact of demonetisation. Overall, the regional industry contributed around 50 per cent to the domestic theatrical revenues in 2016.¹²

Telugu

Telugu films continued to perform well at the box office in 2016. Star driven, mass commercial films ruled the box office with 'Janatha Garage' and 'Sarrainodu' grossing

worldwide collection of INR1.3 billion and INR1.27 billion respectively.¹³ 'Janatha Garage' became the second fastest after 'Baahubali: The Beginning' to cross INR1 billion in worldwide box office collection and also the third highest grossing Telugu movie of all time.^{14,15} The film performed exceptionally well in markets beyond Andhra Pradesh and Telangana.

However, the notable difference in 2016 was the success of movies with debutant directors and non-marquee star cast. These strong content-driven movies like 'Pellichoopulu' and 'Kshanam' were appreciated by the audience. 'Pellichoopulu' was made at a budget of around INR10 million and grossed over INR300 million and became the biggest overseas hit in terms of return on investment.¹⁶ Also, remake movies like 'Oopiri' and 'Dhruva' performed well at the box office. A notable feature about the industry is that movies of 15-20 well-known actors are likely to have decent box office opening but on an average only a single movie is released per actor annually.¹⁷ Thus, the market has strong potential to grow with more movies releases from these actors. Marketing has become really important where apart from star-driven movies, small movies are also being promoted well. Marketing budgets now account for 10 per cent and 50 per cent of the production costs, respectively, for small and big-budget movies.¹⁷

Telugu film industry continue to perform well in the domestic & overseas market. Dubbing of Telugu movies has also increased in other languages leading to 20-30 per cent of revenue contribution from big movies. Strong content driven movies have started to perform well at the box office. Demonetisation affected the Telugu industry with decrease in investments especially for small films.

G Adishesagiri Rao

Chairman
Padmalaya Group



09. 'Top India total net gross 2016', Box Office India, <http://boxofficeindia.com/?years.php?year=2016&pageId=4> accessed on 01 March 2017

10. The Times of India, 28 January 2017, 'Sachin: A billion dreams teaser leaves you yelling Sachin!'

11. The Times of India, 03 October 2016, 'Challenging to recreate footage of Dhoni playing milestone matches'

12. KPMG in India's analysis

13. <http://andhraboxoffice.com/> accessed on 01 March 2017

14. Hindustan Times, 08 September 2016, 'Telugu film Janatha Garage grosses Rs 100cr worldwide'

15. Indian Express, 20 September 2016, 'Janatha Garage: Jr NTR, Mohanlal film third biggest box office hit in Telugu cinema history'

16. 'Why the success of Pelli Choopulu is great news for Telugu cinema', The Huffington Post, <http://www.huffingtonpost.in/2016/09/04/why-the-success-of-pelli-choopulu-is-great-news-for-telugu-cin/> accessed on 25 January 2017

17. Industry discussions conducted by KPMG in India



Tamil

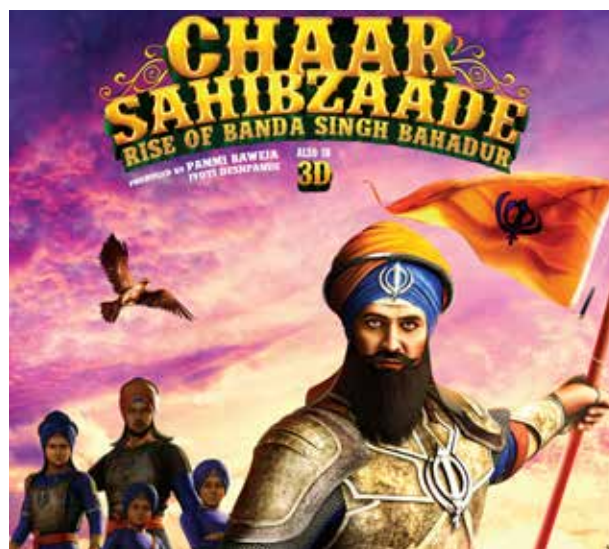
In 2016, around 200 Tamil movies were released and their box office collection reduced compared to the previous year. Nearly 20 movies turned out to be profitable for producers.¹⁸ Various factors which affected box office collections were demonetisation, cyclone 'Vardah' and the demise of the Tamil Nadu Chief Minister. Overall, 90 per cent of the total Tamil language domestic box office collection was contributed by Tamil Nadu market, of which 70 per cent came from Tier1 cities like Chennai, Coimbatore, Madurai and 20 per cent from tier 2 and 3 towns.²⁴

Depending on the actor's popularity in Andhra Pradesh (AP), dubbed versions in Telugu resulted in robust collections. Telugu dubbed versions of Tamil movies like '24' and 'Pichaikaran' performed better in AP and Telangana than Tamil Nadu.¹⁸ 'Kabali', starring 'Rajinikanth', became the movie with largest opening for any Indian film and highest grossing south Indian movie in the overseas market.¹⁹ It was released on 3200 screens in India, of which 2200 were in south India. Low budget Tamil films with good content, upcoming artists and a quick turnaround time have started gaining momentum with good margins.

Malayalam

Year 2016 was a landmark year for the Malayalam film industry. The total domestic box office collection from top 10 movies increased by around 25 per cent in 2016 as compared to 2015.²⁰ 'Puli Murugan' became the highest grosser Malayalam film of all time and first ever Malayalam film to garner INR1 billion from the worldwide ticket sales within a month of its initial release.²¹ Also, three movies released in 2016 found place amongst the top five highest grossing Malayalam movies of all time.

In the second half of Dec'16, the industry witnessed a rift between Malayalam Film Producers Council and Distributors and Kerala Film Exhibitor Federation (KFEF) over profit sharing. The exhibitor association demanded an increase in the revenue share for exhibitors to 50 per cent from current 40 per cent. This resulted in a strike which halted the production and release of new Malayalam films for more than 20 days, causing a loss of about INR200 million to the industry.²²



Bengali

The Bengali film industry incurred losses of INR2 billion in 2016 as over 50 films were unable to release despite clearance from Central Board of Film Certification due to inability of producers to meet the release costs.²³ The turnover of the Bengali film industry has remained stagnant at INR1 -1.2 billion over the last three years.²⁴ Only 2-3 per cent of the Bengali films released in 2016 were able to recover costs due to lack of differentiated Bengali content which failed to generate interest among audience.²⁴

Also, the Bengali movies failed to respond to the strong competition in the form of superior production quality of high budgeted Hollywood, Bollywood and regional movies. The average content of Bengali movies could not attract the audience to multiplexes by paying high ticket prices.

Due to their low popularity, C&S revenues for the Bengali movies were hit as broadcasters preferred their own telefilms or old popular movies over new releases leading to lower investments from financiers over time. In the exhibition sector, more than 200 single screens closed down in West Bengal over the last three years.²⁴

18. The Hindu, 24 December 2016; 'Kollywood's 2016 report card'

19. The Hindu, 23 July 2016; 'Kabali becomes biggest Indian opener of all time'

20. KPMG in India's analysis

21. The Indian Express, 22 December 2016; 'Kabali to Pulimurugan: Blockbusters that made regional films bigger than Bollywood in 2016'

22. The Indian Express, 05 January 2017; Kerala film exhibitors to end strike after CM's intervention'

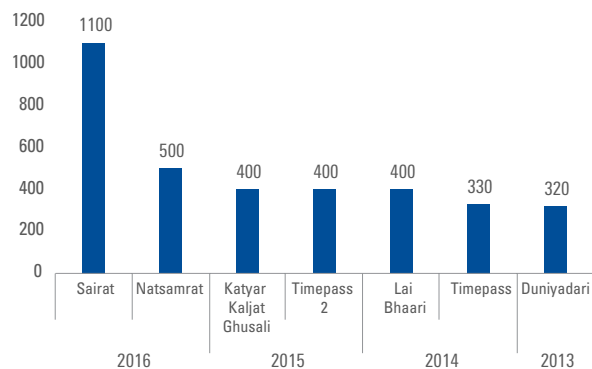
23. The Economic Times, 02 December 2016; 'Tollywood slides into Rs 200 crore loss'

24. Industry discussions conducted by KPMG in India

Marathi

The Marathi film industry performed well at the box office in 2016 owing to success of strong content driven movies and quality subjects to audience. 'Sairat', without any A-list star, became the highest grossing Marathi movie of all time and grossed over INR1 billion in box office collections.²⁵ It was released in around 500 screens across India, whereas generally a Marathi movie is released in 250-300 screens and is restricted to Maharashtra, reaffirming the fact that good content is appreciated across different markets irrespective of language.²⁶ Also, government initiatives like zero entertainment tax for Marathi language movies, subsidy to Marathi film producers, mandated exhibition window and controlled production costs make Marathi film industry a superior business case for investment by major production houses in India.

Worldwide gross box office collection of top Marathi movies (INR Million)



Source: KPMG in India's analysis based on industry discussions conducted by KPMG in India

Unlike south markets where regional language is preferred medium of viewing cinema, Marathi movies face stiff competition from Hindi movies which satiates the appetite for pure commercial films. Hence production houses are focusing on producing strong differentiated content which has allowed Marathi movies to outperform their past performance year after year. Marathi cinema is gradually gaining acceptance in non-Marathi speaking markets thanks to digitisation of screens and social media enabling 'word of mouth' publicity. Our role has been to identify this differentiated content understanding, thus creating & presenting such films which have been the driving factor of this growth

Nikhil Sane
Business Head - Marathi Film Division
Zee Studios




25. Business Standard, 31 December 2016; 2016: Regional films grow market share'
26. Industry discussions conducted by KPMG in India



Other Regional markets

The Gujarati film industry has been performing well at the box office over the last couple of years. This trend has evolved due to improvement in production quality and technology, upsurge in movie marketing and increase in youth centric movies which attracted young audience. The budget of an average Gujarati film is INR150-200 million.²⁶ On the back of this strong growth, 'Anurag Kashyap's' production house – 'Phantom Films' decided to coproduce two Gujarati movies.²⁷ Also, Gujarat government took an initiative to encourage Gujarati films makers to create quality work through the 'Quality-based Gujarati Film Encouragement Policy-2016'. Under this policy, it offers financial assistance of up to INR5 million to movie producers as per the film quality and cash rewards in the range of INR20-50 million to films which win international awards.²⁸

Punjabi movies continued to perform well at the box office with greater number of movies gaining acceptance even outside the main market of the Punjabi speaking audience. In 2016, there were at least 12 big releases and many of them were made at a budget of INR20-30 million. 'Ambarasariya' and 'Chaar Sahibzaade 2' were major hits at the box office grossing over INR200 million.²⁹

Regional Markets especially Marathi & Malayalam offer potential to deliver strong profitability due to reasonable cost structures & content led cinema. English will continue to grow with increased localization of Hollywood tent-poles driven by increasing share of revenues from the dubbed versions. Digital platforms especially the SVOD segment which is attracting investments will help drive penetration of content especially the unique content that does not reach wider audiences due to exhibition limitations in India.

Ajit Andhare
COO

Viacom 18 Motion Pictures



Hollywood

The performance of Hollywood movies at the Indian box office has witnessed a robust growth over the last two years. In 2016, gross collections grew by around 10 per cent compared to 2015.³⁰ The leading five Hollywood movies generated more than INR5 billion cumulatively in gross collections as in 2015.³⁰ 'The Jungle Book', became the highest grossing Hollywood movie in India collecting around INR2.5 billion.³¹ However, only one movie was able to collect more than INR1 billion as compared to three in 2015.³⁰ The continued healthy performance of Hollywood movies can be attributed to:

- Dubbed regional language releases:** Over the past few years, the audiences have grown more discerning about the movies they watch, appreciate different genres and have become language agnostic. Good cinematic experience of Hollywood movies has been appreciated by audiences across different demographics in India. This has led to an increase in the number of these movies being dubbed into regional languages. Over last 2-3 years, nearly 40 per cent of English releases are dubbed in at least one local language.³² Dubbing into different Indian languages helps to reach wider audience base leading to increase in the contribution from dubbed versions to overall revenue collection in Indian market. For example, 'The Jungle Book', the highest grossing Hollywood movie in India, garnered more than half of the box office revenues from non-English versions.

Contribution of dubbed versions to overall box office collection of Hollywood movies in India

Year	Movie	Dubbed Contribution (%)
2016	The Jungle Book	58%
	Captain America: Civil War	41%
	Finding Dory	21%
2015	Avengers: Age of Ultron	45%
	Ant-Man	27%
	Star Wars: A Force Awakens	15%
2014	Captain America: Winter Soldier	33%
	Guardians of the Galaxy	27%

Source: Industry discussions conducted by KPMG in India

26. The Hindu, 23 August 2016; Gujarati film industry, still a work in progress'

27. The Hindu, 28 April 2016; Gujarati cinema hits the box office with 8 times growth in 2015'

28. Business Standard, 02 February 2016; 'New policy announced to encourage Gujarati films'

29. The Hindu, 26 December 2016; 'Marathi, Punjabi films that made a mark in 2016'

30. KPMG in India's analysis

31. The Wall Street Journal, 21 April 2016; 'Disney's Jungle Book becomes India's highest-grossing Hollywood film'

32. Industry discussions conducted by KPMG in India

- **Rise of multiplexes:** The number of multiplexes witnessed an increase across Metros and Class A towns, with major operators entering Tier 2 cities. The enhanced viewing experience of Hollywood movies thus resulted in increased footfalls and revenue realisations.
- **Increase in Hollywood movies promotion:** With India becoming a strong market for Hollywood and as more Indian actors taking up international projects,

India is increasingly included as a part of International promotional plan of Hollywood movies. Also, most of the Hollywood movies are released in India on the same day as their worldwide release. In 2016, 'Jungle Book' and 'Inferno' were released in India a week and two weeks before their U.S. release respectively.

Marketing and Promotion of 'The Jungle Book': A Case Study

'The Jungle Book' became India's highest grossing Hollywood movie of all time. Considering the story's strong resonance and nostalgia amongst the millennials, the movie's marketing campaign targeted not only existing fans of the story, but also the new generation. The marketing initiatives targeted across the four quadrants of audience category - Families, Kids, Adults and the Youth. Some of the highlights of their successful marketing strategy include:

All-star voice cast - Some celebrated Indian actors were cast to not just to lend their voice, but also match the personality of their respective parts

Music - The 'bare necessity' of a Hindi movie - To revive the nostalgic element associated to Jungle Book stories, the original team (lyricist 'Gulzar' and composer 'Vishal Bhardwaj') was roped in to recreate 'Jungle jungle baat chali hai' song

Bringing Mowgli home - The movie's main character 'Neel Sethi' (Mowgli) came to India for promotions where marketing activities were executed with the young actor to generate buzz across the local market. Also popular Indian actors like 'Priyanka Chopra' and 'Irrfan Khan' extended their support to promote the movie on social media.

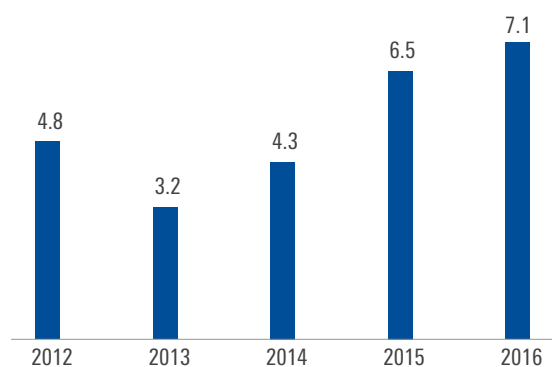
Aggressive release strategy - As the movie aimed at reaching out to fans spread across the length and breadth of the country, it was released in English as well as three regional languages (Hindi, Tamil and Telugu) in over 1600 screens across 357 cities. Also, the movie was released in India a week before its US release.



Source: Industry discussions conducted by KPMG in India



Box office collection of top 10 Hollywood movies in India (INR Billion)



Source: Kinematograph Renters Society

Overseas theatricals

Overseas theatricals contributed ~8 per cent to the overall industry's revenue in 2016.³³ The segment grew by 14 per cent from INR9.5 billion in 2015 to INR10.9 billion in 2016.³³ This growth can be attributed to strong performance of south Indian movies in the overseas market. Their contribution has increased by around 10 per cent over the previous year to reach 62 per cent of the overseas theatricals in 2016.³³

Over the next five years, this segment is expected to grow at a CAGR of ~7 per cent on the back of increase in the number of movies (both Hindi and regional language) travelling to overseas markets and opening of newer territories for Indian films.³³

Bollywood

In 2016, Bollywood movies in overseas market grossed similar revenues compared to the previous year. Big budgeted movies with a strong star - cast continued to attract audiences in overseas market. Additionally, more and more mid to small budgeted movies with strong content are releasing and getting appreciated in such markets.

But the overall number of movies releasing overseas remained low with less than 50 per cent of movies released in India releasing overseas.³⁴ For Bollywood movies, U.S. (30 per cent), U.K. (20 per cent) and Middle East (25 per cent) together contribute to 75 per cent of total overseas revenues. Other emerging markets include Australia, New Zealand and South East Asia.³⁴

Regional

In 2016, south Indian movies performed well in the overseas market as compared to 2015. This growth can be attributed to the large population of young Non-Resident Indians (NRI) looking to consume Indian content which helps them maintain a connection to their culture. This has led to wider releases with greater number of screens. However, many of the smaller films were not able to release overseas due to high promotion and distribution costs. With a rising diaspora population and aggressive marketing of films abroad, overseas revenues are expected to grow steadily.

Tamil movies overseas box office collection increased in 2016 compared to the previous year, reaching around INR3.5 billion, the second largest after Bollywood.³⁴ The top ten Tamil movies of 2016 garnered nearly 27 per cent higher revenues compared to the previous year in overseas market.³³ For Tamil films, the overseas market is evenly spread across the globe unlike other south Indian films. Malaysia is the largest market and controls 35 per cent of the trade. The other key markets are USA (20 per cent), Singapore (15 per cent), Middle East (10 per cent), Europe and U.K. (7 per cent), Sri Lanka (7 per cent), Australia (5 per cent).³⁴

Telugu movies overseas box office collection was similar to the previous year. However, the top ten movies of 2016 garnered nearly 13 per cent higher revenue compared to the previous year in overseas market.³³ U.S. contributes 85 per cent of the overseas revenue and 5-10 per cent of overall box office collections.³⁴ The large Telugu-speaking population in the U.S., mainly in the 35-40 age group, has contributed to this share.³⁴ Telugu cinema in the U.S. is driven by mainstream family entertainers and star-driven commercial movies. A big Telugu movie gets a similar screen count as a Hindi movie, around 300-400 cinemas. Over past few years, newer markets in Middle East and Europe have emerged. Other important markets are Australia, Malaysia, South Africa, Dubai and United Kingdom. Overseas collection for big budget movies can go up to 10 per cent of worldwide collections.³⁴

Malayalam movies performed exceptionally well in 2016 with the top ten movies garnering nearly double the revenue as compared to 2015 in overseas market.³³ This growth can be attributed to higher number of movies released overseas and increase in the number of screens on which they got released. Out of 160 movies released in India, nearly 40 movies were released overseas. For Malayalam films, Middle East contributes 75 per cent of overseas revenue.³⁴ The highest grossing movie at domestic box office, 'Puli Murugan' collected around INR360 million in the overseas market.³⁵

33. KPMG in India's analysis

34. Industry discussions conducted by KPMG in India

35. International Business Times, 05 December 2016; 'Pulimurugan worldwide box office collection: Mohanlal-starrer scores big in 2 months'

Cable and Satellite (C&S)

Cable & Satellite(C&S) rights contributed ~11 per cent to the overall industry's revenue in 2016.³⁶ However, it witnessed a negative growth of 4 per cent from INR15.9 billion in 2015 to INR15.3 billion in 2016.³⁶ This can be attributed to the steep decline in C&S rights market of Tamil and Telugu movies.

Industry discussions indicate that while the Hindi market is growing, the C&S market across regional languages is expected to take a pause, stabilize and eventually grow.³⁷ Going forward the contribution from C&S is expected to grow at a CAGR of 5.7 per cent.³⁸

Bollywood

C&S revenues of Bollywood films registered a growth in 2016 as compared to the previous year.³⁸ Movies with an A list star cast or strong box office performance continue to drive growth while the rights value of mid to small budget movies haven't kept pace.³⁹ Growth in C&S budgets of broadcasters can be attributed to the launch of new movie channels like 'Rishtey Cineplex', FTA channels like 'Zee Anmol Cinema' and expansion of channels to their HD variant requiring different movie library. But in spite of increased demand, more than 50 per cent of movies remained unsold on C&S platform.³⁹

The satellite rights of movies starring 'Salman/Aamir/Shahrukh Khan' were sold for INR500-700 million.³⁹ Satellite rights of two highest grossing movies of 2016, 'Dangal' and 'Sultan' were sold for INR750 million⁴⁰ and around INR600 million⁴¹ respectively. Rights of category A and category B movies were sold in a range of INR250-400 million and INR100-200 million respectively depending on the movie's target market.³⁹

Linking box office performance to C&S acquisition value

Over the years, broadcasters took a pre-release risk and invested heavily in acquiring movie rights. However, many films didn't perform well at the box-office and could not translate into high returns, even in the C&S segment. This has made broadcasters cautious in buying movie rights and they have now adopted an incentives based model driven by the movie's box office or television (TVTs) performance. The satellite rights of highest grosser of the year, 'Dangal' was sold to Zee Network for INR750 million, the highest satellite acquisition price till date. Under this deal, INR550 million was minimum guarantee and rest INR200 million was performance incentive.⁴⁰

Regional

The market of C&S rights for southern Indian movies declined considerably in 2016. For the Tamil market, satellite rights value for big budget movies is usually in the range of 10-15 per cent of the total production cost.⁴² However, regional broadcasters have become discerning with respect to the movies purchased and the price paid for acquiring such rights. During the year, mostly blockbuster movies with a good star cast were sold to broadcasters while the rest of the films struggled to find a buyer. Prices also reduced with category A movies fetching in the range of INR40-50 million as against INR100 million earlier.⁴²

A similar trend was observed for the Telugu market. Unlike in the past, where satellite rights were bought even before the release of the film, in recent times, broadcasters based their decision on the film's box office performance. Satellite rights value was based on the star cast popularity and success at box office. In some cases, even for big movies, prices were reduced by 50 per cent.⁴³ On the other hand, demand for small movies reduced significantly. Overall, 60 per cent of the movies released every year remain unsold on C&S platform. The demand is expected to improve only if there is entry of new players in the market.⁴²

Satellite rights of Marathi films have shown an upward trend for top films with decrease in overall demand. Satellite rights of top 2-3 movies were sold for around INR15 million and other hit films (top 8-10) in the range of INR10-15 million.⁴² However, number of movies acquired by broadcasters have reduced resulting in imbalance in the supply-demand scenario. This has resulted in drop in prices of remaining films with an average performance at box office to INR3 million in 2016 from INR5-6 million in 2015.⁴²

36. KPMG in India's analysis

37. Industry discussions conducted by KPMG in India

38. KPMG in India analysis based on industry discussions conducted by KPMG in India

39. KPMG in India analysis based on industry discussions conducted by KPMG in India

40. 'Dangal satellite rights sold to Zee for Rs 75 crore. Biggest deal cracked in Hollywood?', Spotboye, <http://www.spotboye.com/bollywood/news/dangal-satellite-rights-sold-to-zee-for-rs-75-crore-biggest-deal-cracked-in-bollywood/58512d45db04aae6a5ee57e> accessed on 25 January 2017

41. The Economic Times, 16 October 2016; 'Grossing Rs 50-cr, Sultan premiere sets new TV record'

42. Industry discussions conducted by KPMG in India

43. The Times Of India, 15 January 2017; 'No takers for satellite rights of many Telugu films'



Ancillary revenues

Ancillary revenue streams witnessed a growth of 51 per cent from INR10.2 billion in 2015 to INR15.5 billion in 2016 and became the second largest contributor to the overall industry's revenue.⁴⁴ Major proportion of this growth came on the back of steep increase in the digital rights prices of movies due to heightened competition in OTT landscape. In cinema advertising and movie's music rights revenue streams continued to grow at a steady pace.

This segment is expected to grow at the fastest pace (CAGR ~ 20 per cent) over the next five years and contribute around 19 per cent to the industry's total revenue by the end of year 2021.⁴⁴ Both in-cinema advertising and digital rights segments are at a nascent stage; these are expected to grow at a CAGR of 20-25 percent.⁴⁴ Expansion and technology advancement in the exhibition sector along with third party measurement tools is expected to continue to attract advertisers to this platform (in cinema advertisement). Positive developments in digital landscape is expected to create a huge demand for online content and hence intensify competition; driving the acquisition and price of movies upwards. This aggressive growth is expected to be short lived (18-24 month). Thereafter, the market is expected to stabilize – both in terms of content acquisition and prices. Finally, revenues from sale of music rights is expected to grow at a steady rate of 6 per cent.⁴⁴

Digital rights

Though contributing a small part of the overall size of the film industry, sale of digital video on demand (VOD) rights has been the fastest growing segment. This growth can be attributed to rise in demand arising from changing consumption patterns and an improvement in the quality of telecom infrastructure. Several new OTT companies have launched in the last year or two and are driving demand for content.

Intensifying competition in OTT landscape

The video streaming market in India has variety of platforms including broadcaster owned platforms like 'Hotstar', 'VOOT', etc. and telecom firm platforms like 'Reliance Jio', 'Vodafone Play', 'Wynk' and pure play video streaming platforms such as 'YuppTV', 'Spuul', 'Hungama'. Year 2016 witnessed the entry of two global players – 'Netflix' and 'Amazon Prime' video

into the Indian market. These players are collaborating with various production houses to build a portfolio of Bollywood and regional movies in Tamil, Telugu, Bengali and Marathi. 'Amazon Prime' collaborated with 'Yash Raj Films', 'Dharma Productions', 'T-Series', 'Vishesh Films' and 'Excel Entertainment', acquiring most of their existing movie library and upcoming films. 'Amazon' has also signed a deal with Tamil Nadu's 'V Creations' for its catalogue including 'Kabali' and 'Theri'. The company has allocated nearly INR20 billion for content creation in India, higher than the annual programming budgets of top 3 Hindi general entertainment channels put together.⁴⁵

'Spuul', signed a non-exclusive deal with 'Dharma Productions' for territories outside India catering largely to the Indian diaspora.⁴⁶ 'Netflix' signed a multi-film deal with production company 'Red Chillies Entertainment' to give 'Netflix' access to company's back catalogue and exclusive streaming access to future releases over the next three years.⁴⁷ 'Eros Now' collaborated with 'Vodafone India' and 'Reliance Jio' to integrate its offering on their platforms.⁴⁸ While most have been following a 'free-mium model', which essentially means most of the content is free and some premium content is charged, 'Netflix' bucked the trend in India and introduced a subscription only model.



44. KPMG in India's analysis

45. The Economic Times, 14 December 2016, 'Amazon starts Prime video service in India'

46. 'Dharma movies to be shown on Spuul VOD', Indian Television, <http://www.indiantelevision.com/iworld/video-on-demand/dharma-movies-to-be-shown-on-spuul-vod-161129> accessed on 5 January 2017

47. 'Netflix signs exclusive multi film-deal with Bollywood star Shah Rukh Khan', Screen Daily, <http://www.screendaily.com/news/netflix-signs-exclusive-multi-film-deal-with-bollywood-star-shah-rukh-khan/5112275> article accessed on 10 January 2017

48. 'Eros Now announces distribution partnership with Vodafone', Exchange4Media, http://www.exchange4media.com/digital/eros-now-announces-distribution-partnership-with-vodafone_66776.html accessed on 10 January 2017

This is a great time for film makers – with the entry of global digital players last year and the content partnerships secured by them, the digital platforms have presented a great opportunity. For the film business which is inherently high risk, the digital revenue has provided a shot in the arm. Also, with the growth in broadband penetration there is a new audience out there which can now enjoy the films. Consumers are now willing to pay for content and with the growing awareness of anti piracy, digital fills the dark window between theatrical and satellite where they can access content legally. With the right windowing strategy between TVOD, satellite and SVOD, we can ensure that the maximum number of people have access to content via legal means.

Vivek Krishnani

Managing Director

Sony Pictures Entertainment
Films India



to monetize to their potential. However, as audiences are becoming more discerning in terms of the type of content they consume along with an increasing affinity for digital content, these content driven movies have been increasing their footprint in digital space. This has led to such movies being less reliant on theatrical revenues with digital contributing around 70-80 per cent of overall collections.⁴⁹ The OTT platforms provide effective distribution platform for such movies which otherwise face high P&A and other costs. Thus, an emerging trend is a clear demarcation between tent poles/high budget movies releasing in theatres and small budget/content driven movies consumed mostly on digital platforms.

The future of film content creation, distribution and consumption is digital and as a new age Studio we are focused on innovations in this space. Survival in the current ecosystem will depend on the ability to pivot strategies to keep up with this fast changing terrain.

Rohit Khattar

Founder Chairman

Cinestaan Film Company



Growth in value of digital rights

The value of digital rights of movies saw a major upward trend in 2016. This surge in acquisition cost can be attributed to an increase in the demand for library creation by existing players and new entrants like Amazon Prime. However, this growth was largely driven by Amazon Prime with other competitors unable to match its acquisition prices. In 2016, digital rights attributed to up to 30-35 per cent of the overall rights value including C&S and in some cases, equal to the C&S deals.⁴⁹ The value of digital rights depends on the release of the movie on the platform. Amazon Prime has signed most of the deals with filmmakers for an exclusive window before the television premiere of their upcoming films.

Digital as key revenue stream for niche movies

Most of the small budget/independent movies have not been able to get a wide screen release due to the current challenges in the exhibition sector. This has led to many promising movies going unnoticed and unable

In-cinema advertising

In cinema advertising continued its growth trend and is expected to grow at a rate of around 25 per cent in 2016.⁵⁰ Currently, it constitutes 1 per cent of the total advertising revenue pie but has huge growth potential.⁵⁰ This growth can be attributed to expansion of multiplexes in metro/non metro cities and nearly 100 per cent digitisation of screens. Digitisation has resulted in an increase in the volume of ad inventory and the ability to geographically target advertisements with multi lingual support. At the same time, the exhibition industry has become more organized, technologically advanced, and ensures a high level of transparency by providing real time campaign tracking to advertisers. The number of in-cinema advertisers have grown from 50-100 in 2010 to over 2,500 in 2016.⁵¹ Sponsorship revenues for PVR Cinemas increased by almost 20 per cent in 2016 over previous year.⁵²

49. Industry discussions conducted by KPMG in India

50. KPMG in India's analysis

51. The Hindu, 31 October 2016, 'In Big title clashes, in-theatre advertising wins'

52. PVR Cinemas investors report accessed on 01 March 2017



Increasing focus on innovation and experiential marketing

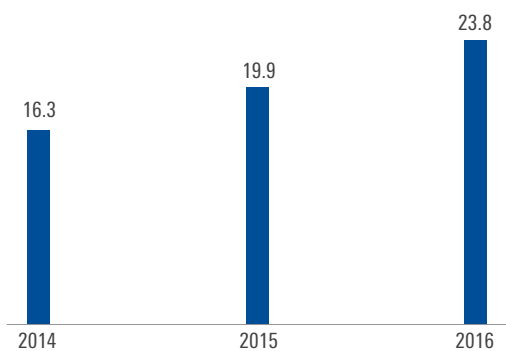
In cinema advertising provides benefits to advertisers like a captive audience, experiential advertising (various touch points in theatre) and helps in targeting audiences with a high propensity to spend. As advertisers are scaling up spends on In Cinema advertising, exhibitors are providing innovative opportunities to promote products and services. Apart from on screen advertising, theatres are providing innovative options to utilize off screen space consisting of seats, lobby, lifts, and interactive zones.

Increased movie marketing and measurement tools attracting advertisers

Increased focus on movie marketing on social media platform develops a high interest/engagement level across various audience age groups which ultimately attracts new categories of advertisers to this medium.

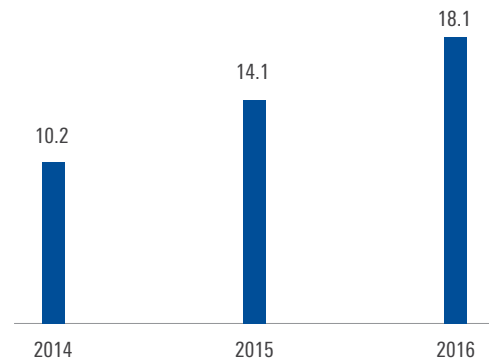
Also, the development of a robust and scientific measurement system to track audience demographics and consumption patterns will be the growth driver for future investments. Interactive Television, a marketing agency specializing in In Cinema advertising, launched a measuring tool called 'Buzz Index' which identifies, captures and quantifies the buzz around a particular film across all social media platforms and arrives at a 'buzz score'. This helps advertisers to make informed decisions for advertising in a movie having good opening potential.⁵¹

PVR Cinemas advertising revenues (INR Billion)



Source: PVR Cinemas investors report accessed on 01 March 2017

UFO Moviez advertising revenues (INR Billion)



Source: UFO Moviez investors report accessed on 01 March 2017



51. The Hindu, 31 October 2016, 'In Big title clashes, in-theatre advertising wins'

Music rights

Sale of music rights continued to generate robust revenues in 2016, able to recover on an average ~5 per cent of the production cost of a movie.⁵³ Music rights of movies from renowned production house/directors/star cast are sold much before the release of the movie. An A-list star cast continues to drive a premium even in the music rights market, for example, music rights of 'Salman/Aamir Khan' movies were sold for INR160-200 million. The price for category A movies varies between INR90-150 million and for category B movies, it varies between INR40-60 million.⁵³

Music rights fetched a higher amount in 2016 due to an increase in syndication and digital consumption of music along with intensifying competition in industry. The major music labels include T Series, Zee Music and Sony Music. Last year, Saregama re-entered the film music business after a gap of six years. Major players have tied up with various OTT players such as Wynk, Hungama and Saavn for music licensing.

The performance of films in the year 2016 demonstrates a need for greater focus on the development of content, as evident from the emerging slow but gradual success of films that are strong in story telling. In order to reach its full potential, however, the industry would also need to address a host of other impediments to the growth of the Indian film sector, especially infrastructure constraints.

Nina Lath Gupta
Managing Director
NFDC



Value chain analysis: Production

Cost budgeting becomes increasingly important

The number of profitable movies in Bollywood has been on the decline in the last few years. This can be attributed to an increase in production cost which has not been offset by a commensurate increase in box office collections. Production houses/Studios continue to struggle in rationalising talent cost due to a small talent pool of bankable actors and profit sharing structures firmly in favour of those actors. A-list actors like 'Shahrukh Khan/Salman Khan/Akshay Kumar' secure a share of 50-80 per cent in the film's profit, besides a flat upfront fee.⁵⁴ This risk increases in case of movies without A-list actors as their success solely depends on the content while marketing and distribution costs remain high. The lop sided economics have made studios reconsider their strategies, with some studios suspending operations while others are becoming more cautious about their pipeline. In 2016, a major film production house, 'Disney India', decided to exit the Hindi film production business.⁵⁵ On the other hand, some production houses have reduced their content pipeline. In the second half of 2016, 'Balaji Motion Pictures' announced a suspension of any further production of new films.⁵⁶

Increasing potential of regional film industry

Over the past few years, regional movies have performed well at the box office, due to impressive content and the relative untapped nature of the regional markets. Regional movies have also achieved robust profitability due to greater control over production costs, with the average cost of producing a Marathi or Punjabi film at INR40 million versus INR200 million for a small commercial Hindi film, but carry the similar revenue earning potential compared to Hindi movie. Also, increasing demand for films in non-metro cities with distinct cultures, languages and content preferences provides a variety of opportunities to deliver localized and regional content.

53. Industry discussions conducted by KPMG in India

54. 'Profit sharing in Bollywood: Male stars get the best deals', LiveMint, <http://www.livemint.com/Leisure/YVPplOovctgX5ez8un5kuO/Profitsharing-in-Bollywood-Male-stars-get-the-best-deals.html> accessed on 04 January 2017

55. The Economic Times, 26 August 2016; 'Disney India to exit from Hindi film production business'

56. 'After Disney-UTV, Balaji Telefilms may pull out of film business due to losses', FirstPost, <http://www.firstpost.com/entertainment/after-disney-utv-balaji-telefilms-may-pull-out-of-film-business-due-to-losses-2981138.html> accessed on 04 January 2017



Lessons from the south

It gives me immense happiness both as a producer and a father that two unique films starring Rana 'Baahubali' and 'Ghazi Attack' brought the South of India into national limelight. For the right reasons!

South technicians especially directors of cinematography, have been the best in business for over two decades in Bollywood. Directors like Mani Rathnam and Shankar, editors like Sreekar Prasad, music composers like A R Rahman are renowned names across the country.

Beyond the names and talent and films we are bringing to the table, South has a lot more to offer as business models in the entertainment sector.

Exhibition system: While the north has predominantly focused on multiplexes and cities, we have also chosen to renovate and improve the single screens in smaller towns. Our net collections at box office have improved over 80 per cent as a result of this. The cost of investment is low and return on capital much higher. If the rest of India would see this as future, the growth of the exhibition sector would be exponential.

Hero system: South films have encouraged new talent. Telugu alone has over 25 viable heroes where a smart budget driven producer can breakeven before release. Instead of ignoring the fan system, we encouraged it thereby making every hero result in a positive opening. It is rare to see a hero not get an opening even on a non-holiday.

Strong industry bodies: Almost all our associations, trade bodies, unions are fleet footed and problem solving in their approach. Almost all disputes are resolved without the help of the courts. The industry bodies negotiate publicity costs and other costs are a unified body and get the cheapest possible rates. Imagine if something like this is done on an all India basis!

Base for EFX: Our story narratives for large films like 'Robo' and 'Baahubali' found their strength in the strong base of infrastructure we created. Studios over the years have changed their businesses to suit this new large films and supporting them.

Multi lingual opportunities: Today, Mohanlal is a superstar in Telugu with his Manyam Puli. He also acts in Telugu films and is a well-known face now. Tamil films are shot simultaneously in Telugu as well. Within the four South markets, we now created a larger market for all our films. The barriers of the past have come down.

Focus on smaller towns: Our content is made also for the smaller towns. Even though it is mocked in the elite circles of Bollywood, South films dubbed into Hindi are giving Satellite channels huge rating points proving that our content is watched and appreciated across smaller towns and beyond multiplexes. While Hindi films also make content for smaller towns along with multiplexes, only Salman Khan and Aamir Khan performed in those markets. In the South, any big hero is considered big only if he delivered in smaller towns.

Down south, we are still modest people and look at Bollywood for inspiration and story-telling. It will always remain that way in India!

Daggubati Suresh Babu
Managing Director
Suresh Productions Pvt Ltd



The views and opinions expressed herein are those of the author and do not necessarily represent the views and opinions of KPMG in India.

Skill development imperative for growth

Nearly 90 per cent of the workforce in the film sector receives on job training rather than formal training from institutes resulting in non-standardized skill sets.⁵⁷ Most media schools too, lack the technical and practical skills training, required to match global standards. This has stunted the growth of new film technologies in the country especially in the special effects segment where technicians need to be well trained in new technologies.

A majority of the VFX post production work in India caters to outsourced projects from Hollywood and other international studios and comprises of low end work such as wire removals and clean ups. In order to compete with global standards and move up the value chain with specialized projects, investments in skill development is of prime importance.

57. The Hindu, 29 March 2016; 'Cinema is to be learnt'

Need for talent discovery platforms

The Indian film industry is star driven with a few leading actors dominating each market. However, as more content driven movies with relatively new star cast/directors are getting appreciated by audiences, recognition for new talent is growing. Thus, development

of new talent through various talent discovery platforms similar to those for music becomes imperative. One such initiative was taken by 'Quikr', cross category classifieds business, through the launch of talent discovery platform, 'Dazzlr', which bridges the gap between artists and casting professionals by using technology.⁵⁸

Promoting film tourism in India through Film Facilitation Office(FFO)

There was an urgent need to simplify the existing procedures to facilitate shooting of films across various locations in the country so that filmmakers (domestic and international) could take advantage of the Indian film industry's vast talent pool of resources, production facilities and low production costs compared to many countries.

It is against this backdrop that the Ministry of Information and Broadcasting (I&B) took the lead with a long-term objective of positioning and promoting India as a preferred destination for filmmakers across the world, by setting up the Film Facilitation Office (FFO). The FFO is housed in and operated by the National Film Development Corporation Ltd. (NFDC) and is the single window facilitation mechanism for according permissions for filming across India and promoting India as a filming destination, leveraging the diverse locales and vast resources available within the film industry.

Facilitating permissions

The FFO started facilitating permissions for international films being shot in India from mid-2016. While the total number of international films including television series given permission to shoot in India was 29 for the period 1 April 2016 to 31 January 31 2017, the FFO facilitated the according of permissions to 22, out of which 18 were feature films and 4 were television series. The major countries of origin for the international productions in India are United Kingdom, France, Bangladesh, Argentina, Germany, U.S.A, Italy, and Norway among others.

Film policy

As per the mandate of the FFO towards creating a film friendly environment in the country, the FFO is working closely with the NFDC to frame the Film Policy for certain States, so that they can evolve as a primary shooting destination for both domestic and international filmmakers.

Appointment of central and state government nodal officers

FFO worked closely with the Ministry of I&B towards appointment of Nodal Officers in all stakeholder Central and State Government Ministries, who would function as the one point contact for the purpose of promoting and facilitating film shootings under their jurisdiction. While the FFO facilitated the appointment of 36 Nodal Officers, 1 for each State/U.T, it has enabled the appointment of Nodal Officers in key Central Government Ministries/Agencies. The larger objective of this outreach program is to synergize the guidelines of these

Stakeholders with that of the FFO so as to facilitate ease of filming in the country and integrate them with the FFO web portal.

Most film friendly state award 2016

The Most Film Friendly State (MFFS) Award, which was introduced by the Ministry of I&B, Govt. of India and executed by the FFO, as a new category under the 63rd National Film Awards which was held on May 3, 2016, now carries a cash award of INR 10 million in 2017, in addition to a Rajat Kamal and a certificate.

Web portal

The FFO is in the process of establishing a dedicated web portal to take this application process online, which would be operational in the next few months. The portal would not only enable online submission of application, and enlist Guidelines of key Central Government Ministries/Departments regarding shooting of films in one place, but also create a Locations Guide and Service Directory, so as to become a single window Facilitation and clearance mechanism for the international film community who are looking to shoot their films in India.

International marketing

With a view to increase the number of international productions interested to shoot the country, FFO is working closely with the Ministry of External Affairs to ease the facilitation of Visas to filmmakers who wish to shoot their films/television series in India. Furthermore, the FFO participated in the Locations and Global Finance Show held in Los Angeles from 20th – 24th April 2016, as well as the Cannes Film Festival 2016 and is now a member of the Association of Film Commissioners International (AFCI), with a view to promote India as a filming destination and strengthen its international outreach.

Workshops

As part of its national and provincial outreach and as mandated by the MoU, the FFO conducted a workshop titled Film in India - Creating a Film Friendly Nation – Role of State and Central Governments, in Goa on November 22, 2016 alongside the Film Bazaar and the International Film Festival of India. The workshop involved nodal officers from various State and Central Government Ministries/Departments and international producers and trade Bodies such as the Motion Pictures Association of America.

Source: National Film Development Corporation

58. Business Standard, 01 September 2016, 'Quikr launches Dazzlr to organize segments of film industry'



To create a film friendly ecosystem and promote the Film in India initiative, the Film Facilitation Office provides single window facilitation and clearance mechanism that eases filming in India and helps filmmakers deal with issues that confront them. Various initiatives including the Most Film Friendly State Award, appointment of nodal officers across States and key Central Government Ministries and the endeavor to develop a comprehensive web portal have been taken to position and promote India as an ideal filming destination.

Vikramjit Roy

Head - Film Facilitation Office
NFDC



Value chain analysis: Marketing and distribution

With a proliferation of content across different media, release of nearly 20 movies every week and release clashes at the box office, it has become increasingly important for a movie's success to have a clutter breaking marketing campaign. Timing of the marketing campaign has also become incredibly important as movies aim to build momentum in the short span of time leading up to the release of the movie.

This has led to an increase in the marketing budget of movies over the years. Currently, for a Bollywood movie, it varies from INR100-250 million depending on the size of movie release.⁵⁹ The television still takes the maximum share of 40 per cent, print around 8-10 per cent and digital comprising 10-15 per cent.⁵⁹ For a youth oriented movie, marketing budget allocation to digital platforms can go up to 20 per cent.⁵⁹

Some of the key trends notable in 2016 are as follows.

Growth in movie marketing on social media and digital platforms

Over the years, movie promotions have evolved from posters, hoardings and print ads to teasers, trailers, promotional tours, star interviews, music launch and reality shows. Of late, movie marketers have focused more on digital platforms due to the rapidly increasing

internet/social media base in India. Such targeted communication helps in creating strong word of mouth and converting interest into footfalls. 'Baahubali-2' became one of the first Indian film to use 'YouTube 360' platform.⁶⁰ It used virtual reality technology to showcase the sets of the movie to the audience. Most actors use social media (Facebook, Instagram & Twitter) to interact with their fan base.

Actor	Number Of Followers (Millions)		
	Facebook	Twitter	Instagram
Deepika Padukone	33	17	15
Salman Khan	34	21	8
Priyanka Chopra	26	16	15
Amitabh Bachchan	26	25	3
Shahrukh Khan	22	23	6
Akshay Kumar	23	16	10
Aamir Khan	15	20	

Source: Approximate Count on social media platforms as accessed on 26 February 2017

Rise of online platforms expected to shift release strategy of small budget films

Emergence of OTT Video on Demand (VOD) platforms provides a new revenue stream for small budget movies and enables the creative community to develop content exclusively for such platforms. This is expected to lead to the polarization of a movie slate where big budget movies with top actors are likely to release in theatres and small budget movies might focus on online platforms. As a result, the number of movies releasing in theatres can be reduced leading to expansion of exhibition window for movies.

Importance of audience engagement

It has become increasingly important to develop buzz around a movie through innovative marketing that builds word of mouth over a period of time. One such example in 2016 was 'Dangal', which used a powerful combination of a strong story and strategic marketing campaign.

Some of the key highlights of the campaign were:-

Betting on Content: First communication from the film was devised to narrate the story and executed through

59. Industry discussions conducted by KPMG in India

60. The Times Of India, 19 February 2017, YouTube woos Tollywood for film marketing'

the trailer to set the context. The movie assets that followed include the songs, dialogue promos and other videos to highlight key plot points. Similarly, rather than conducting an expensive and long pre-release campaign, content was used as key driving factor and an efficient and effective media campaign was devised that enabled the studio to spend cash as late as two weeks prior to the release of the film.

Launch of the first song on children's day: The 'Haanikarak Babu' song was launched at a special event held on Children's Day.⁶¹ Taking in the fun and jovial tone of the song and the significance of the day, the opportunity was used to introduce 'Zaira Wasim' and 'Suhani Bhatnagar' (the younger 'Geeta' and 'Babita' in the movie) to the media. The media was invited to bring along their kids to interact with the cast.

Special pre release screenings: In order to build strong word of mouth and showcase the movie's content strength, special screenings of the movie were held for select audiences from the trade and the industry.

'Aamir Khan's' fat to fit video: In order to strengthen the credibility of the talent and showcase efforts gone in towards the reprisal of the characters in the movie, 'Aamir Khan's' extraordinary body transformation video was released. This video went viral and raised the awareness of the movie significantly.

Selective brand associations: To keep the powerful content in the forefront, an organic fit of brands was created with the movie's content through extremely selective brand associations. Each of these brands' messaging and values are synonymous with that of the movie.

Extensive distribution strategy: As the universal appeal of the movie had high emotional as well as inspirational quotient, the film was dubbed in Tamil and Telugu by the right talent to reach out to audience across markets like Andhra Pradesh, Telangana and Tamil Nadu. The movie became the highest grossing Hindi movie dubbed in Tamil language, breaking the previous record of 'The Jungle Book'.⁶²

Increasing focus on cost effective distribution strategy

Some of the distributors are closely evaluating returns per screen and hence limiting the release of movies to screens with maximum earning potential. Such decisions are based on the content of the movie and size and location of the movie's target market. For example, 'Shah Rukh Khan' starrer, 'Dear Zindagi' was released in just 1100 screens compared to usual 3500-5000 screens.



Increasing use of analytics

Analytics has been used extensively by various industries to evolve their business models and address various challenges emerging in competitive markets. It enables customized solutions to assess the business impact and provide feedback on areas of improvement for business decision making. However, the adoption of analytics is limited in film industry and is primarily used in movie marketing.

During the marketing phase, a movie's trailer and music create the maximum impact before release, thus it becomes increasingly important for movie marketers to analyze the performance of promos/ songs/ theatrical trailer in different markets and demographics. To achieve this, various analytical tools are being used to gauge the effectiveness of marketing efforts and accordingly achieve maximum Return on Marketing Investment (ROMI). These tools help in estimating first day box office collections and provide media and creative strategy recommendations to increase to same. Some tools also help in movie release decision in different markets based on movie's genre/actor/director popularity.

61. The Times of India, 17 January 2017, 'Aamir Khan to launch Dangal's first song on Children's day'

62. Economic Times, 09 January 2017, 'Aamir vs Aamir: Dangal beats PK to become highest grossing Hindi film at Rs 345.3 cr'



Word-of-Mouth marketing has become increasingly important for movie's opening and lifetime collections. In order to forecast the Word-of-Mouth potential of a film across different demographics, various analytical tools are being used during the marketing phase for strategic media planning and efficient ROMI. In the last year or two, their usage during pre-production phase has gathered momentum.

Shailesh Kapoor

CEO

Ormax Media Pvt. Ltd.



Some of the producers have started using big data during the pre-production phase as well. Some tools use a mix of quantitative and qualitative research to assess the audience feedback towards the script and thus estimate the life time box office potential. 'Ormax Media', an Indian film research company, provides first day box office (FBO) forecasts of movies.⁶³ It uses the following inputs for forecasting⁶³:

- Movie's Awareness – Buzz (Talk value of the film), Reach (Knowledge about the film)
- Intention to watch the film – Appeal (Intension to watch the film)
- Distribution of the film – Number of single screen theatres and multiplexes, Ticket price
- Extraneous factors – Holiday Factor, Cricket Factor etc.

Launch of government fund for film's promotion

The Indian government has launched a new initiative to promote Indian movies selected for Academy awards and major international festivals under the foreign film category. Under this initiative, monetary assistance is provided to independent film makers for film's promotion and the amount allotted depends on the award function for which the film is selected. For example, the films selected for Oscars get a support of INR5-10 million.⁶⁴ The fund takes care of expenses like the engagement of publicist, travel of director, maker and key talent to make an appearance at the red carpet and press meets, accommodation, screenings, advertising and networking. This support helps in better film promotion which can lead to increased chances of nomination among top movies and thus winning.

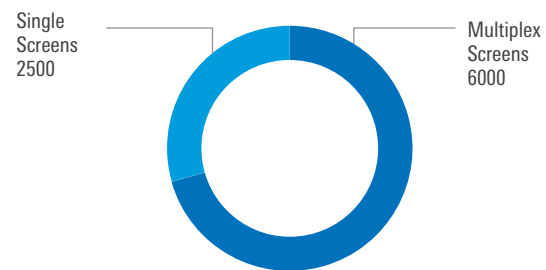
63. <http://www.ormaxmedia.com/> accessed on 05 March 2017

64. The Times Of India, 03 November 2016, 'Film industry welcomes govt's initiative to offer funds to promote movies at international film fests'

Value chain analysis: Exhibition

Domestic theatricals continues to be the largest constituent of the Indian Film industry's revenues with ~70 per cent of the total revenues being contributed by ticket sales at exhibition theaters.⁶⁵ The future growth of the sector is heavily dependent on the pace at which the industry is able to add new exhibition venues.

Estimated number of screens in India



Source: DAVP and KPMG in India's analysis
Note: Figures rounded off to nearest 100

While the country has been traditionally dominated by single screens, multiplexes have been driving growth of the sector over the last few years. By the end of 2016, there were around 6000 single screens and around 2500 multiplex screens in India and multiplexes accounted for nearly 30 per cent of total screens in India. Multiplexes are adding screens at a rate of 8-9 per cent annually over the past few years.⁶⁶ Currently, the Indian multiplex industry has four major players (PVR Cinemas, Inox Leisure, Carnival, and Cinapolis India) which account for approx. 70 per cent of multiplex screens.⁶⁷

The exhibition business in India has one of the highest and more consistent occupancies in the world, however, at the same time higher cost of operations due to high power, rental charges and entertainment tax, has always been a big concern. In addition, the ticket prices in our country are quite low compared to other countries. Many more initiatives are required from the government to make this sector grow at a faster pace

Kamal Gianchandani

CEO

PVR Pictures Ltd

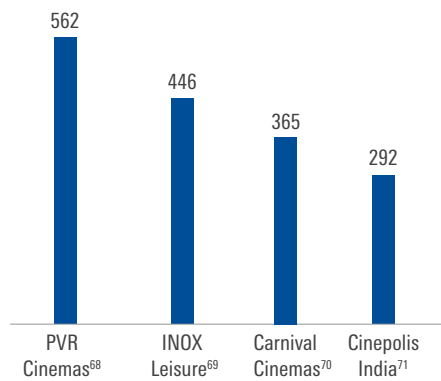


65. KPMG in India's analysis

66. Industry discussions conducted by KPMG in India

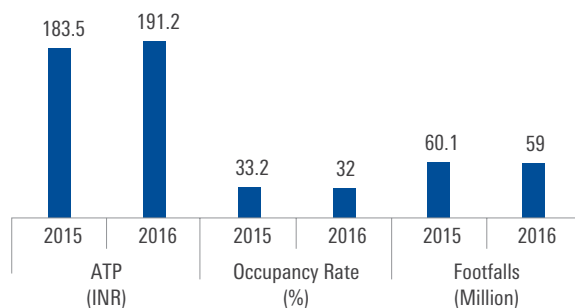
67. The Times of India, 27 September 2016; 'Multiplex screens set to rise over 3000 by 2019'

Number of screens of major multiplex players (Dec'16)



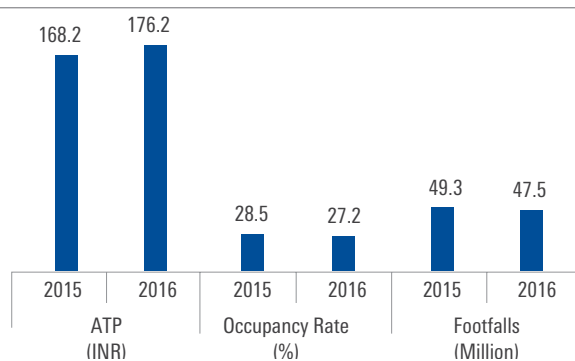
Source: ⁶⁸PVR Cinemas investors report accessed on 01 March 2017
⁶⁹INOX Leisure investors report accessed on 01 March 2017
⁷⁰The Economic Times, 28 December 2016 'After Jharkhand, Carnival cinemas joins hands with Odisha government for expansion'
⁷¹Cinepolis India opens multiplex in Hyderabad, takes screen count to 292', IndiaRetailing, <http://www.indiaretailing.com/2016/12/27/retail/cinepolis-india-opens-multiplex-in-hyderabad-takes-screen-count-to-292/> accessed on 01 March 2017

Average Ticket Price (ATP), Occupancy rate and Footfalls comparison across comparable properties for PVR Cinemas



Source: PVR Cinemas investors report accessed on 01 March 2017

Average Ticket Price (ATP), Occupancy rate and Footfalls comparison across comparable properties for INOX Leisure



Source: INOX Leisure investors report accessed on 01 March 2017

Multiplexes driving growth in exhibition

India's challenge of low screen density (8 screens/million)⁷² is an opportunity which the multiplexes are capitalizing on. In 2016, there were fewer acquisitions – PVR Cinemas acquisition of DT Cinemas (32 screens) got approval, Cinepolis India acquired the remaining seven screens from DT cinemas⁷³ and Mukta A2 Cinema acquired an iconic single screen, New Excelsior, in Mumbai.⁷⁴ After the wave of consolidation, the focus has now shifted to adding screens organically. In 2016, the multiplexes together added approximately 200 screens across India. Industry discussions indicate that the industry is likely to continue to grow at a similar pace – adding 150-200 screens per year.⁷⁵ For example, INOX Leisure plans to invest around INR8 billion in the next four years to increase the screen count by over 300 screens.⁷⁶ Similarly, Cinepolis India plans to invest INR4 billion to take their screen count to 400 by end of 2017.⁷⁷

This pace of growth, however, is woefully inadequate if India is to realise its true potential as a film market. If regulatory hurdles are eased at a state and local level, the industry has the potential to be a material player on the world stage in terms of market size.

Single screen theatres fight for survival

Single screens theatres continue to play a significant role in exhibition industry. They account for more than 70 per cent of total screens in India.⁷⁵ However, the trend in reduction of number of single screen theatres continued in 2016 due to inherent challenges including :-

- Limited content and programming flexibility
- Low occupancy rates and low revenue realisation from F&B and advertising streams.
- Lack of infrastructure support due to which many single screens have not been able to upgrade to latest sound and projection technology, especially in centers with low ticket prices.

On an average, 3-4 per cent of single screen theatres have been closing every year.⁷⁸ Even if the single screen upgrades its infrastructure, it faces strong competition from nearby multiplexes in terms of overall service quality and facilities. Other challenge faced by single screens is limited screening of movies. This is due to non-uniformity of terms with distributors and cost effective distribution strategy followed by distributors based on movie's target market. Also, government policies for not favourable for the development of single screens as compared to multiplexes.

72. 'Inox Leisure: in pursuit of growth', LiveMint, <http://www.livemint.com/Money/xp5msKxmTUzceYCIKcYML/Inox-Leisure-in-the-pursuit-of-growth.html> accessed on 05 January 2017
 73. Business Standard, 02 September 2016; Cinepolis takes remaining DT Cinemas screens'
 74. <http://muktaarts.com> accessed on 01 March 2017

75. Industry discussions conducted by KPMG in India
 76. Business World, 30 November 2016; 'Multiplexes: Popcorns & Screens'
 77. The Economic Times, 24 May 2016; 'Cinepolis India to invest Rs 400 crores to open 160 more screens by 2017'
 78. Industry discussion conducted by KPMG in India



Alternate solutions to address infrastructural issues in exhibition sector

The industry is looking at devising low capex strategies to expand in tier II/III cities and hinterlands. One such strategy is public/private partnership model, wherein an exhibitor partners with the state and get into joint ventures with investors or real estate developers to build entertainment zones with two-three screen multiplexes, food courts and some retail outfits.

For example, in 2016, Carnival Cinemas partnered with Jharkhand government for setting up minimum 75 theatres-cum-recreation zones in 18 districts. A similar memorandum of understanding (MoU) was signed with the Odisha government, wherein the company will get 1-1.5 acres of land to build such zones across 30 districts.⁷⁹

UFO Moviez India (UFO) is targeting rural audiences through its cinema-on-wheels solution, Caravan Talkies. It provides movie screenings with low capital expenditure in the under penetrated, media dark areas and derives its revenues through advertising from companies targeting rural markets. Another asset light initiative has been the development of a franchise model under the brand name 'Nova Cinemas'. This model promotes the creation of mini entrepreneurs to own and operate 'Nova Cinemas' branded theaters in various parts of the country. Local entrepreneurs make requisite investments for setting up the theatres and the brand ensures that the theater is set up at a competitive cost along with providing theatrical technologies as well as sourcing of film content.

The Telugu film industry identified the concept of compact theatres to be set up at several locations such as bus stations, market yards and government offices. These mini-theatres can have a seating capacity between 50 and 300 seats and provide a film viewing experience similar to a multiplex but at a 50 percent lower price.⁸⁰ These theatres enable screening of movies with local themes, targeting rural and district audiences as well as promote small film producers to screen their films. One such miniplex was set up at the Pandit Nehru Bus Station (PNBS) in Vijayawada, Andhra Pradesh.⁸¹

Increasing focus on developing ancillary revenue streams

Over the past few years, exhibitors (especially multiplex chains) have realised considerable growth from ancillary revenue streams due to rising disposable income of a growing working population and increasing demand for quality experience and better services. Exhibitors have also taken many initiatives to consolidate these revenue streams.

Exhibition industry focus had been on good locations in metros/top 15 cities for organic expansion. But, as tier 2/3 cities provide better economic model for multiplexes, investments have taken an upward trend in these markets overtime. Such shifts can be attributed to saturation in big cities and increase in demand in smaller markets due to increase in spending propensity & changing consumption patterns.

Rahul Puri

Managing Director

Mukta Arts Ltd



Strengthening Food & Beverage (F&B) revenue stream

The multiplex chains have realised a steady increase in the F&B contribution to overall revenues over the years. To increase growth in this high margin revenue stream, these chains have expanded their F&B menu, introduced live kitchen counters, increased point of sales distribution all over cinema and used technology in the F&B process.

For example, to increase the sales at concessions, 'INOX leisure' has made F&B counters accessible to anybody and not just restricted to ticket holders.⁸² However, for a leading multiplex chain like 'PVR Cinemas', F&B spend per head is still 40 per cent of the ATP whereas in developed markets, it can go to 50-60 per cent of the ATP implying strong headroom for growth.⁸³ Poor infrastructure and limited food menu at single screen theatres limit the growth of this segment in these theatres.

Innovative models

Recently, PVR Cinemas took the initiative to develop new revenue stream in the form of On Demand Theatre Service.⁸⁴ This service named as 'Vkaao' is an online platform that enables consumers to watch any movie of their choice at their preferred theatre and works on the concept of crowdsourcing. The platform enables the consumer to invite enough people to join in for a show to be financially viable, and hence watch the movie of their choice at a theatre.

79. The Economic Times, 28 December 2016, 'After Jharkhand, Carnival cinemas joins hands with Odisha government for expansion'

80. The Times Of India, 20 August 2016, 'Bus stops, markets to have small theatres'

81. The Hans India, 17 May 2016, 'Brahmotsavam to be screened first at Pundit Nehru Bus Station mini theatre'

82. Industry discussion conducted by KPMG in India

83. PVR Cinemas Investor presentation, February 2017

84. The Hindu, 21 January 2017, 'PVR launches theatre on demand service Vkaao, eyes 100 screens'

In addition to empowering viewers with greater choice and convenience, the platform also gives them an option to view niche movies at a theatre. Production houses and distributors benefit from 'Vkaoo's' long-tail revenue model for their already released movies, while independent, regional, and small budget filmmakers are able to realise the full potential of their creations with its cost-efficient and effective reach and distribution.

Theatre owners, too, are able to maximize their theatre utilization and improve overall footfalls at the theatre. 'Vkaoo' currently has more than 122 theatres in 48 cities as a part of its Prime Theatre Inventory, the platform will be looking to expand into 50 more cities by bringing 100 more theatres on board by the second half of 2017 as it sets about to change the way entertainment is delivered and consumed in India.⁸⁵

Some multiplexes are also working on a blanket permission from Information & Broadcasting (I&B) ministry to screen concerts, exhibitions, live matches.

Focus on attracting kids

Exhibitors are recognizing kids as an important audience and hence customizing screens to cater to this segment. In 2016, PVR Cinemas launched 'Playhouse', a space especially designed for kids. It is a 49-seater movie auditorium, screening children's movies and animated content. Features and facilities include a colorful, themed décor, bean bag seating sets, dimmer lights, etc. These attributes make for a popular place for play-dates and birthday bashes.⁸⁵

Increasing acceptance of box office measurement system

So far, there has not been a single, industry accepted box office measurement mechanism or service. Distributors use their own network with the theatre owners to track a movie's collection in their circuit. However, to improve transparency and accuracy of box office collections, it becomes increasingly important to measure the data through a rigorous, scientific and industry accepted methodology. This can help studios and distributors in better release planning, programming, and understanding audience preferences, whereas advertisers can precisely calculate the return on their investments. In 2015, two major multiplex chains (Carnival and Cinapolis India) partnered with Rentrak for film box office measurement and in Jan'17, PVR Cinemas also entered into a similar agreement with comScore, formerly Rentrak.⁸⁶

Strengthening ancillary revenue streams has become a strong focus in the exhibition sector and various initiatives are being taken to increase the audience spends on F&B in theatres. INOX is constantly working towards using latest technology and bringing the best multiplex experience for our guests. INSIGNIA is one such example where we have introduced laserplex technology and curated F&B offerings for guests

Alok Tandon

CEO
INOX Leisure Limited



The endorsement and acceptance of a third party measurement system and a credible central agency for office collection has increased across the value chain in India. With more producers realising the strong value proposition of Rentrak (now comScore), major multiplex chains have also partnered to implement the same. India's top Multiplex chain, PVR Cinemas partnership with 'Rentrak' in the beginning of this 2017, was a huge development and shall serve as a tipping point to transform the Indian Industry into one with transparent and accurate box office data and analytics in near future

Rajkumar Akella

Managing Director
comScore(formerly Rentrak) – India,
Theatrical



85. <https://www.pvrcinemas.com> accessed on 01 March 2017 and industry discussions conducted by KPMG in India

86. Business Standard, 02 January 2017, PVR Cinemas partners with Rentrak'



Addressing the gap – advertising measurement in the cinema

From the early days of television in India, there has always been some form of viewership measurement, from the manual diary of Doordarshan's DART to today's automated BARC rating system. For an advertiser in today's world, where every click in an app and every view on the web is logged and correlated with the demographic details and preferences of the user, with the data gathered in a million ways, it is clearly essential to have at least some form of audience measurement for every medium.

While the frequency and accuracy of newspaper and radio measurement is not comparable to television ratings or internet views, at least these ratings exist. Cinema, along with other out-of-home media, have unfortunately been amongst the last to embrace audience measurement.

With the growth in multiplexes with their box office point-of-sale systems, the premium segment of the cinema advertising market can now be measured though some allowances will have to be made for 'leakages' in locations far from the corporate office! Counting the actual number of people in a movie theatre will help validate the box office sales numbers where the management of a chain would like such verification. It also provides advertisers with accurate attendance numbers and thus helps move in-cinema advertising into the mainstream with a cost-per-thousand metric.

iCount from Qube Cinema is a cost-effective solution that uses neural networks to count the number of people in a movie theatre with a high level of accuracy, comparable to that of an actual person doing a visual count. iCount also logs the sales data from supported box office systems, where available,

for comparison purposes. Detailed reports by chain, theatre and screen or by movie are available to theatre management and distributors over a secure web site. A composite report of cinema attendance by location and by movie can also be generated from this data for advertisers.

The patent-pending iCount system uses one or more high quality digital cameras within the auditorium, pointed at the audience. Once a movie begins to play, the system can capture images at pre-programmed intervals and securely upload these images to the cloud where a trained neural network checks if each seat is occupied and counts the results accurately.

I believe that the reporting of movie attendance is essential to bring about a large jump in cinema advertising revenues. The use of low-cost systems in the theatre and cloud-based neural networks for the count ensures that operating costs remain low and trust in the count remains high.

Senthil Kumar
 Founder Director
 Real Image



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 author and do not necessarily represent the views and opinions of KPMG in India.



Though box office remains the primary revenue driver in the exhibition sector, companies are focussing on additional revenue streams in F&B sales & advertising. Cinema exhibitors are constantly innovating on their F&B menu to suit local preferences with a view to increase the spent per head. Cinema being a captive medium is forming a part of a client's media plan with an annual allocation leading to growth of in-cinema advertising as a category.

Nitin Sood

Chief Financial Officer
PVR Cinemas Ltd



Challenges in the exhibition sector

Total number of screens in India has reduced over the years with single screens shutting down at twice the rate as compared to growth in multiplexes which have been growing at a consistent rate of about 200 screens per year.⁸⁷ However, this limited growth of multiplexes has been hindered due to various factors.

Slow growth rate of real estate development

Development of multiplexes is largely dependent on growth of retail infrastructure. However, limited funding for the real estate industry has resulted in slow pace of mall development over the past few years. This has led to increase in the acquisition prices of limited retail infrastructure. This trend is even more apparent in Tier II and Tier III towns.

Non uniformity of regulations

In India, cinema exhibition is a state subject resulting in different rules for cinema licensing in each state. One of the biggest challenges to scalability is the red tape due to multiplicity of permissions or NOCs (which can go up to 40 in number) and different approval processes in different states. It can take from months to few years for the clearance of these licenses.⁸⁸

Complications in taxation of the film industry have arisen due to interplay of multiple indirect taxes and frequent changes in taxation law and judicial rulings. In addition, there are restrictions imposed by many states such as on the number of shows that can be played in a day/screen or capping the ticket prices. This restricts the revenue earning potential of the multiplex. On the other hand, high entertainment tax and complicated tax structures which vary from state to state also increases the cost of operations. These challenges slow down the pace of new investments from real estate developers and multiplex operators.

The contribution of Bollywood movies to theatrical revenues has been stagnant while Hollywood and Regional movies have seen an upward trend. There is a demand for all types of content but the screen density is major issue which needs to be addressed on urgent basis. Complicated licensing process & slow infrastructure development are major roadblocks in the expansion of multiplexes in India.

Devang Sampat

Director – Strategy Initiatives
Cinepolis India



Initiatives required for growth of Exhibition Industry

Single window clearance

Since obtaining various licenses from different authorities by exhibitors is hampering the growth of screens, it becomes important that the single window clearance laws should be implemented by the government. The process of granting permissions/licenses needs to be expedited to reduce the losses to the cinema owners through interest cost and cost of keeping the property fully staffed in anticipation of the license. At the same time, the time period for license renewal (currently of 1 year) could be increased.

87. 'Screen Wars', Box Office India, <http://boxofficeindia.co.in/screen-wars/2/> accessed on 05 January 2017

88. Industry discussion conducted by KPMG in India



Strong support from government is required in terms of change in regulatory policies and taxation structure along with subsidies for single screen theatres to upgrade and compete with multiplexes. Demonetisation affected single screen theatres due their archaic mode of transaction system.

Nitin Datar

President

Cinema Owners and Exhibitors Association of India (COEAI)



Upgrading single screen theatres

Several single screens in India are severely dilapidated and in need of maintenance. As the movie going audience becomes more demanding for quality experiences, it becomes imperative for single screen theatres to upgrade their facilities and to improve their service standards. At the same time, converting a single screen to a multi-screen theatre can improve revenue realisation through more number of shows and higher occupancy rate. However, retrofitting or turning single screens into two or three screen multiplexes costs INR4-7.5 million at the low end.⁸⁹ As a substantial amount of investment is required to upgrade and maintain such cinemas, subsidies could be provided by the state government, allowing extra floor space index(FSI) along with concessions in rules and regulations like parking, fire safety, washroom etc.

One such initiative was planned by Uttar Pradesh government to revive the single screen theatres and open new ones in tier II and tier III cities in order to increase the screen penetration in the state. At present over 700 single screen cinemas have either been closed or are running in a very poor condition in the state.⁹⁰ Under this new policy to be carried out in phases, government proposed to extend various schemes and benefits enjoyed by multiplexes to single screen theatres.

89. Business Standard, 18 January 2016, 'India's box office growth runs into a screen problem'

90. The Times Of India, 28 January 2017, 'Single screen theatres to be revamped in Uttar Pradesh'

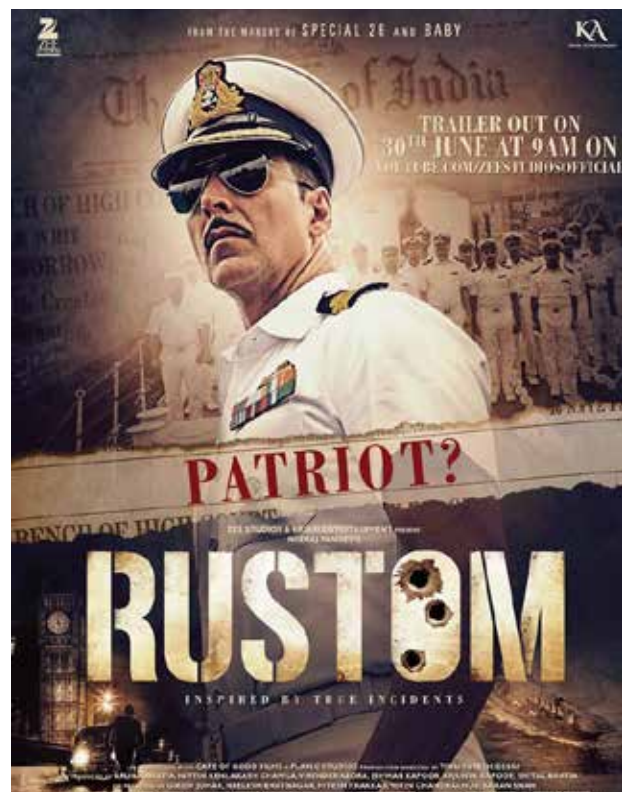
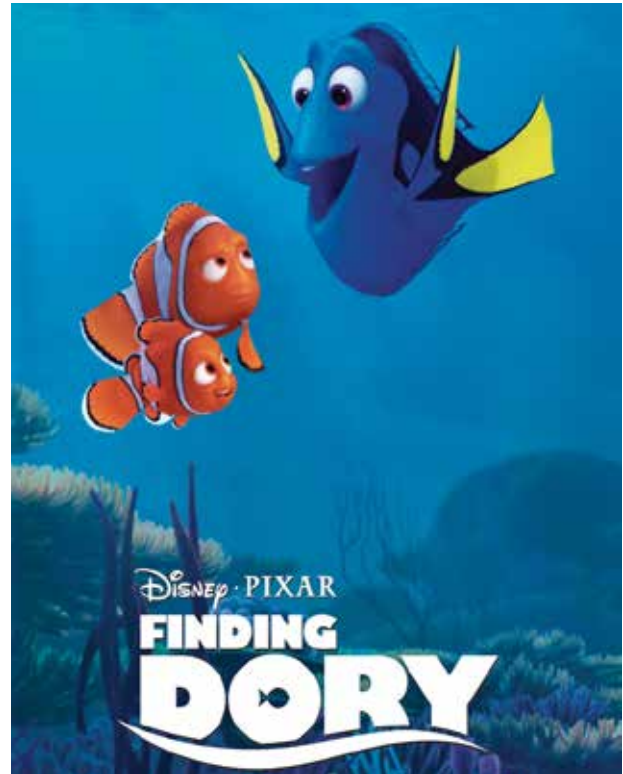
The potential for growth and consumption of filmed entertainment in India is tremendous and a need is felt by the film industry to encourage and stimulate such growth. Over the years, India, the World's largest film producing nation has struggled to grow mainly due to multiple and heavy indirect taxes which resulted in stagnant growth in revenues and closure of cinema halls. At the same time, investments in cinema infrastructure has hit a huge road block not only due to cinema licensing policies of most of the states but also falling footfalls and high infrastructure costs. Due to these issues, many single screen cinemas are shutting shop and the growth of multiplex cinemas has been limited. This has resulted in substantial increase in Piracy. We have enormous potential and opportunities to build India's film industry into a sector that can employ millions of people and add to the GDP substantially, in addition to enhancing India's soft power. We have been arguing our case strongly with the government to amend archaic regulations including Cinematograph act, Cinema Licensing laws and provide incentives to this sector. The Film sector in most of the countries is identified as a priority sector and therefore not only the rate of taxes on movies in international tax legislations across the world is lower, the film industry is also provided incentives to promote the industry.

Kulmeet Makkar

Chief Executive Officer

The Film and Television Producers Guild of India Limited







Key developments in 2016

Demonetisation

Single screen theatres lost more than multiplexes

Demonetisation negatively impacted revenues of exhibitors, especially single screen theatres and especially those in tier 2 cities. Lack of support for digital payments resulted in poor ticket sales and show cancellations. The occupancy rate fell down to 5-7 per cent⁹¹ and revenue was hit by 20-25 per cent in first week post the demonetisation. With 15-20 per cent hit in revenue for initial weeks, the demonetisation effect gradually diminished.⁹²

For multiplexes, digital payments contributed significant amount (approx. 35 per cent) to overall ticket sales before demonetisation. This resulted in lesser impact on footfalls and revenues. Sales at theatre concessions were more affected as compared to footfalls.⁹² Multiplexes extended various discounts and attractive offers to encourage audience shift to digital payments. Post demonetisation, 'PVR cinemas' online transactions contribution to total revenues increased from 34 per cent to 43 per cent, whereas in offline mode, non-cash transactions increased from 10 per cent to 22 per cent.⁹³ 'INOX Leisure' cashless transactions increased by more than double at concessions and by 80-90 per cent at ticket sales.⁹²

In terms of advertising revenues, single screens are impacted more because of their dependence on local or regional advertiser spends. On the other hand, most of the advertisers in multiplexes are national.⁹²

Good content reigned

Demonetisation had a negative impact to a greater extent on movies with weak storylines as compared to strong content driven movies. Movies such as 'Rock On 2' and 'Force 2', released in the early weeks of demonetisation took a strong hit on their box office collections, but at the same time their content was not appreciated much. Movies like 'Kahaani 2' and 'Befikre' reworked their distribution strategy and released on limited single screens to minimise losses⁹⁴. Shah Rukh Khan-starrer, 'Dear Zindagi', was released in just 1,200 screens, and was able to perform well at the box office.⁹⁵ 'Dangal', which became the highest grossing Bollywood movie of all time proved the fact that good content is not affected by external factors.

Regional markets impacted more than Bollywood

Production of movies in regional markets (South, Bengal or Bhojpuri) were severely impacted because majority of transactions for film financing occur in cash. In Industry discussions indicated that in the south, the majority of payments are made by cash.⁹⁶ Some of the projects in the regional market stalled for up to a month due to the lack of cash.⁹⁶ On the other hand, Bollywood has a comparatively more corporatized financing structure and thus got less affected than regional markets. Many movies postponed their release date due to fear of losses that ultimately affected the box office collections. This trend was more notable among small budget movies.

Industry awaits Goods and Service Tax (GST)

Currently producers and exhibitors are required to pay both service tax as well as entertainment tax. The shift to GST is expected to bring uniformity in business and lower the tax impact on the industry but this is set to pan out differently in different states.

Impact on exhibitors

Currently, multiplex operators pay on an average 21-22 per cent of Entertainment tax (varies from state to state) on their gross box office collections and an average of 11-12 per cent of value-added tax on sale of food and beverages. Introduction of a unified goods and services tax (GST) chargeable through the supply chain can help mitigate the cascading impact of tax and help in better operating margins for exhibitors. The benefits can be passed to consumers, thereby leading to decrease in ticket prices and attracting more people coming into theatres. For the largest multiplex chain, PVR, this change could increase EBITDA margin by 4-5 per cent that has ranged between 14-18 per cent over the past five years.⁹⁷

91. The Economic Times, 29 November 2016, 'Demonetisation effect: Single screen theatres in smaller towns see fall in business'

92. Industry discussions conducted by KPMG in India

93. PVR Cinemas investors presentation, February 2017

94. 'Demonetisation last nail in coffin for single-screen theatres', Live Mint, <http://www.livemint.com/Consumer/BIW2OaRf0j7wihsoEj5N/Forsinglescreen-theatres-demonetisation-is-the-last-nail.html> accessed on 10 January 2017

95. The Economic Times, 29 November 2016, 'Demonetisation effect: Single screen theatres in smaller towns see fall in business'

96. Industry discussions conducted by KPMG in India

97. 'Silver Screen Streak', Bloomberg, <https://www.bloomberg.com/gadfly/articles/2016-08-02/india-s-bollywood-tax-fantasy-turns-to-reality> accessed on 04 January 2017

Impact on producers

GST is likely to result in a decrease in production costs across studios and standalone producers. As per the current tax regime, film producers cannot charge input credit on creative services such as payments to artists leading to increase in overall tax payable. The cascading taxes generally amount to 7-10 per cent of the overall procurement cost.⁹⁸ Under GST, they will be able to claim credit on these services, thereby lowering cost and increasing profitability. The Film and Television Producers Guild of India proposed for a GST rate of 5 per cent to the government for the film industry growth and making it a lucrative business investment opportunity.⁹⁹

Non local films to benefit from GST

Bollywood and Hollywood films are expected to gain in most states as GST will be less than the current entertainment tax slab. However, many states provide tax benefits to promote local language films. For example, there is no entertainment tax on Marathi and Tamil movies in Maharashtra and Tamil Nadu respectively.

Under GST, local industries will also have to pay tax and compete with Hindi and Hollywood movies made with higher budgets. Regional film chambers have been opposing the implementation of GST on local film industry. The South Indian Film Chamber of Commerce (SIFCC) proposed the government to exempt it from GST, or to collect the tax from the audience (ticket rate and GST).¹⁰⁰ The Kannada Film Chamber of Commerce proposed to put regional films in the 5 per cent slab and include Hindi and Hollywood films into higher tax slabs. Another proposal is to allow state governments to levy differential entertainment tax rates at the level of municipalities under the provision of GST bill.¹⁰¹

The leakage continues: Online piracy

Piracy continues to be one of the major issues affecting the Indian film industry with an annual loss of substantial revenues, to the tune of around INR180 billion every year accompanied by a loss of 60,000 jobs every year.¹⁰² Over time, movie piracy has shifted from CDs and DVDs to online platforms. The modus- operandi involves use of sophisticated smartphones and camcorders to record films in theatres and then publish them on rogue websites. Such websites and their operations are believed to be closely linked to the spread of malware and cyber-crime. They make money from advertisements and subscriptions and expose users to high risk advertising. (Ad revenues earned by rogue websites

which include ads from the sex industry, gambling, drugs and scams and other cybercrimes such as money laundering and fraud).

With increased penetration of smartphone devices and cheaper data charges, the situation is becoming worse each year. The latest challenge is leakage of pirated copies even before the official release of the film. In 2016 films such as 'Udta Punjab' and 'Great Grand Masti' faced the issue where a pirated version was available before the release date. Over 90 per cent of new release titles originate from cinemas and these infringing copies appear online within few hours of a film release.¹⁰³ Even sophisticated technologies like the watermarking of prints, which allow producers or rights holders to monitor the usage and movement of each print across the globe, have also not been able to stop piracy.

In an effort to protect their IP, some of the film production houses have started to get a 'John Doe' order from court that put onus on ISP to block access to rogue websites that facilitate pirated content. In 2016, 'Balaji Motion Pictures' secured a John Doe court order against 830 websites that it were suspected of copyright infringement.¹⁰⁴ Other production houses which secured John Doe orders include 'Eros International', 'Fox Star Studios', 'Red Chillies Entertainment', 'Viking Media and Entertainment', 'Ishika Focus Film Production LLP'.¹⁰⁵

While the effort is in the right direction, there are challenges in sustaining it on an ongoing basis. Given the number of films released per year, applying for John Doe order each time leads to wastage of valuable time and resources for both the industry and government. Additionally, although ISPs are able to block the identified rogue websites it becomes difficult to control online piracy as the blocked websites are soon compensated by new rogue websites.

In the entire ecosystem of piracy, rogue websites earn only a small proportion compared to the value they destroy for the copyright holders. Other players like advertisers on these websites, search engines that drive internet users to these websites and payment solutions that charge for the transactions all earn more than the pirates themselves. Among all, Internet service operators benefit the most due to extensive traffic related to intellectual property infringement online which results in increased demand for faster and more expensive internet access and greater demand for mobile data.

98. 'How GST is going to impact the media industry', televisionPost, <http://www.televisionpost.com/special-reports/how-gst-is-going-to-impact-the-media-industry/> accessed on 10 January 2017

99. 'Film and television industry lobbies for lower GST rate', Live Mint, <http://www.livemint.com/Consumer/9XwHroz38fvFrFpVLYUBJ/Film-and-television-industry-lobbies-for-lower-GST-rate.html> accessed on 05 March 2017

100. 'GST to affect film industry badly', GST India, <http://www.gstindia.com/gst-to-affect-film-industry-badly/> accessed on 15 January 2017

101. 'Impact of GST and demonetization: Kannada film industry seek government support', GST India, <http://www.gstindia.com/impact-of-gst-and-demonetisation-kannada-film-industry-seeks-government-support/> accessed on 15 January 2017

102. 'Indian films gross USD2 billion, but piracy makes 35 per cent more', The News Minute, <http://www.thenewsminute.com/article/indian-films-gross-2-billion-piracy-makes-35-more-48603> accessed on 05 January 2017

103. International Business Times, 22 August 2016; 'Sultan', 'Kabali', 'Udta Punjab', 'Great Grand Masti', others' piracy incurs Rs 18,000 crore loss to Indian cinema'

104. 'Balaji Motion Pictures gets a John Doe order against 830 websites', Medianama, <http://www.medianama.com/2016/08/223-balaji-motion-pictures-john-doe-order/> accessed on 15 January 2017

105. 'Four John Doe orders for blocking websites in last month alone', Medianama, <http://www.medianama.com/2016/06/223-john-doe-orders-india/> accessed on 15 January 2017



Thus, if market self-regulation is not effective, the government should endeavor to proactively combat intellectual property crime through legislation and required resources should not be seen as a cost, but rather as an investment which will contribute to increased economic growth and tax revenue.

Some of the initiatives taken by various stakeholders including state/central government and industry bodies against piracy and to promote Intellectual Property Rights (IPR) are as follows:-

Approval of National Intellectual Property Rights (IPR) policy

The government approved National IPR Policy in May 2016¹⁰⁶. It aims to create and exploit synergies between all forms of intellectual property (IP), concerned statutes and agencies and sets in place an institutional mechanism for implementation, monitoring and review through incorporating and adapting global best practices to the Indian scenario.

The Policy lays down the following seven objectives¹⁰⁷:

- IPR Awareness: Outreach and Promotion - To create public awareness about the economic, social and cultural benefits of IPRs among all sections of society.
- Generation of IPRs - To stimulate the generation of IPRs.
- Legal and Legislative Framework - To have strong and effective IPR laws, which balance the interests of rights owners with larger public interest.
- Administration and Management - To modernize and strengthen service-oriented IPR administration.
- Commercialisation of IPRs - Get value for IPRs through commercialisation.
- Enforcement and Adjudication - To strengthen the enforcement and adjudicatory mechanisms for combating IPR infringements.
- Human Capital Development - To strengthen and expand human resources, institutions and capacities for teaching, training, research and skill building in IPRs.

A professional body named as Cell for IPR Promotion and Management (CIPAM) has been created to take forward the implementation of the policy. CIPAM has been

working towards creating public awareness about IPRs in the country, promoting filing of IPRs through facilitation and providing inventors with a platform to commercialise their IP assets.

To accomplish the objective of IPR Awareness: Outreach and Promotion, CIPAM conducted various roadshows across states in India and aims to conduct 3500 IPR awareness shows by 2020, which would also include outreach to schools.¹⁰⁸

As per the IP Index by the US Chamber of Commerce's Global Intellectual Property Center (GIPC), India was ranked 43rd out of 45 countries considering the ongoing challenges in the intellectual property (IP) rights space in India. The country has been ranked near the bottom for a fifth year in a row.¹⁰⁹



India is at the forefront of creativity, technological innovation and economic growth. We acknowledge the National IPR Policy as a step in the right direction to protect Copyright industries as it envisages a Creative and Innovative India. However, thousands of rogue websites threaten the lifeline of a film, as soon as it is released in theatres. There is a close link between these websites and their operations and the spread of malware and cyber crime, in addition to exposing netizens to high-risk advertising. There is an increasing degree of technological sophistication required in investigating copyright infringement and protecting online legitimate content business. Therefore a robust legislative framework supported by a specialist, dedicated enforcement unit is crucial to tackle online film piracy in the digital age.

Uday Singh

Managing Director

Motion Picture Dist. Association (India) Pvt. Ltd.



106. The Economic Times, 13 May 2016; 'Cabinet approves country's first IPR policy'

107. 'Cabinet approves National Intellectual Property Rights Policy', Press Information Bureau – Government of India', <http://pib.nic.in/newsite/PrintRelease.aspx?relid=145338> accessed on 31 January 2017

108. The Economic Times, 23 August 2016; 'DIPP to suggest states to frame own IPR policy'

109. The Financial Express, 09 February 2017; 'India ranks 43rd out of 45 nations in IP environment : US Index'

Formation of TIPCU

The anti-piracy efforts of Telugu Film Chamber of Commerce and Telangana Government resulted in setting up of country's first anti-piracy unit called Telangana Intellectual Property Crime Unit (TIPCU) in June' 16. The local film industry has suffered losses of more than INR3.6 billion because of online piracy¹¹⁰ and pre-movie release leakage has now become the greatest threat. This unit makes optimum use of technology besides policy enforcement and outreach and form a sustained platform to bridge communication between industry stakeholders, ISPs, policy makers, enforcement agencies aided by legal and financial experts to fight software piracy.

It has been working on effective measures to bring down and block infringing websites, curb flow of revenues to such sites and monitor high risk websites. It has adopted global practices like choking ad revenue flow on which these websites rely and reducing Internet speed. This structured approach of TIPCU in collaboration with the industry has helped to figure out the hubs of piracy.

Launch of IPR enforcement toolkit

In order to effectively deal with IP crimes, specifically Trade Marks counterfeiting and Copyrights piracy, a ready reckoner knowledge toolkit was launched for police officials across the country. The toolkit was jointly prepared by Cell for IPR Promotion and Management (CIPAM) and Federation of Indian Chambers of Commerce and Industry (FICCI). In addition to details of offences under various laws, this toolkit provides checklists for registering a complaint and conducting search and seizures. It also mentions general guidelines for search and seizure in case of IP crimes.

Formation of Copyrights Force

In order to curb online piracy, major broadcasters, studios and Telangana Intellectual Property Crime Unit (TIPCU) collaborated with Motion Pictures Association of America (MPA)'s Indian chapter for strengthening and effective implementation of regulations. This industry alliance named as Copyright Force's main aim is to set an agenda on Intellectual Property Rights (IPR) policy and engage with the government to address the challenge of piracy that undermines the growth potential of the sector.¹¹¹ Also, it will encourage innovation and improved consumer experience through legitimate content delivery platforms and highlight vital role that copyright plays in fostering creativity and culture, stimulating investments and economic growth, while serving to enhance the competitiveness of industry and business.

Protecting of Indian film heritage – National Film Heritage Mission

Films are a key cultural resource and asset and reflect life across decades. Preserving films should be priority as they are a store of culture and history. Since there was no specific focus on film preservation in India and lack of awareness about ideal storage conditions for film, content of 70 – 80 per cent of the films produced till 1964 was lost. Majority of this loss can be attributed to the following:

- **Shutting down of film labs:** Content owners in India stored their film reels with the film processing labs. With the film industry moving from analogue to digital formats for producing films, these film processing labs got shut down resulting in loss of the original film material.
- **Inappropriate in-house storage:** Content owners also stored the film reels in-house under temperature controlled conditions but with limited control on the relative humidity, resulting in significant reduction in the life of the film content.

Thus, it became a matter of concern that content which can be classified as information of national heritage and great significance was lost or on the verge of getting lost forever.

Formation of National Film Archive of India (NFAI)

In order to ensure preservation, conservation, digitisation and restoration of Indian films the National Film Archive of India (NFAI) was established as a media unit of the Ministry of Information and Broadcasting in February 1964 in Pune by Government of India.

The main objectives of NFAI are:-¹¹²:

- Trace, Acquire and Preserve the National Cinematic Heritage as well as a representative collection of world cinema for posterity
- Classify and document data pertaining to films
- Undertake and encourage research on cinema
- Act as a center for the dissemination of film culture in the country
- Promote Indian cinema across the globe

110. 'Online pirates beware, Copyright Force on way', Indian Television', <http://www.indiantelevision.com/specials/event-coverage/ficci-frames/online-pirates-beware-copyright-force-on-way-160728> accessed on 10 January 2017

111. 'Copyright Force finally here to fight online piracy', Indian Television,' <http://www.indiantelevision.com/world/news/copyright-force-finally-here-to-fight-online-piracy-161230> accessed on 15 January 2017

112. <http://www.nfai.gov.in/> accessed on 7 February 2017



In order to achieve its objectives, NFAI undertakes multiple activities throughout the year including¹¹⁴:-

- Lending content to film clubs, film festivals, educational and cultural organizations, and government institutes
- Exhibition of filmic and non-filmic content at various events across the world
- Conducting various thematic film festivals such as North East Film Festival, Festival of Restored Classics etc.
- Conducting Film Appreciation courses in collaboration with renowned film experts across the country

In order to fast track the process of films preservation and to take it forward in mission mode manner, Ministry of Information and Broadcasting, Government of India launched **National Film Heritage Mission (NFHM)**. The film heritage mission is looking at digitisation and restoration of over 1000 feature films and an equally high number of short films in Indian languages. The archive will also restore film-related objects like songbooks and posters.¹¹³ National Film Archive of India (NFAI) was assigned the task of implementing this mission.

The objectives of NFHM are¹¹⁴:

- Film Condition Assessment and Preventive Conservation of Film Reels at NFAI
- Digitisation and Restoration of 1000+ Feature and 1000+ Short films; storing some films back on inter-negative for long-term preservation
- Construction of state of the art film preservation facilities
- Training and Capacity Development programs for Skill Development in the field of Film Preservation
- Development of a comprehensive IT Framework

Along with the preservation and restoration activities, NFHM's other objectives include content collection, cataloging, disaster management, and conducting training workshops. During the course of implementing NFHM, NFAI organized various stakeholder consultation meetings across India to raise awareness about the mission and seek valuable inputs from key stakeholders in order to ensure people's participation in safeguarding country's filmic heritage. It also invited international archives and experts to gather best practices which should be used for effective implementation of NFHM.

India must be among very few countries where the Government is supporting the cause of film preservation at this scale. We are taking all measures to ensure implementation of NFHM as per global standards and I am sure, this would become a successful case study for the world to follow in preserving the filmic heritage of the nation

Santosh Ajmera
Officer on Special Duty
National Film Heritage Mission



NFHM is an initiative by Government of India in the direction of preservation, conservation, digitisation and restoration of rich cinematic heritage of the country. This is an important project to preserve a slice of our cinematic history for future generations. There is also need for provisions to make it mandatory for all filmmakers to submit one copy of their film and related publicity material to NFAI.

Prakash Magdum
Director
National Film Archive of India



113. Deccan Chronicle, 14 December 2016, 'Only 1/3rd films archived so far: Prakash Magdum'

114. <http://www.nfai.gov.in/> accessed on 7 February 2017

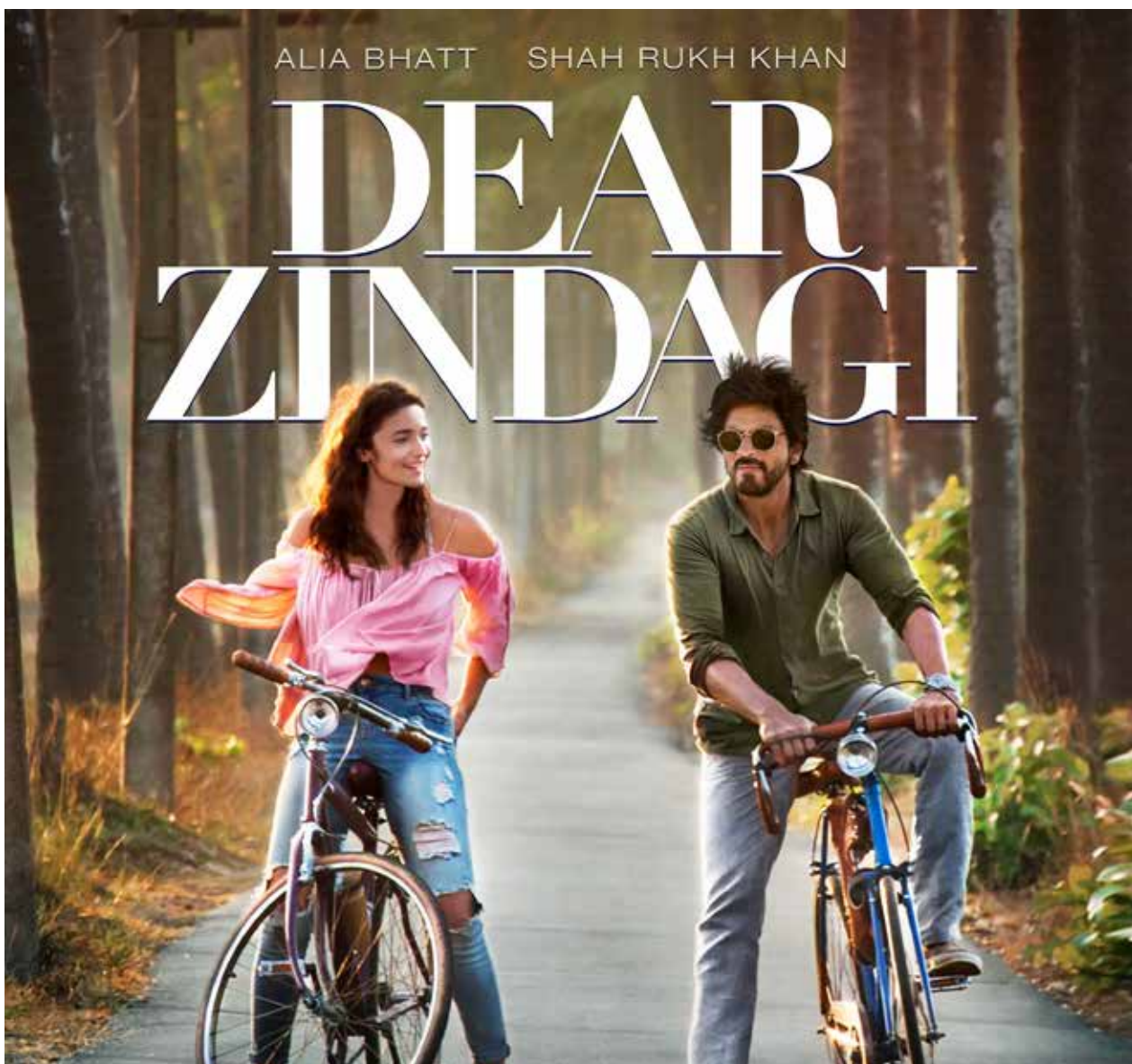
Conclusion: It's time for action

The time for introspection is long over and the industry needs to address the most fundamental issues – infrastructure, business model and content.

The long term sustainability and growth of the industry can be in peril if it witnesses a decline in its most important revenue stream - domestic theatricals. In the long run, a price led growth is unsustainable and hence, the industry must focus on attracting greater number of footfalls – which is possible only through increasing the penetration of screens. While players have been making efforts, government support and favourable regulatory laws are crucial for this sector to succeed.

With the decreasing number of profitable movies over time, it becomes important for production houses to re-evaluate their film budgeting strategy. Rationalising talent cost at production phase, effective marketing and targeted distribution are key factors in development of profitable business models.

The long awaited revenues from sale of digital rights has finally become a reality and is expected to contribute a significant percentage to the industry's overall revenue in the coming years.





Radio

On a sound footing





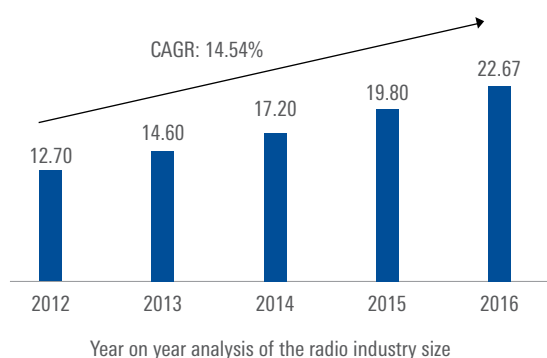
Round up of 2016

2016 began with a lot of expectations – the previous year witnessed robust growth, fuelled by an octane charged e-commerce environment flush with private equity funds, economic growth, increase government spending and overall positive outlook from the economy. The completion of the first batch of Phase III auctions further provided strong tail winds to the radio industry⁰¹.

Rise in advertising spends by companies across multiple sectors e.g. automobile, banking, financial services and insurance (BFSI), telecom, retail, media and entertainment continued to drive growth in 2016⁰¹. While we saw spends by wallet companies increasing towards the end of the year, spends by other e-commerce companies, a major growth driver in 2015 saw a declining trend with a shift in sentiment towards cost-cutting causing reductions in ad spends and cut back on campaigns⁰¹. Reductions also came from political parties since elections in major states were over but this trend reversed during the later parts of the year⁰¹. The last quarter of 2016 was also adversely impacted on account of demonetisation, which resulted in significant reductions in ad spends across the board between November and December 2016⁰¹.

Size of the radio industry

INR in billion



Additionally, growth in 2016 was also impacted by slower than expected rollout of stations allotted in the first batch of the Phase III auctions. Muted response to the second batch of the Phase III auctions also impacted sentiments.⁰¹ Of the 96 stations⁰² that were allotted in the first batch of Phase III, 49 stations⁰¹ were launched but the full impact of these stations is likely to be seen only in 2017. As a result, the radio industry grew by an estimated 14.51 per cent in 2016 – to reach INR 22.67 billion - enjoying a steady CAGR (2012-2016) of 14.54 per cent, though at slower than expected pace.⁰¹

Source: KPMG in India industry discussion and analysis

01. KPMG in India industry discussion and analysis

02. 'First Batch FM Phase III Auction Results', Ministry of Information and Broadcasting, 16 September 2015, <http://mib.nic.in/linksthrd.aspx>, accessed on 18 February 2017



Smaller cities continue to perform better, driven by volume enhancements, as advertisers shift focus from nationwide pure brand-building to more tactical, local, focused promotional targeting. Larger cities on the other hand have witnessed marginal increase in ad effective rates ('ER')⁰³. Most players, especially large networks have tried to distinguish themselves through innovative programming and content differentiation - which has attracted advertisers. Live events such as musical award shows, regional musical award shows, etc., helped networks in gaining brand awareness while offering advertisers with a strong advertisement medium⁰³.

Sectors like automobiles, FMCG, Government spends, retail and M&E continued to focus on radio advertising. Over the last few years, radio has become an integral part of most large media plans⁰³.

Radio's share in the overall advertising revenue ranges around approximately 4 per cent to 5 per cent⁰³ - which is lower than many developed countries. Globally the share of radio in ad spends is between 7 per cent and 10 per cent⁰³. The segment is however, growing faster than other traditional mediums such as Television and Print. The key to radio's growth has been a combination of localised reach and affordable pricing which is likely to be further enhanced from the 66 stations⁰⁴ allotted in the second batch of Phase III auctions which are likely to be launched from the end of 2017.⁰³

The sector is also buzzing with merger and acquisition activity, with large media houses looking to increase their reach and offer curated content channels.

Challenges around measurement of listenership, high auction reserve prices, comparatively lower market size potential beyond major cities and lack of clarity on royalty fee continue to be the key bottlenecks⁰³.

Demonetisation

The impact of demonetisation has been felt by a majority of radio operators particularly since local advertisers have been severely impacted due to shortage of cash. Large networks were also not spared since most national advertisers realigned spends to match consumer spending. Sectors such as real estate, retail and e-commerce cut back on ad spends. Overall, demonetisation saw a lot of advertisers trying to put campaigns on hold and re-negotiate future campaigns^{03,05}.

The October to December quarter is normally the growth driver for the radio industry on account of the festive and holiday season⁰³. While the announcement of demonetisation post the Diwali festival reduced the impact - we estimate it had an adverse impact of approximately 2 per cent to 3 per cent⁰³ on a like-to-like basis. In case of listed networks, despite the October 2016 to December 2016 growth in revenues versus the previous quarter, the market capitalisation fell for most major networks⁰³. This is majorly on account of the

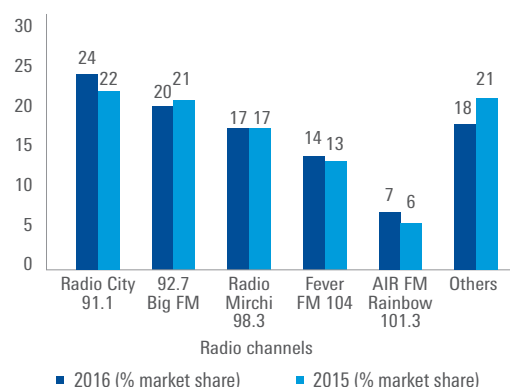
market and consumer sentiments due to demonetisation. The only solace came from spends by the Government and digital wallet companies during this period⁰³. Most operators believe the impact is only temporary and are optimistic the industry is expected to revive by April 2017.

No major change in city-wise ranking

Creative and differentiated content contributed to the consistent and strong performance for some networks. With networks launching multiple frequencies in the same city majorly under a niche format, competition for market share has intensified in the last year.

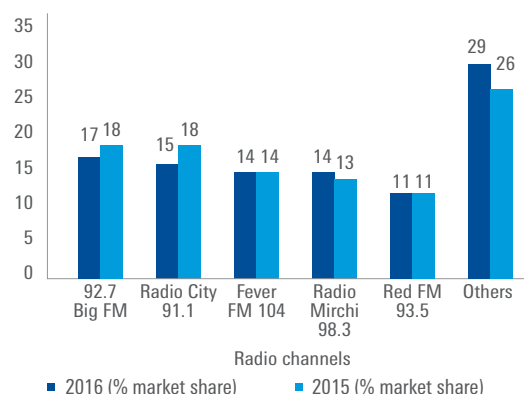
According to the Radio Audio Measurement Survey covering four metros – Bengaluru, Mumbai, Kolkata and Delhi, the year-on-year comparison in the city-wise market share are as follows:

City-wise rankings - Bengaluru



Source: Radio and Online Service, RAM report. 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.

City-wise rankings - Mumbai



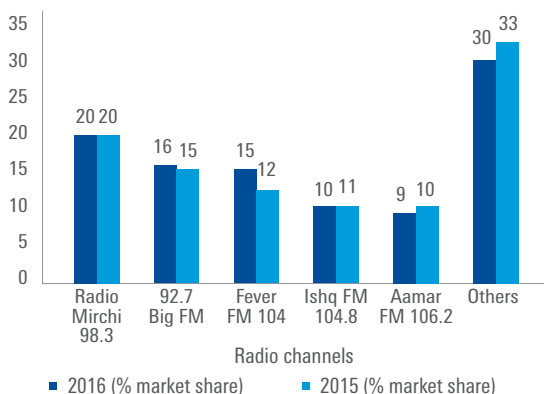
Source: Radio and Online Service, RAM report. Copyright reserved with TAM MEDIA RESEARCH PVT. LTD. any use of TAM Data or (derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal.

03. KPMG in India industry discussion and analysis

04. 'Second Batch FM Phase III Auction Results', Ministry of Information and Broadcasting, 27 February 2017, <http://mib.nic.in/linkstthird.aspx>, accessed on 6 March 2017

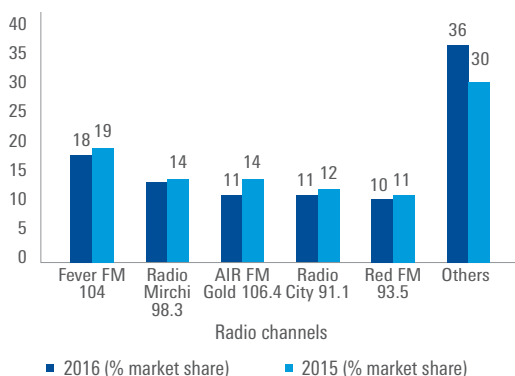
05. 'Radio sector grapples with demonetisation woes', exchange4media.com, 1 December 2016, http://www.exchange4media.com/radio/radio-sector-grapples-with-demonetisation-woes_66871.html, accessed on 6 March 2016

City wise rankings - Kolkata



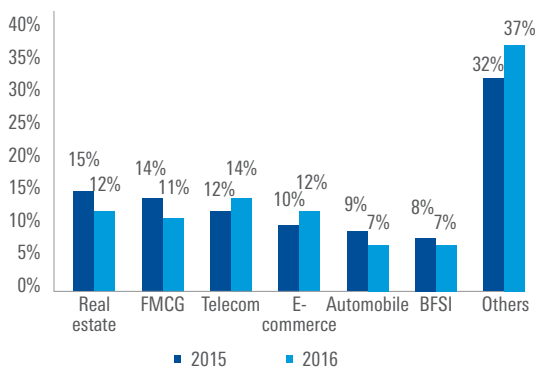
Source: Radio and Online Service, RAM report. Copyright reserved with TAM MEDIA RESEARCH PVT. LTD. any use of TAM Data or (derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal.

City wise rankings - Delhi



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Sector-wise ad spends



Source: KPMG in India industry discussion and analysis

2016 saw two distinct periods of advertisement spends on radio, the first being pre-demonetisation where sector-wise spends remained constant with real estate, telecom and FMCG being the major contributors to the industry⁰⁶. The second was after demonetisation, where the government spends jumped despite it not being an election year, digital payment websites aggressively fought for market share and other sectors came to a stand-still with no major campaigns run by real estate, FMCG or automobile sectors in the last quarter⁰⁶. Thereby seeing a rise in the other sectors which include government spends, travel and tourism, education, corporates, etc.

Automobile sector which was another growth driver in 2015 saw a reduction majorly on-account of Demonetisation. Telecom sector continued to drive growth in 2016 emerging as one of the top contributors to revenue with new brands entering the market and a bunch of new offers launched by them⁰⁶.

Listenership trends for 2016

According to the Radio Audio Measurement Survey covering four metros – Mumbai, Delhi, Bengaluru and Kolkata we see a marginal average fall in the share of listeners tuning in to radio from home to 78.12 per cent in 2016 from 79.13 per cent in 2015⁰⁷.

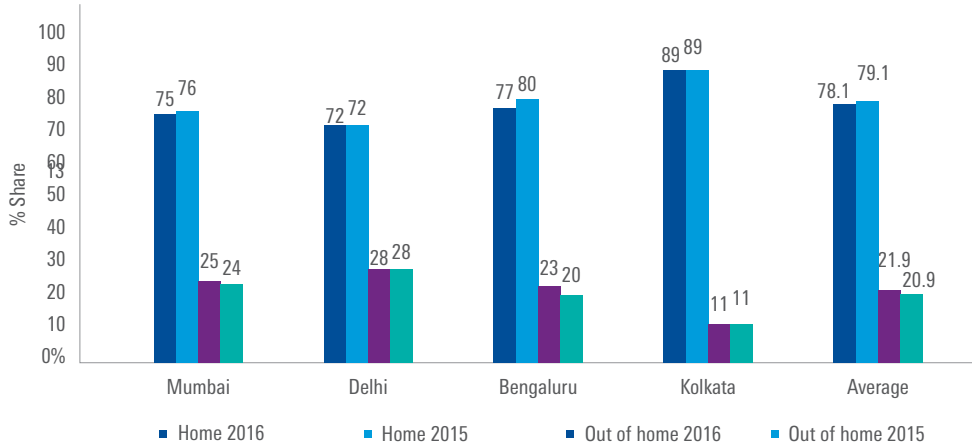
In the past, we have witnessed continued increase in the share of listeners tuning in from home, this trend has changed mainly in Mumbai and Bengaluru caused due to rise in traffic and more listeners tuning in from their cars.



07. Radio and Online Service, RAM report. 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.



Home versus out of home listenership



Source: Radio and Online Service, RAM report. 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.

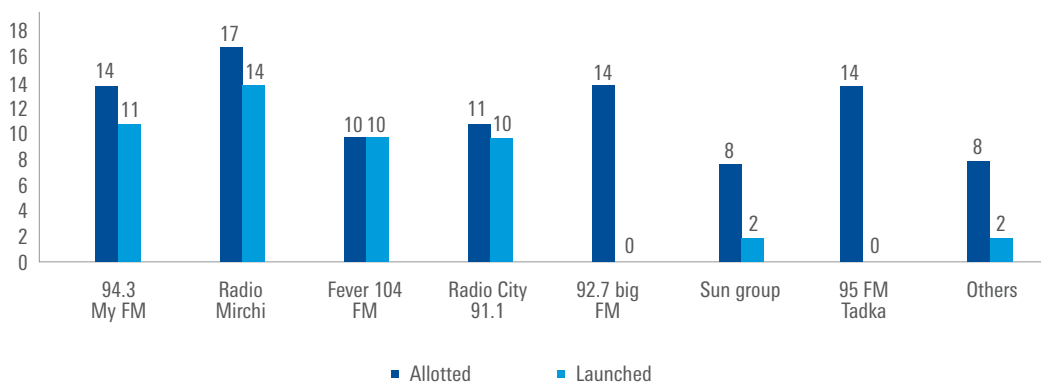
FMisation of the country – first batch of Phase III – unfolds

The first batch of Phase III auctions completed last year, though expensive, was also considered to be generally successful, with 96 channels out of 135 channels being allotted in 56 cities and the government collecting a cumulative bid price of INR 11.08 billion – which was 147.46 per cent higher than the cumulative reserve price for these channels^{08,11}. Overall, the government will collect INR 50.41 billion from these auctions, including the migration fee of INR 39.33 billion from 245 stations that will move from Phase II to Phase III^{09,11}. The Sun Group obtained the pending regulatory approval for five licenses obtained in the first batch of Phase III auctions^{10,11}.

In the first batch, Fever 104 FM won 10 licenses, Radio Mirchi won 17, 92.7 big FM won 14, Radio City added 11 and the Sun Group won 8 licenses⁰⁸ (including the five licenses won by South Asia FM). Some of the networks were slow to get off the ground, while others, ready with their audience research and keen to showcase differentiated programming commenced operations early on in the year to quickly tap the market potential¹¹.

Operator-wise new launches

First batch of Phase III launches



Source:KPMG in India industry discussion and analysis

08. 'First Batch FM Phase III Auction Results', Ministry of Information and Broadcasting, 16 September 2015, <http://mib.nic.in/linkthird.aspx>, accessed on 18 February 2017

09. 'Citywise Non-refundable one time migration fees (NOTMF)', Ministry of Information and Broadcasting, September 2015, <http://mib.nic.in/linkthird.aspx>, accessed on 12 March 2016

10. 'South Asia FM – successful bids of 1st batch e-auction', Ministry of Information and Broadcasting, 27 October 2016, <http://mib.nic.in/linkthird.aspx>, accessed on 18 February 2017

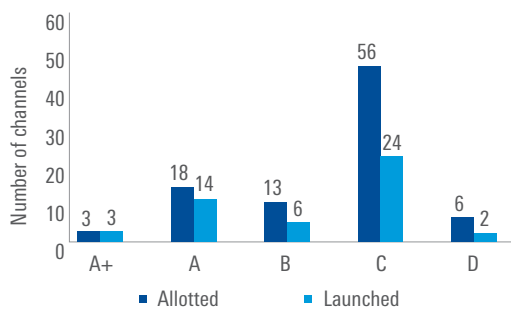
11. KPMG in India industry discussion and analysis

Overall there were 49 new launches from the first batch of Phase III. Except for 92.7 big FM, Rajasthan Patrika (95 FM Tadka) and some smaller players, most of the larger networks launched a majority of their stations especially in A+ and A cities where they have paid the highest licence fees. Networks who won channels in A+ and A cities went ahead with quick launches due to the existing consumer base and lesser infrastructure development cost. Launches in B, C and D category cities were slower and timely availability of adequate infrastructure was one of the main reasons cited by many operators. Networks also spent time determining the appropriate strategy and content in these untested cities.¹²

Radio Mirchi, Red FM (part of the Sun group) and Fever 104 FM used the new channels allotted to launch second frequencies in existing markets focusing on a different genre of music¹². Retro music emerged as a key focus area for major networks with Fever 104 FM and Red FM both choosing to go the retro way for their new brands – while in different sub-categories. Fever 104 FM launched a sub-brand ‘Radio Nasha’¹³ focusing on music from 70s, 80s and 90s, currently playing in the metro cities of Mumbai and Delhi. Red FM under the brand name ‘REDTRO’ created a niche in the retro genre by focusing on songs from the 90s¹⁴. Radio Mirchi on the other hand choose ‘Love’ as its theme and launched ‘Mirchi Love’ to complement its existing Contemporary Hits Radio (CHR) stations.¹²



First batch of Phase III - Category-wise launches



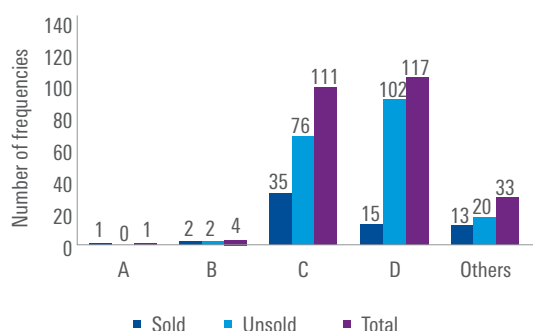
Source: KPMG in India industry discussion and analysis

12. KPMG in India industry discussion and analysis
 13. ‘HT Media launches Radio Nasha in Delhi’, Livemint, 10 March 2016, <http://www.livemint.com/Consumer/YcU3Y34BdTgttFF8ujtFuO/HT-Media-launches-Radio-Nasha-in-Delhi.html>, accessed on 15 March 2017
 14. ‘Red FM goes retro with launch of Redtro 106.4 FM in Mumbai’, Best Media Info, 23 June 2016, <http://www.bestmediainfo.com/2016/06/red-fm-goes-retro-with-launch-of-redtro-106-4-fm-in-mumbai/>, accessed on 15 March 2017



FMisation of the country – second batch of Phase III auctions

Second batch of Phase III results



Source: KPMG in India industry discussion and analysis

The Information and Broadcasting ('I&B') Ministry was quick to announce the second batch of Phase III auctions. It commenced on 26 October 2016 and had 266 channels in 92 cities to be auctioned¹⁵. This comprised of 227 channels in 69 fresh cities and 39 unsold channels from 23 cities of the first batch of Phase III auctions¹⁵. Fourteen bidding companies were shortlisted for taking part in the second batch which included a few large networks e.g. Sun group and Radio Mirchi. However, other players like 92.7 big FM, Radio City, Fever 104 FM, My FM and Radio One decided not to participate in the second batch of Phase III.^{16,17}

Announcement of the second batch of Phase III auctions was a positive step to deepen the reach of Radio to tier II and tier III cities across the country with most networks appreciating the regulators for the speed in which it was announced¹⁷.

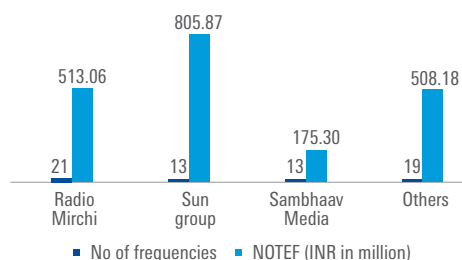
A successful Phase III implementation is expected to lead to development of infrastructure in smaller towns, creation of new jobs and penetration of goods and services is likely to further increase as national advertisers would bank on low ad rates and large population of such towns. Phase III auctions was a major move in the privatisation of the radio industry in India, but due to higher than expected reserve prices many players decided not to participate in the second batch of Phase III. This led to lower than anticipated bidding and allotment of channels. A total of 66 channels from 48 cities were

sold during the auction with a cumulative bid price of INR 2 billion¹⁵ against the aggregate reserve price of INR 1.89 billion¹⁵ – thereby surpassing the cumulative price, but by a mere 6 per cent¹⁷. Unfortunately 200 channels in 44 cities found no takers¹⁷. The total amount earned by the government was much lower as compared to the first batch of Phase III.

Cities which were priced close to their market potential saw bidders with only a few cities being purchased for a price higher than their reserve price. B category cities included two frequencies each in Vijayawada and Asansol but found buyers for only one frequency in each city at the reserve price¹⁷.

Operator-wise auction results

Second batch of Phase III results



Source: KPMG in India industry discussion and analysis

15. 'Second Batch FM Phase III Auction Results', Ministry of Information and Broadcasting, 27 February 2017, <http://mib.nic.in/linksthrd.aspx>, accessed on 6 March 2017

16. 'High reserve price irks operators as second batch of Phase III radio auctions begin', exchange4media.com, 28 October 2016, http://www.exchange4media.com/radio/high-reserve-price-irks-operators-as-second-batch-of-phase-iii-radio-auctions-begin_66485.html, accessed on 8 February 2016

17. KPMG in India industry discussion and analysis

Radio Mirchi (Entertainment Network India Limited) won the maximum number with 21 channels in different cities for a bid total of INR 0.51 billion¹⁸. This allotment further strengthens their position in the industry.

Sun Group (South Asia FM and Kal Radio) which operates the Red FM brand were the largest spenders and won 13 channels for a combined total of INR 0.81 billion¹⁸. This also includes the two costliest cities in the auction – Hyderabad for INR 0.23 billion and Dehradun for INR 0.16 billion¹⁸.

Sambhaav Media, a Gujarat-based media company emerged as a strong player picking up a total of 13 channels for INR 0.16 billion¹⁸. Sambhaav Media, a new entrant won frequencies in cities like Bhavnagar, Jamnagar, Portbandar, Kargil, Leh, etc., focussing on Gujarat and northern parts of India¹⁹.

The other new entrants were JCL Infra and Ushodaya Enterprises who obtained 4 channels each for a combined total of INR 0.15 billion¹⁸. Existing players - Malar Publications obtained 3 channels for INR 0.21 billion¹⁹ and Purvy Broadcast obtained 4 channels for INR 0.07 billion¹⁸.

The I&B is yet to firm up the dates for the next batch of auctions and the industry is hopeful that the regulator will rationalise the reserve prices and other regulations to encourage more participation.

Fever FM won 10 stations in the first batch of Phase III and has successfully launched all of them, growing rapidly. Fever FM has expanded its footprint from 4 to 13 cities with 15 stations and is the only radio company to have two stations in the FM markets of Delhi and Mumbai (Fever FM and Radio Nasha). Fever FM has also made the first acquisition in the industry – in Chennai. Fever now has a presence across the major metros of Mumbai, Delhi, Kolkata, Chennai, Bengaluru and Hyderabad.

Fever FM's audience is approx. 20-34 years old and Radio Nasha's audience is approx. 30-50 year old. Therefore, the two differentiated radio stations offer advertisers a choice of two sets of audience to meet their needs better.

Harshad Jain

CEO - Radio and Entertainment,
HT Media Limited

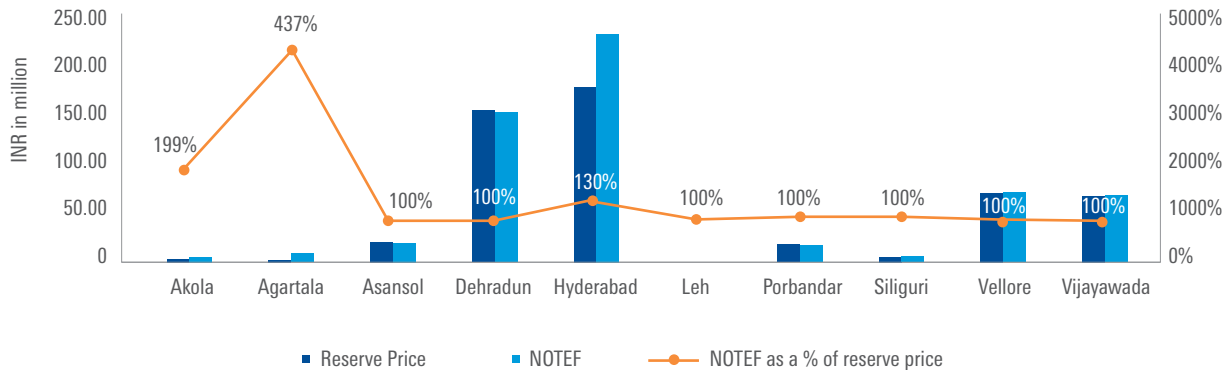


18. 'Second Batch FM Phase III Auction Results', Ministry of Information and Broadcasting, 27 February 2017, <http://mib.nic.in/linksthrd.aspx>, accessed on 6 March 2017

19. 'ENIL and Sun TV spend big bucks in FM phase 3 batch 2 auction', Business Standard, 27 February 2017, http://www.business-standard.com/article/companies/enil-and-sun-tv-spend-big-bucks-in-fm-phase-3-batch-2-auction-117022700699_1.html, accessed on 6 March 2017



Analysis of NOTEF versus reserve price



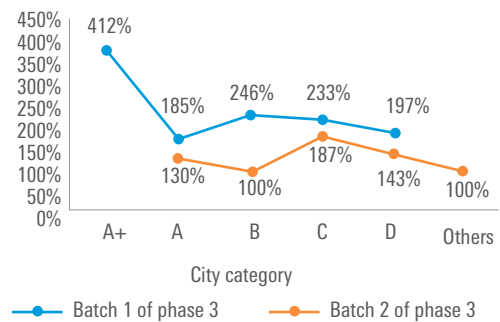
Source: KPMG in India industry discussion and analysis

57 of the 66 channels allotted²⁰ under the second batch of Phase III auctions were sold at the reserve price showing the lack of competition in these auctions²². Nine channels were sold above their reserve prices with Muzaffarpur being the highest in terms of percentage of reserve price, which was bought by South Asia FM (operated by the Sun group) for a bid price of INR 43.53 million²⁰ with a reserve price of INR 1.51 million²¹. They also bought a frequency in Agartala for INR 7.07 million²⁰ by paying significantly more than the reserve price²².

Kal Radio (which is also operated by Sun Group) won the frequency in Hyderabad, the only A category city in the second batch of Phase III auctions for INR 234.35 million²⁰, paying 130 per cent²² of the reserve price. In the first batch of Phase III auctions Radio Mirchi and Fever bought the frequency in Hyderabad for INR 180 million²³ which was the reserve price for the second batch²².

ENIL acquired Akola for INR 5.90 million²⁰ paying nearly double of the reserve price and Jhansi for INR 5.70 million²⁰ which had a reserve price of INR 3.10 million^{21,22}.

Average NOTEF as a % of reserve price



Source: KPMG in India industry discussion and analysis

In the first batch of Phase III auctions the average NOTEF per category of city was higher than the second batch, mainly due to the high reserve prices set for these auctions and lack of participation where only 14 bidders took part compared to 28 in the first batch. No network bid above the reserve price for more than 85 per cent of the frequencies allotted²².

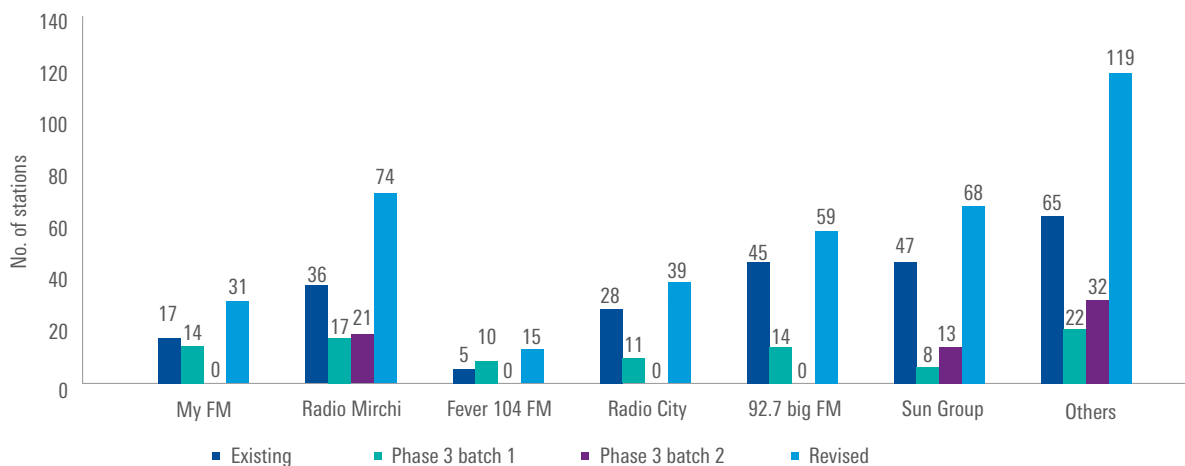
20. 'Second Batch FM Phase III Auction Results', Ministry of Information and Broadcasting, 27 February 2017, <http://mib.nic.in/linkthird.aspx>, accessed on 6 March 2017

21. 'NIA-E-auction of Second Batch of Private FM Radio Phase-III', Ministry of Information and Broadcasting, 20 June 2016, <http://mib.nic.in/linkthird.aspx>, accessed on 6 March 2017

22. KPMG in India industry discussion and analysis

23. 'First Batch FM Phase III Auction Results', Ministry of Information and Broadcasting, 16 September 2015, <http://mib.nic.in/linkthird.aspx>, accessed on 18 February 2017

Spotlight on select players in Indian radio



Source:KPMG in India industry discussion and analysis.

At the start of 2016, Fever 104 FM operated in the four metros - Delhi, Mumbai, Bengaluru and Kolkata. During the year, they launched all the 10 stations²⁵ won in the first Batch of Phase III auctions, adding eight new stations across northern India including a second frequency in Delhi and Mumbai. Fever 104 FM will be present in 13 cities with its 15 new licences^{25,26}.

Radio Mirchi acquired the most number of channels the second batch of Phase III auctions winning 21 new licenses. Post launch, this will increase their reach to a total of 74 channels in 64 cities²⁶ (including the four channels acquired from Oye FM²⁷). By obtaining licenses in smaller towns like Akola, Jhansi and Siliguri they are expanding their network across the country making them the largest network in terms of frequency²⁵.

The Sun Group which includes Red FM, South Asia FM and Kal Radio is set to be the second largest network in the country²⁵. Its acquisition of new channels from the second batch of Phase III auctions, Sun Group in total shelled out INR 0.81 billion²⁸ taking channels across the country including one in Leh²⁵.

DB Corp which operates My FM acquired 14 licenses in the first batch of Phase III and launched nine new channels²⁵ in different cities mainly consisting of C category cities like Aurangabad, Hisar, Nanded, etc. Establishing a strong brand in tier II and tier III cities, DB Group has become one of the biggest networks in the states of Punjab, Haryana and Chandigarh^{25,26}.

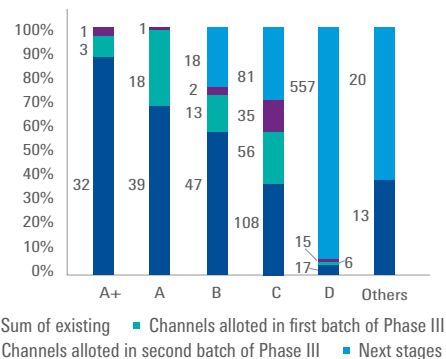
Music Broadcast Limited (a Jagran Prakashan company) which operates Radio City, had acquired 11 licences and launched 8²⁵ of them. They recently completed an initial

public offer of approximately INR 4 billion²⁹ part of which would be used to retire their debt and strengthen their overall capital structure^{25,30}.

Reliance Broadcast Network, which operates 92.7 big FM had the highest number of frequencies after the first batch of Phase III auctions but decided not to participate in the second batch have lost their top position to ENIL and are now the third largest network in terms of number of frequencies²⁵.

FMisation of the country, what to expect

Geographical expansion of FM radio in India



Source: KPMG in India industry discussion and analysis

25. KPMG in India industry discussion and analysis

26. "Radio Mirchi picks up 21 frequencies in 2nd batch of Phase III auctions", The Economic Times, 27 February 2017, <http://economictimes.indiatimes.com/industry/media/entertainment/media/radio-mirchi-picks-up-21-frequencies-in-2nd-batch-of-phase-iii-auctions/articleshow/57378256.cms>, accessed on 6 March 2017

27. "Radio Mirchi gets 4 Oye FM stations; purchase of 3 rejected", Business Standard, 22 July 2015, http://www.business-standard.com/article/pti-stories/radio-mirchi-gets-4-oye-fm-stations-purchase-of-3-rejected-115072201284_1.html, accessed on 15 March 2017

28. "Second Batch FM Phase III Auction Results", Ministry of Information and Broadcasting, 27 February 2017, <http://mib.nic.in/linkthird.aspx>, accessed on 6 March 2017

29. "Jagran's music broadcast subsidiary to raise up to Rs 400 crore via IP", indianexpress.com, 24 November 2016, <http://indianexpress.com/article/business/companies/jagrans-music-broadcast-subsidiary-to-raise-up-to-rs-400-crore-via-ipo-4393526/>, accessed on 10 February 2017

30. "IPO Watch: '80% to 85% of total revenue in radio industry translates into bottom line'", 8 March 2016, <http://economictimes.indiatimes.com/markets/expert-view/ipo-watch-80-to-85-of-total-revenue-in-radio-industry-translates-into-bottom-line/articleshow/57533713.cms>, accessed on 8 March 2017



The FM Phase-III policy proposes to extend FM radio services to about 227 new cities with a total of 839 new FM radio channels³². FM Phase III policy will result in coverage of cities with a population of one lakh and above through private FM channels including 33 channels in small towns of Jammu Kashmir and North Eastern states³³.

The major focus of Phase III was to bring expansion of the private FM networks throughout the country with a greater focus on tier II and tier III cities. A majority of these channels are expected to now feature in the next batches of auctions.

The I&B Ministry is yet to announce the plan for the next stage in the auction process. A shift in the reserve price strategy from population size to looking at the market potential of the city could see more players participating for the more than 600 channels³⁴ in the C and D category.

Some emerging trends

High inventory utilisation

Inventory utilisation has remained high during the year, with A+ and A category cities like Mumbai, Bengaluru and Delhi seeing utilisation as high as 90-95 per cent and even above 100 per cent during peak hours whereas utilisation in smaller towns continues to be at 60-65 per cent³⁴. The average inventory continues to be defined as approximately 16 minutes per hour with a 60:40 mix between national and local advertisers³⁴. The launch of new stations in smaller towns has seen local advertisers pick up most of the inventory levels in those stations. Launch of the second station in many A+ cities may stabilise inventory utilisation but that depends on how audiences take to the new genres launched.

Across cities, utilisation rates are expected to gradually ramp up and operate at optimum levels as we come closer to the 2019 General Elections. Post the elections, utilisation rates are expected to moderate to sustainable levels³⁴.

Content differentiation

Private radio channels are not permitted to broadcast news other than those sourced from All India Radio or Press Trust of India³⁴, this impacts listenership of radio since news and sports are popular with the general public. To overcome this constraint, private radio channels have resorted to original content, local affairs, focusing on specific genres like 'retro' or 'love' to carve out a niche and thereby maintain audience loyalty.

While contemporary Bollywood has remained popular genre on radio, there are various genres and sub-genres emerging with retro one of the more popular theme right from the days of 'Binaca geet mala' on 'Radio Ceylon'³⁴. Among the private operators, 92.7 big FM adopted the retro strategy early and built multiple programmes around this theme³⁴.

The 'retro' genre has now evolved into several sub-genres like those focusing on songs between the '1950s to 1980s' and those focusing on '1990s' only.

Radio One which changed to the international format in Delhi and Mumbai few years ago, has now brought the international format to its Bengaluru station, making it the only network to offer international content in the three largest markets of radio in India³⁵.

By operationalising of these new stations, Radio is likely to become a more valuable medium to advertisers, by providing a deeper region-wise range of channels and is set to become a stronger alternative to print and regional TV.

Unique concepts, short term reality shows with constant support and promotion on social media will get enough eyeballs and popularity. Innovative formats will sail through. Apart from reality shows, the listeners have shown high likeability towards story based shows, and we have been successful in the story-based shows that we have done.

Harish Bhatia
CEO - Radio Division
DB Corp Limited



Key challenges continue

Measurement – the most pressing challenge

The current data available for measurement is restricted to the four metro cities of Mumbai, Delhi, Bengaluru and Kolkata, but with the industry now shifting focus to exclusive genre stations, B category cities and beyond, measurement continues to be a challenge for the industry, making it difficult for stations catering to new and niche audiences to convince advertisers of their reach. Considering the huge investments being made by operators in Phase III – there is a need to build a more robust mechanism.

Many players, use online social media platforms to track their reach and interactions with their listeners. By tracking interactions on social media platforms like Facebook, Twitter, Google+, etc. operators track the actual reach of their programmes and differentiate themselves to advertisers by using such interactions as an alternative currency for measurement³⁴.

32. Reserve price for the second batch of FM Phase III is more than around Rs 3600 million over the last phase, radioandmusic.com, 26 November 2016, <http://www.radioandmusic.com/biz/radio/private-fm-stations/161126-reserve-price-second-batch-fm-phase-iii>, accessed on 8 March 2017

33. 'Govt approves 18 FM channels for northeast, 15 for Jammu & Kashmir', The Times of India, 17 January 2015, <http://timesofindia.indiatimes.com/india/Jammu-Kashmir-FM-radio-channels-north-eastern-states/articleshow/45924309.cms>, accessed on 15 March 2017

34. KPMG in India industry discussion and analysis

35. '94.3 Radio One launches India's first international radio network brand', exchange4media.com, 12 January 2017, http://www.exchange4media.com/radio/94.3-radio-one-launches-india%E2%80%99s-first-international-radio-network-brand_67348.html, accessed on 20 February 2017

Earlier this year, Telecom Regulatory Authority of India (TRAI) had suo-motu issued a consultation paper on "Issues related to Radio Audience Measurement and ratings in India" asking for comments from stakeholders. This was followed by consultations from stakeholders and has resulted in TRAI recommending a framework in the form of guidelines for monitoring and functioning of the radio rating agencies. The guidelines covering a range of topics like eligibility norms, cross-holdings, methodology for conducting radio rating, etc. was seen as a positive step towards solving the measurement issues in the industry but did not spark much of a conversation³⁷. These are yet to be notified by the I&B ministry.

The need for an independent measurement system especially for non-metros is much needed and is expected to remove a lot of bias from the industry.

Measurement continues to be an area of concern and in the absence of a rating agency different companies are adopting different models to capture listenership. Our recommendation is that, we should replicate the BARC model for TV industry to bring about parity and as a reliable source of measurement. This is not only help increase the radio pie but also will be an excellent way to showcase the reach to the advertisers and enable them to plan marketing strategies around specific TGs. To make the measurement model viable and reliable, we could have quarterly dipsticks and try to cover all state capital and A+/A/B category towns.

Asheesh Chatterjee

Chief Financial Officer

Reliance Broadcast
Network Limited



Currently, there is no measurement system available in our markets (non-metros). Even the current methodology used by rating agencies in the 4 metros is not very robust since it is also recall based. If the current methodology is digitized then it will be a great step towards listenership measurement.

Harish Bhatia

CEO - Radio Division
DB Corp Limited



FDI in radio

The FDI limit in private FM radio was raised to 49³⁸ per cent in 2015. This decision has been welcomed by radio companies who have been asking for an increase in foreign investment limit since some time. This has also come at a point where operators might need funds to participate in the Phase III auctions. While the increase in FDI cap is a big step in the right direction, some industry players believe that there is a need for further increase.

Need for a copyright board

Pursuant to the Copyright Amendments on 21 June 2012, the erstwhile Copyright Board was dissolved in order to reconstitute the same as per the amended provisions of the new Copyright Act. This delay has created uncertainty among operators for its key input – content.

Currently all companies are paying license fees to Phonographic Performance Limited (PPL) with varying pricing of these licenses³⁹. Each company has gotten into an individual deal with PPL for payment of license fees. While some companies have done an out of court settlement for the license fees, a few have decided not to pay at all till there are clear guidelines for the pricing of the license³⁹. Lack of clarity on content fee has also hindered most players from streaming their content on the internet.

Currently only a few companies stream their radio channels online. This is because of the additional royalty required to be paid by the broadcasters for streaming content online. Networks in the international format, stream only white label music which is copyright free by the way of online programmes and podcasts. The high royalty charged by the music companies and few monetization strategies, private FM broadcasters are evaluating ways to web streaming of their channels profitable³⁹.

The establishment of a Copyright Board is expected to make the industry more transparent.

37. 'Consultation Paper On Issues related to Radio Audience Measurement and ratings in India', TRAI, 15 March 2016, <http://www.trai.gov.in/broadcasting/radio-broadcaster/fm-radio>, accessed on 20 February 2017

38. 'FDI limit raised for TV channels', Live Mint, 14 March 2016, <http://www.livemint.com/Politics/d1a33qhYRYvS0Rk6i9nTO/FDI-limit-raised-for-TV-channels.html>, accessed on 20 February 2017

39. KPMG in India industry discussion and analysis



Rationalisation of high reserve prices

High reserve prices has been a road block in the second batch of Phase III auctions and is cited as one of the key reason for networks like 92.7 big FM, Radio City, My FM and Radio One for not participating in the second batch of Phase III⁴⁰.

The reserve prices of the channels have been benchmarked based on the size of the population⁴⁰, Industry players believe that the advertising potential of the city will be a better benchmark. For e.g. the reserve price for towns like Muzaffarnagar, Shahjahanpur and Saharanpur, having a population similar to Chandigarh, share the same reserve price INR 1.56 billion⁴¹, whereas the radio advertising market share is estimated to be much lower. Most players who did not take part in the auctions believed more than 75 per cent of these cities are unviable for purchase⁴⁰. This is also largely been the reason for unsold stations in the first batch of Phase III.⁴⁰

Looking forward, for the next batch of auctions, a revision in the pricing strategy of the reserve prices of the channels is expected to motivate the industry otherwise the expansion of the FM radio network in India might hit a major road block.

Long gestation period and additional funding

In addition to the high reserve prices paid by the operators, the bidder is likely to spend on developing transmission infrastructure in the smaller cities where infrastructure is under developed. With the high cost of investment, networks find it very difficult to generate meaningful returns for the money invested.

We have observed that average time taken to operationalise a channel in smaller cities from the date of allotment is high and can take more than a year, considering the average time by players who launched stations pertaining to the first batch of Phase III. Considering the huge cost of investment, infrastructure development required and various approvals to be taken from the Government even after allotment as the date for each station to go live is decided by the Government.

Existing players also impacted by high reserve price

Existing players who did not participate in the auctions but wished to shift to Phase III had to pay license fees based on a percentage of the bid amount by the highest bidder in that city. Thereby even networks who had operational channels in existing cities had to pay a much higher license fee to keep their licenses, which caused discontent among the smaller networks in the industry whose outflow went up.

With the success of the Phase 3 auctions and the high reserve prices for the frequencies, the migration fees has considerably gone up leading to increased pressure on the business.

K. Sanjay Prabhu

Vice Chairman

Indigo 919



It is extremely important for radio stations to retain their talent. The sheer amount of resources invested in the form of training of the talent makes it important to retain them. Some shows have a loyal fan following due to the RJ but that's not true always. It is also the content of the station and the music played that has a major role in building a loyal audience. But in case of old RJs it becomes all the more important to retain old talent.

Some radio stations resort to the easy way out and poach trained people from the industry. This practice is not healthy for the industry. Also, since radio is now growing in tier-II and tier-III cities, good talent is available in these cities but it takes time to train them to the requisite standard.

Harish Bhatia

CEO - Radio Division

DB Corp Limited



40. KPMG in India industry discussion and analysis

41. 'NIA-E-auction of Second Batch of Private FM Radio Phase-III', Ministry of Information and Broadcasting, 20 June 2016, <http://mib.nic.in/linkthird.aspx>, accessed on 6 March 2017

Mergers and acquisitions

With more than 40 players in the industry⁴², there is ample room for consolidations. Even with the positive macro-economic environment, mergers and acquisitions in the radio space have not been often when compared to other media industries. License lock-in periods, FDI limitations, the 40 per cent limit on total number of channels in a city⁴² and Government approvals are a few concerns faced by networks looking to consolidate.

Media houses look at radio as an extension of their brand with major networks like ENIL, HT Media, DB Corp, Jagran Prakashan already having a presence⁴² and now Zee entering into the radio space⁴³.

Zee Media Corporation Limited announced acquisition of 49 per cent stake in the radio business of Reliance Broadcast Network Limited, which operates radio channels in India under the brand name of "92.7 big FM". Zee also has an option to acquire the balance 51 per cent after the lock-in provisions on the holder of these licences expire. Zee also acquired UAE's radio station, Hum 106.2 FM. With these deals, Zee announced its entry in the radio business, in line with its vision to become an all-round media and entertainment company⁴³.

Zee's acquisition of 92.7 big FM is expected to complement its existing media portfolio, which already boasts of television and print businesses. Buying an established brand, with a network of 45 stations⁴², covering the metros and major cities spread across India, is expected to make them one of the top networks in this space.

In the last year, TV Today had inked a deal to exit its radio business and sell its seven Oye FM radio stations to ENIL. However, due to regulatory matters, the number of stations to be sold had reduced to four. It can now approach the I&B Ministry to seek permission to migrate the three stations from Phase II to Phase III⁴⁴.

With the Phase III auctions looking to further expand the reach of radio in the country and more smaller players entering into the market, we expect consolidation to rise considering that the lock-in for old licences are at the verge of expiry and smaller players may be unable to sustain the high cost of the NOTEF and might look to consolidate.



42. KPMG in India industry discussion and analysis

43. 'ZEE acquires UAE's oldest radio station Hum FM', The Economic Times, 29 September 2016, <http://economictimes.indiatimes.com/industry/media/entertainment/zee-acquires-uaes-oldest-radio-station-hum-fm/articleshow/54580938.cms>, accessed on 10 February 2017

44. 'TV Today not selling 3 FM stations to ENIL; seeks MIB nod for migration', radioandmusic.com, 20 December 2016, <http://www.radioandmusic.com/biz/radio/private-fm-stations/161220-tv-today-not-selling-3-fm-stations-enil>, accessed on 20 February 2017



Digital radio

Digital radio, in addition to excellent quality, multiple services and power conservation, also provides a lot of value added services. Today we listen to analog radio, which is available on medium wave (MW), short wave (SW) and frequency modulation (FM). Though FM gives a fairly good audio quality but it is a 70 year old technology which is spectrum hungry and has potentially reached its development limits⁴⁵.

Worldwide, many countries already have begun to use digital transmitters to improve the quality of radio. Government of India has also shown much interest towards this transition.

2016 saw All India Radio reinventing itself through upgradation and installation of 37 powerful transmitters in the first phase of digitisation of radio broadcast. Digital radio provides much benefits to stakeholders, including listeners, manufacturers, broadcasters and regulators⁴⁶. A few potential benefits of digital radio are as follows:

Listeners' perspective	Commercial perspective	Technical perspective
Clear and better than FM sound quality	Affordable price receivers	Ability to select from a range of transmission modes
Enhanced programme choice	Wider range of services can be provided	Broadcaster can balance or exchange bit-rate capacity, signal robustness and transmission power
Free access to news, sports, travel and weather information	Easier tuning and selection of programming	Improved coverage
Transmission of emergency warnings in case of disasters	Improved stereo and surround sound in cars	New digital transmission can co-exist with the current analogue broadcasts

With improved audio quality, service reliability and various other benefits provided by digital radio, it is expected to become an important aspect of the radio industry.

Internet radio

Internet penetration in India is increasing at a phenomenal rate in India due to the increase growth of the smartphone users and the availability of affordable high speed internet. After the launch of additional telecom providers, there has been a significant rise in the usage of 4G all over the country. Smartphones user base has increased and so has consumption of online data. The industry currently has almost 80-90 per cent of listenership is coming from terrestrial radio. The penetration of Internet radio is around 23 per cent⁴⁷.

Internet is now being looked at as an opportunity to content providers as another distribution channel. Internet radio which seemed to be a major threat to terrestrial radio, but terrestrial radio has used internet radio as an impetus to promote themselves online. Many players have started using their online platforms, apps for promoting radio programmes online and streaming online podcasts or daily shows⁴⁸.



45. 'Digital Radio and its endless benefits', Community Radio Facilitation Centre, <http://crfc.in/digital-radio-and-its-endless-benefits/>, accessed on 13 March 2017

46. 'Digital Radio platform to promote Digital and Connectivity revolution in the Country', Press Information Bureau, 31 January 2017, <http://pib.nic.in/newsite/PrintRelease.aspx?relid=157795>, accessed on 20 February 2017

47. 'Biggest job for radio companies in the coming years is to be evangelists: Apurva Purohit of Jagran Group', Business Today, 3 February 2017, <http://www.businesstoday.in/opinion/interviews/biggest-job-for-radio-companies-in-the-coming-years-is-to-be-evangelists-apurva-purohit-of-jagran-group/story/245671.html>, accessed on 20 February 2017

48. KPMG in India industry discussion and analysis

Internet radio in India which is still a new concept even after the wide availability of several online streaming services like Apple Music, Gaana, Saavn, Wynk and Hungama, are finding it difficult to cater to the changing consumer needs. FM radio being more live and local continues to grow. Internet radio on the other hand gives deeper content of a particular genre but is yet to provide local and curated music.

Radio will always remain to be a free-to-air medium and is expected to continue to grow as compared to internet radio where consumers need to pay not only for app subscriptions but also for data costs. However radio will be indirectly impacted since due to internet penetration listeners are spending more of their available time on the internet thereby reducing time for other forms of media.

Streaming services are not really impacting the business of radio. I would consider them as a probably another broadcast medium. While, all music copyright holders should give out copyrights to radio companies both for terrestrial and streaming so that it may give them some incremental reach. I have my own reservations of people in India willingly consuming data for listening to music. Radio is a free medium and still the preferred choice. I believe this situation will continue. Music streaming is an extension of radio. However, it will be difficult to take place of terrestrial radio. It helps to have a digital presence as more and more advertisers/ media planners depend upon the digital reach for assessment of any medium.

Harish Bhatia

CEO - Radio Division
DB Corp Limited



All India Radio (AIR)

AIR remains to be the single largest broadcaster having an unparalleled reach throughout the country and in the remotest of locations. In June 2016, All India Radio completed 80 years, having 415 stations in 23 languages, 146 dialects and counting⁴⁹.

All India Radio has become an enabler in B and C category cities where infrastructure is under developed and AIR being the only broadcaster with transmitters. Therefore private FM broadcasters are broadcasting their channels through the medium provided by AIR in such cities. By helping to increase the infrastructure of these cities it promotes private FM operators to launch in smaller cities.

Prime Minister Narendra Modi's Mann Ki Baat is one of the more popular programmes on All India Radio and as a result given AIR growth in ad revenues⁵⁰.

Showing good potential, advertisers can showcase different products and brands to cover markets which are not so well covered by TV and print. In terms of advertising rates, Mann Ki Baat commands a much higher rate than any other programme on AIR including for example the live commentary of the India-Pakistan world cup match. A ten-second slot before Mann Ki Baat — which is aired on all AIR channels across India — is being sold at over INR 0.2 million, while a similar slot costs INR 10,000-15,000 in the case of important cricket matches⁵⁰.

Community radio

Community radio is an emerging sector with tremendous potential in India. While a commercial radio station is mainly driven by the market, community radio focuses on bringing small communities together and helps in realising local aspirations. Since Community Radio focuses on issues relating to education, health, environment, agriculture, rural and community development, the medium helps to serve as an effective tool for the empowerment of weaker sections of society.

The I&B ministry amended the policy guidelines for community radio stations in India, notifying the rules for licence extension/renewal and allowing the players to broadcast news and current affairs in its original form or translated into the local language/dialect, sourced exclusively from state-owned AIR⁵¹ to facilitate the growth of community radio in the country to effectively convey its messages to their listeners.

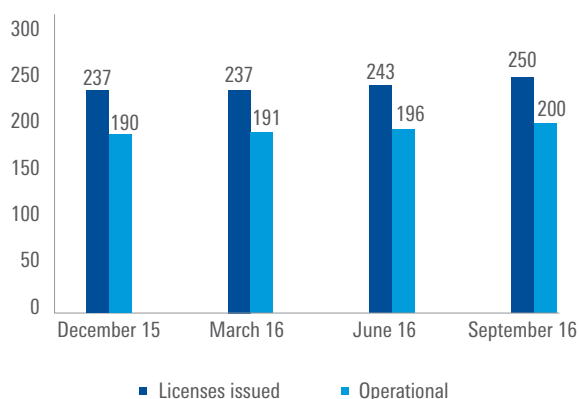
49. 'All India Radio: 415 Stations, 23 Languages, 146 Dialects and counting', Newsgram, 24 August 2016, <http://www.newsgram.com/all-india-radio-415-stations-23-languages-146-dialects-and-counting/>, accessed on 22 February 2017

50. 'PM Narendra Modi's 'Mann Ki Baat' turns big business for All India Radio', The Economic Times, 21 February 2015, <http://economictimes.indiatimes.com/news/politics-and-nation/pm-narendra-modis-mann-ki-baat-turns-big-business-for-all-india-radio/articleshow/46318943.cms?inttarget=no>, accessed on 22 February 2017

51. 'Govt amends policy guidelines for community radio stations', Livemint, 23 January 2017, <http://www.livemint.com/Politics/GHCr23S3Y0B0MAhFHs2tJ/Govt-amends-policy-guidelines-for-community-radio-stations.html>, accessed on 22 February 2017



Community radio



Source: 'The Indian Telecom Services Performance Indicator Report July-September 2016', TRAI, 30 December 2016, <http://www.trai.gov.in/release-publication/reports/performance-indicators-reports>, accessed on 22 February 2017

Till 2015 TRAI had received 1,817 applications for licenses of community radio, with an additional 106 applications received till the end of September 2016. There has always been a demand for additional community radio channels in India, but the TRAI being cautious, regulates the industry, rejecting 1,110 applications received till the end of September 2016⁵².

Despite the several applications received, setting up community radio in India is still a cumbersome process, with the average time taken to set up a community radio being at least three years⁵³.

Currently, India has 200 operational community radio stations with the 2017 budget for I&B Ministry showing that a sum of INR 0.04 billion has been set aside from INR 0.23 billion sum for supporting community radio movement in India and strengthening broadcasting activities⁵⁴. The government is increasing its focus on community radios for the coming years by the allotment of more licenses towards community radio and increased budget expenditure.

Engaging the tribe

Radio may be the last true mass medium.

With newspapers losing young readers dramatically and television moving increasingly to the 'on-demand, on-line' space, FM broadcasting still reaches large numbers of people, regularly, inexpensively and intensively. In a number of large Indian cities, the number of people reached by FM radio is already in excess of those reached by newspapers.

However, the reach numbers of radio hide a very fundamental fallacy. Broadcasters and advertisers alike are treating the medium like a 'reach medium' and all conversations centre around total audience reached and the advertising rate relative to reach.

The truth is that the real power of radio lies not in its reach but its ability to engage specific listeners in a significant way.

We first define our audience through a clear strategy of differentiation in each market. This is our 'Tribe'. We then ensure that we engage that Tribe constantly and innovatively, using both radio and the Internet. Advertisers are then invited to be a part of the conversations between Radio One and our Tribe, in a way that brings value to all participants in the process.

'Massifying' the medium will only lead to commodification, which in turn leads to lowest common denominator programming and an advertising rate war. In this critical phase for the FM radio industry operators need to stay away from the 'market share at any cost' mindset and focus instead on quality differentiation, super engagement of the listener and firm rates with the advertiser. This will ensure a healthy and sustainable industry going forward!

Tariq Ansari
Chairman
Next Mediaworks Limited



All views and opinions expressed herein are those of the author and do not necessarily represent the views of KPMG in India.

52. 'The Indian Telecom Services Performance Indicator Report July-September 2016', TRAI, 30 December 2016, <http://www.trai.gov.in/release-publication/reports/performance-indicators-reports>, accessed on 22 February 2017

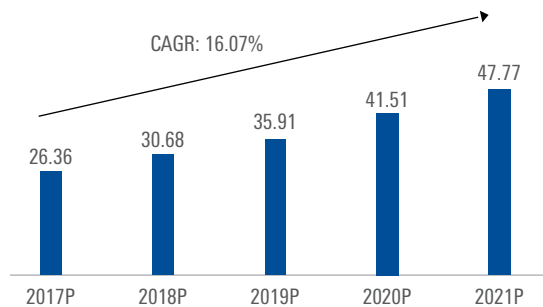
53. 'Why India has only 179 community radio stations instead of the promised 4,000', Scroll.in, 11 May 2015, <https://scroll.in/article/725834/why-india-has-only-179-community-radio-stations-instead-of-the-promised-4000>, accessed on 22 February 2017

54. 'High expectations for radio in GST as budget neutral to M&E', radioandmusic.com, 3 February 2017, <http://www.radioandmusic.com/biz/radio/private-fm-stations/170203-high-expectations-radio-gst-budget-neutral>, accessed on 22 February 2017

Looking forward

Projected size of the Radio Industry

INR in billion



Source: KPMG in India industry discussion and analysis

With an expected CAGR (2017-2021) of 16.07 per cent, the radio industry looks to double in size by the end of 2021⁵⁵ driven by growth in advertisers and audiences. Many networks are optimistic for the future – increase in listener base, positive economic growth, penetration to smaller cities and an expectation of better pricing from the Government for the remaining of Phase III auctions are some of the aspects to look forward to. Currently, the next phase of auctions have not been announced. We estimate the launch of new channels from the next stage of auctions is likely to begin from 2020 onwards⁵⁵.

With tier II and tier III cities becoming an increasingly important consumer markets for advertisers, we also project an increase in ad spends in the future. Ability of networks to broadcast in multiple frequencies with differentiated content catering to such markets having vast diversities is expected to positively impact radio's reach to its intended audience.

We expect the industry to grow at 16.24 per cent in 2017⁵⁵, with new channels being operationalised, impact of remonetisation and operators hiking ad rates as demand increases. The medium to long term prospects of the industry look good with deeper penetration of the industry in tier II and tier III cities making it an attractive investment opportunity.



55. KPMG in India industry discussion and analysis



The radio industry had witnessed excellent growth for almost three years at a stretch till demonetisation slowed it down towards the end of 2016. The overall outlook for the industry seems quite positive in 2017 even though much of the growth is expected to happen in the second half of the year. Incremental revenues from the newly launched phase three stations, remonetisation-aided economic recovery just before the crucial festival season, etc. should hopefully help our industry end 2017 on a high.

B Surendar

Chief Operating Officer
Red / Suryan FM



The key drivers for growth include

Launch of new stations and new genres

Launch of new stations in existing cities and proliferation of private radio in smaller cities is expected to increase user base. In addition, 2017 is also likely to see radio stations pumping in a lot of money in the newer markets to establish brand saliency.

India being a multicultural and diverse country with tremendous linguistic differences gives networks a lot of markets to experiment with niche genres. While the radio stations fight it out for consumer mind space in the newly acquired cities and the option of multiple frequencies in a single city is expected to give birth to newer programming formats, innovative media campaigns, specially curated events resulting in more variety for the end listeners and better value for the advertisers.

The current radio listener as a percentage of population is much lower than developed countries like United States and United Kingdom⁵⁶. With the recent socio-economic trends changing there is a huge opportunity for growth even in existing markets⁵⁶.



Private FM's share of the ad pie will expand on the back of the category's entry into new towns, and additional frequencies in existing towns. Private FM radio has several pluses – free-to-air, multi-tasking medium, ubiquity, human connection, on-air on-ground integration etc. Not surprisingly, FM radio was the fastest growing sector in traditional media. The multi-platform world – digital, mobile apps, airports, trains, malls and venues – offers radio broadcasters such as Mirchi an exciting array of avenues to recruit new audiences, engage aligned audiences, and offer innovative solutions to brands.

N Subramanian

Group CFO
Entertainment Network India Limited



Favourable macro-economic environment

The performance of the advertising industry is directly related to the growth of the general economy. While the overall outlook of the Indian economy is positive with GDP growth expected to be 6.5 per cent for FY 2016-17⁵⁶ any slowdown is likely to prompt advertisers to cut spends. If the Governments continues its strong push towards FMisation with its forthcoming auctions, incorporating industry feedback on auction mechanism and related infrastructure development – this can provide an impetus to the industry.

Cost economics

With expected revenue growth due to Phase III, cost economics for the industry have the potential to improve significantly. Multiple frequencies in a city is expected to 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 in the same city with minimal capital expenditure.

56. KPMG in India industry discussion and analysis

Increase in wallet share

The overall trust in radio has significantly increased in the past five years, making Radio an essential part of the advertisement budget for companies. The successful campaigns during elections, increase in penetration in tier II and tier III cities, additional inventory in metros due to the launch of multiple stations by existing players, and increased in spends by Government and political parties saw a significant growth in the current wallet share during the year until demonetisation hit the country, forcing companies to re-align their budgets and making radio a minimum percentage. But with the market expected to revive by the end of Q1 2017, we see companies have already started to increase ad spends on radio⁵⁷.

Penetration of Phase III

FM reaches to about 45 per cent of India's population; the government intends to enhance this to 60-65 per cent, over the next few years⁵⁸. As the Phase III auctions complete and the expansion plan rolls out, radio is likely to widen its horizon to reach 294 cities from the current

67 cities, bringing more tier II and tier III cities under its ambit. Phase III has also unveiled many policy reforms – license tenure increased from 10 to 15 years, FDI limit enhanced to 49 per cent and operators have access to multiple frequencies. These initiatives can unlock the growth potential of the Indian radio market. While mediums such as Print and TV are impacted by the digital disruption, radio consumption has been resilient as it is easily accessible and a free-to-air medium.

Whilst the radio industry is looking forward to the development of a robust listenership measurement methodology to bring transparency, the establishment of a copyright board to help reduce costs and policy changes to bring ease of business performance, we see radio becoming one of the fastest growing segments in the media and entertainment industry and it is expected to outpace the growth of the overall advertising industry. 2016 saw the Government bringing in the second batch of Phase III, with the continued approach of widening the reach of radio in India. We expect radio to grow robustly in the coming years with plenty of scope to achieve its long promised potential.



57. KPMG in India industry discussion and analysis

58. 'Listeners need more options on FM radio: Rajyavardhan Singh Rathore', Livemint, 15 September 2016, <http://www.livemint.com/Politics/q04AWHkfvxv6DKTVXkkJwJ/Listeners-need-more-options-on-FM-radio-says-Rajyavardhan-S.html>, accessed on 15 March 2017



Sports

New goals





The global sports opportunity

Sports has evolved significantly over the past couple of decades with drastic changes in the ways sporting events are organised, viewed and commercialised. This is the age of technologically driven gameplay, statistically influenced training and digitally enhanced viewing experiences.

As a business, the sports sector presents a wide range of opportunities across several segments: sports events, sports infrastructure, goods manufacturing and retail, and training. Further, the business of sports has a much deeper impact on the global economy owing to its close association with education, real estate, tourism, healthcare and other sectors.

In 2014, sports accounted for approximately 1 per cent of the global Gross Domestic Product (GDP)¹. Considering this, the global sports market — comprising infrastructure, events, training, and manufacturing and retail of sports goods — is estimated at USD741.5 billion (INR66.768 for 2015)² in 2015.^{3,4} The sports events market is one of the key segments that is driving other parts of the sports business. It is expected to be valued at USD90.9 billion (INR6,087.8 billion)⁵ in 2017 — primarily led by football events.⁶ The sports events market comprises four major revenue segments: gate fee (ticket sales), sponsorship fee, broadcasting and media rights and merchandise. Of these segments, sponsorship fee, and broadcasting and media rights are estimated to account for over two-thirds of the sports events market.⁷

Sports in India: A transformation underway

The sports scenario in India has evolved significantly in the last few years with the advent of several league-based events, including wrestling, kabaddi, mixed martial arts (MMA), badminton, tennis, hockey and football. Some of these leagues have gained considerable success with robust viewership and sponsorships in their initial editions. In 2016, the sports sponsorship market in India was estimated to be valued at INR61–65 billion with cricket attracting the maximum sponsorship — over 72 per cent of the total share.⁸ By media, television (TV) accounted for the largest share of sponsorship — at approximately 37 per cent.⁹

In addition, the government is increasingly focussing on improving sports infrastructure, policies and governance across the country. In 2016, the government accorded 'industry' status to sports infrastructure, which is expected to encourage private investment and enable easier access to financing for the development of sports stadia and academies for training/research in sports and sports-related activities.¹⁰ The potential market opportunity provided by sports infrastructure in India is currently estimated at INR800 billion.¹¹

Sports in India is ripe for a transformation now more than ever, owing to the various developments occurring across the ecosystem — comprising viewers, broadcasters, sponsors, advertisers, leagues, franchises and technology companies.

01. Winning in the Business of Sports, A.T. Kearney, 15 February 2014

02. Currency conversion from USD to INR done at the yearly average exchange rate of USD1 = INR66.768 for 2015

03. KPMG in India's analysis, 2017

04. GDP (current US\$), World Bank, accessed on 6 March 2017

05. Currency conversion from USD to INR done at USD1 = INR66.972 as on 6 February 2017

06. Winning in the Business of Sports, A.T. Kearney, 15 February 2014

07. Winning in the Business of Sports, A.T. Kearney, 15 February 2014, KPMG in India's analysis, 2017

08. Industry discussions conducted by KPMG in India

09. Industry discussions conducted by KPMG in India

10. <http://pib.nic.in/newsite/PrintRelease.aspx?relid=151278>, accessed on 9 March 2017

11. <http://www.forbesindia.com/printcontent/42855>, accessed on 9 March 2017



Rising viewership of sports other than cricket

Cricket continues to dominate the sports scenario in India; however, the country has also shown an increased level of interest in other sports. Several sports federations and private organisations are contributing to the development of league-based tournaments — capitalising on the Indian Premier League (IPL) model. During 2013–15, eight major league-based sports tournaments were launched; these include the Indian Super League (ISL), Pro Kabaddi League (PKL), Premier Badminton League (PBL) and Hockey India League (HIL). While some of these events tasted instant success, others fell short of gaining adequate traction amongst viewers. IPL, PKL and ISL led the Indian sports leagues segment in terms of viewership.

ISL, the fourth-most watched football league globally in 2014, continues to build a strong momentum in India. In its third edition in 2016, the season finale witnessed a viewership of 41 million.¹² Similarly, kabaddi witnessed an encouraging response from the Indian viewers, driving the organisers to launch two seasons of PKL in a year, starting 2016. On a cumulative basis, PKL's viewership grew 51 per cent over its four seasons, with the fourth edition garnering an average of 10 million impressions — which signify the number of individuals who viewed an event, averaged across minutes.^{13,14} In addition, the Kabaddi World Cup — held in India in 2016 — clocked a viewership of 114 million over 33 matches played in 16 days.^{15,16} Badminton has also gained significant momentum, and is pegged to be a sport with immense potential in India. The women's singles final badminton match at the Rio Olympics*, played between India's PV Sindhu and Spain's Carolina Marin, generated an impressive 17.3 million impressions on TV.^{17,18} This was higher than the Indian viewership of finals of several major non-cricket sports events including PKL, Union of European Football Associations (UEFA) European Championship and Copa America.^{19,20}

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The next three big sports in India, after cricket, are very clearly kabaddi, football and badminton.

Vinit Karnik

Business Head – Entertainment,
Sports & Live Events
GroupM



12. <http://www.thehindubusinessline.com/news/sports/indian-super-league-2016-clocks-216-million-viewers/article9455386.ece>, accessed on 9 March 2017
13. http://www.business-standard.com/article/current-affairs/pro-kabaddi-league-season-4-grows-51-116081201433_1.html, accessed on 9 March 2017
14. Broadcast Audience Research Council (BARC) India, 2016
15. <http://economictimes.indiatimes.com/industry/media/entertainment/media/kabaddi-world-cup-2016-saw-114-million-tuned-in/articleshow/55406755.cms>, accessed on 9 March 2017
16. Broadcast Audience Research Council (BARC) India, 2016
17. <http://m.dailyhunt.in/news/india/english/live+mint-epaper-livemint/pv+sindhu+carolina+marin+badminton+final+tipping+point+in+rio+olympics+viewership-newsid-57197301>, accessed on 9 March 2017
18. Broadcast Audience Research Council (BARC) India, 2016
19. <http://m.dailyhunt.in/news/india/english/live+mint-epaper-livemint/pv+sindhu+carolina+marin+badminton+final+tipping+point+in+rio+olympics+viewership-newsid-57197301>, accessed on 9 March 2017
20. Broadcast Audience Research Council (BARC) India, 2016

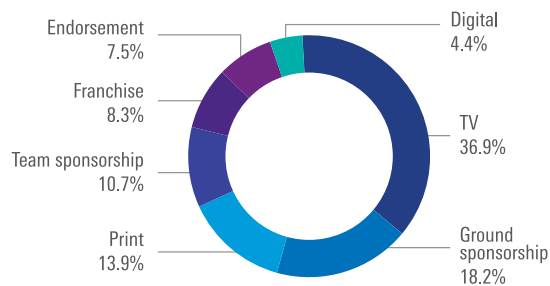
International sports events are also gaining ground in India, as some of the events generated a significant number of impressions in 2016. These include the Rio Olympics, English Premier League (EPL), World Wrestling Entertainment (WWE) and National Basketball Association (NBA).

Evidently, an average Indian sports fan is consuming a significant amount of sports content, and it is not just about cricket anymore. In the next few years, the Indian sports scenario is expected to witness several key developments that is likely to lead the country from being a single-sport nation to a multi-sports nation.

The growing pie of sponsorship and advertising

As Indian sports fans continue to consume cricket as well as various other sports, the sports sponsorship market in India is also witnessing a healthy growth trend. In 2015, it was valued at INR51.9 billion²¹, which is expected to have grown to INR61–65 billion in 2016.^{22,23}

Indian sports sponsorship market, by segment (per cent, 2016)



Source: Industry discussions conducted by KPMG in India

Cricket continued to bag the bulk of the sports sponsorships in India over the last year — with approximately 72 per cent share²⁴. Further, about INR1–2 billion of new money has come into the system on the back of other sports, including badminton, kabaddi, football and wrestling.²⁵

Sponsorship money raised by other sports is also on the rise. On-ground sponsorship in 2015 increased by a noteworthy 300 per cent in kabaddi, 91.6 per cent in football, 53.5 per cent in marathons and 32 per cent in tennis.²⁶ ISL was able to double its central sponsorship pool from the first season in 2014 to the second in 2015 — earning approximately INR1 billion.²⁷ PKL also generated a sponsorship revenue of INR450 million in 2015, for its broadcaster and investor Star India.²⁸ Further, in 2016, the fourth season of PKL was sponsored by a total of 12 companies — three more than in its previous season in the same year.²⁹ Running is another sport that has developed immense interest amongst the common public, celebrities, as well as the corporates. From Bollywood actors to leaders of multinationals, everybody is participating in marathons and helping promote fitness through running. Sponsorships are also likely flowing in smoothly with majority of the marathons named after corporates.

Advertisers are increasingly looking to join the Indian sports bandwagon to connect with their target audience. Going by the share of viewership and sponsorship money received by cricket, it still offers the most lucrative sports properties in India; however, its pricing is out of reach of many advertisers.^{30,31} Thus, other sports are filling in this gap and are providing interested advertisers with a host of affordable options, in addition to providing more avenues of marketing to major advertisers in cricket.



21. Sporting Nation in the Making-III, ESP Properties – SportzPower, 6 April 2016
 22. Industry discussions conducted by KPMG in India
 23. The figure corresponding to 2015 comprises on-air, on-ground, team, franchise fee and endorsements, while the figure for 2016 also includes print and digital, in addition to the others
 24. Industry discussions conducted by KPMG in India
 25. Industry discussions conducted by KPMG in India
 26. Sporting Nation in the Making-III, ESP Properties – SportzPower, 6 April 2016

27. <http://www.firstpost.com/sports/isl-season-preview-central-sponsorship-doubles-to-rs-100-cr-as-2015-promises-better-football-bigger-battles-2453216.html>, accessed on 9 March 2017
 28. Sporting Nation in the Making-III, ESP Properties – SportzPower, 6 April 2016
 29. <https://www.sportskeeda.com/kabaddi/star-sports-pro-kabaddi-records-4th-consecutive-season-viewership-growth>, accessed on 9 March 2017
 30. KPMG in India's analysis, 2017
 31. <http://www.rediff.com/business/report/pix-is-ipl-the-safest-property-to-invest-in/20150420.htm>, accessed on 9 March 2017



Increasing sports viewership in rural areas

The viewership figures for sports events have shown a healthy upward trend in rural areas over the past couple of years. An average of 45 per cent of the weekly sports viewership is accounted for rural areas in India.³² These figures are even more prominent for sports with a rural connect, such as kabaddi and wrestling; rural areas accounted for 64 per cent of ratings for the third season of PKL and the first season of Pro Wrestling League (PWL).³³ Cricket, being the country's favourite sport, also enjoyed a significantly high rural audience with 39 per cent share in IPL 2016 viewership.³⁴ Similarly, ISL also witnessed a considerably high rural viewership in its 2016 season. According to the Broadcast Audience Research Council (BARC), the total number of impressions for ISL in the rural areas was 193,000, as against 176,000 from the urban areas.³⁵

Such high interest from rural areas also indicates the extent of sporting talent that could potentially be developed from the rural areas.

Glamour for entertainment, corporates for money

With IPL paving the way for the fusion of sports and entertainment in 2008, the country has come a long way to accommodate multiple sports and famous personalities in the ecosystem. Other leagues, including ISL, PKL, HIL and World Kabaddi League (WKL), have attracted many Bollywood celebrities, former sportspersons and renowned personalities from the business community to own and support their teams, apart from promoting sports across the country.

While the involvement of actors, including Shah Rukh Khan, Preity Zinta and Shilpa Shetty, helped enhance the glamour quotient of IPL and positioned it as an entertainment event, the participation of the business community brought money and managerial expertise to sustain the league. Consequently, other sports leagues have also followed suit and attracted celebrities, businesses and former sportspersons. Former cricketers Sachin Tendulkar and Sourav Ganguly co-own ISL teams Kerala Blasters and Atletico de Kolkata, respectively. Similarly, actors Abhishek Bachchan and John Abraham own PKL franchise Jaipur Pink Panthers and ISL franchise NorthEast United, respectively.

Bollywood movies have also been helping promote sports in the country. Movies like 'Chak De! India', 'Bhaag Milkha Bhaag', 'Dangal' and 'Mary Kom' can help make

a positive impact in the mindset of Indian parents as well as children.

The Indian sports sector is also witnessing significant momentum in Corporate Social Responsibility (CSR) initiatives in various areas of sports development, such as training and funding support, and grassroots level initiatives. For example, the Jindal Steel Works (JSW) Foundation has established a squash academy in Maharashtra, which has produced both international and national-level players. Moreover, the sports division of the JSW Group, JSW Sports, is currently supporting 39 athletes across six disciplines. The division also owns the I-League football club Bengaluru FC.³⁶ Similarly, the Reliance Foundation runs grassroots development programmes in basketball and football. So far, it has provided scholarships to 41 talented young footballers under its Reliance Foundation Young Champs programme.³⁷



32. <http://www.financialexpress.com/sports/from-kabaddi-to-wrestling-how-rural-india-is-boosting-the-business-of-sports/411521/>, accessed on 9 March 2017

33. <http://www.financialexpress.com/sports/from-kabaddi-to-wrestling-how-rural-india-is-boosting-the-business-of-sports/411521/>, accessed on 9 March 2017

34. <http://www.financialexpress.com/sports/from-kabaddi-to-wrestling-how-rural-india-is-boosting-the-business-of-sports/411521/>, accessed on 9 March 2017

35. <https://www.sportskeeda.com/football/hero-isl-being-increasingly-watched-in-rural-india>, accessed on 9 March 2017

36. <http://www.jsw.in/sports/about-sep>, accessed on 10 March 2017

37. <https://www.reliancefoundation.org/sports-for-development>, accessed on 10 March 2017

Digital revolution in sports

According to the World Economic Forum (WEF), the digital revolution impacting each and every industry globally is the fourth industrial revolution — blurring the lines between physical, digital and biological spheres, through the interconnection of people, networks, platforms and technologies.

The complete ecosystem of sports — including viewers, broadcasters, sponsors, advertisers, leagues, franchises and technology companies — is undergoing a digital transformation. Globally, the emergence of digital platforms is disrupting the TV industry. The role of digital platforms is not limited to sports marketing; they have moved on to take the centrestage in live sports broadcasting as well, with the entry of several major players, including Amazon, Twitter, Yahoo and Facebook.³⁸ Further, social media has emerged as a key digital marketing tool, as more and more sports franchises look to utilise these social networking platforms for promotions and fan engagement initiatives. Stadia are also increasingly becoming technology-driven to improve viewing fans' experiences and leverage consumer data to enhance their offerings. Similarly, sports broadcasting is undergoing a transformation with the advent of Virtual Reality (VR) and Augmented Reality (AR). British Broadcasting Corporation (BBC) and National Broadcasting Company (NBC) provided VR coverage of the Rio Olympics in 2016, viewable through VR headsets by using their mobile applications. Further, AR is being widely used by broadcasters for enhancing in-game advertisements over TV.

Technology is enhancing the core product on TV by enabling broadcasters to provide more statistically-driven insights. Even for training purposes, there are new tools that can cull out data which is far more granular, sharper and engaging — to help coaches and managers in improving the performance of athletes

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Considering all these technological advancements in the sports ecosystem, the overall experience of a sports fan is changing drastically.

Rapid growth in cross-platform viewership of sports

Globally, the significance of over-the-top (OTT) players in sports distribution and consumption is growing rapidly, which is evident from the healthy viewership figures attained by these platforms in some of the recently concluded sports events.

Event/match	OTT	Viewership
NFL 2015–16 Super Bowl	CBS and NFL digital platforms	Average 1.4 million per minute (U.S.) ³⁹
ICC World Twenty20 2016	ICC's digital properties and social media pages	320 million video views (global) ⁴⁰
Euro 2016 – England vs Wales kick off match	BBC Sport	2.3 million (U.K.) ⁴¹
NBA finals 2016	WatchESPN	1.76 million distinct viewers ⁴²
Rio Olympics 2016	NBC	2 billion minutes streamed (U.S.) ⁴³
IPL 2016	Hotstar	100 million viewers (India) ⁴⁴

Note: NFL — National Football League; ICC — International Cricket Council

India is no exception to this trend, as millions of young sports fans (60 per cent of the digital audience in India is within the age group of 13–35 years)⁴⁵ are increasingly tuning in to various digital platforms to watch their favourite sports events. Improvements in internet connectivity, gradually declining data costs and increasing penetration of smartphones are leading to fast-paced growth in online and on the go consumption of live sports content in India.

38. <http://www.mwconnection.com/2016/8/4/12366222/the-digital-revolution-is-happening-right-now-with-live-college-sports>, accessed on 9 March 2017

39. <http://www.recode.net/2016/2/8/11587672/more-people-streamed-the-super-bowl-than-ever-before>, accessed on 9 March 2017

40. <http://www.icc-cricket.com/world-t20/news/2016/media-releases/94707/icc-world-twenty20-india-2016-delivers-records-across-broadcast-and-digital>, accessed on 9 March 2017

41. <http://www.radiotimes.com/news/2016-06-17/england-v-wales-euro-2016-match-sets-new-bbc-online-viewer-record>, accessed on 9 March 2017

42. <http://www.dailymail.co.uk/news/article-3651781/NBA-Finals-pull-31-million-viewers-biggest-audience-Michael-Jordan-watched-ABC-ESPN-decade.html>, accessed on 9 March 2017

43. <http://www.hollywoodreporter.com/news/rio-olympics-worldwide-audience-top-920526>, accessed on 9 March 2017

44. <http://techcircle.vccircle.com/2016/06/06/how-india-tuned-into-hotstar-to-watch-ipl-2016/>, accessed on 9 March 2017

45. <http://www.adageindia.in/digital/india-experiences-higher-consumption-of-digital-sports-content/articleshow/52673190.cms>, accessed on 9 March 2017



Several players including sports broadcasting veterans and social media platforms have ventured into the digital live broadcasting space. In India, Star India and Sony Pictures Networks (SPN), two major sports broadcasters, have Hotstar and Sony LIV, respectively, as their own digital offerings. In June 2016, ESPN also launched its website and mobile application under its partnership with SPN to stream live sports content, which it would feed off and into Sony LIV.⁴⁶ Facebook also recently entered the segment with Facebook Live.

The viewership numbers witnessed by digital platforms over the past few years are highly encouraging. As of mid-2016, up to 50 million Indians were actively consuming sports content over digital media.⁴⁷ The viewership base of Hotstar (launched in 2015) grew 144 per cent year-on-year (y-o-y) to reach approximately 100 million by the end of IPL 2016 season.⁴⁸ SPN has also acquired

the digital rights (in addition to TV rights) to several marquee properties, including the UEFA European Championship, the Australian Open Tennis Championship and the Fédération Internationale de Football Association (FIFA) World Cup. Similarly, Facebook Live is betting big on sports globally as well as in India; in 2016, it aired the Premier Futsal League and the Caribbean Premier League. Several of these players have also bid for IPL media rights, which are expiring in 2017; these include Facebook, Twitter, Amazon and Reliance Jio Digital.⁴⁹

While the emergence of OTTs is a sign of changing wind, TV is expected to maintain its foothold as the primary medium of sports consumption in India over the next two–three years — as sports is largely an appointment-based viewing genre, owing to the significance of live content.⁵⁰



46. <http://www.livemint.com/Consumer/R7MfB775mHp5CULxBMbbHI/ESPN-launches-website-app-to-tap-digital-sports-content-mar.html>, accessed on 9 March 2017

47. <http://www.livemint.com/Consumer/R7MfB775mHp5CULxBMbbHI/ESPN-launches-website-app-to-tap-digital-sports-content-mar.html>, accessed on 9 March 2017

48. <http://techcircle.vccircle.com/2016/06/06/how-india-tuned-into-hotstar-to-watch-ipl-2016/>, accessed on 9 March 2017

49. <http://economictimes.indiatimes.com/industry/media/entertainment/media/bcci-sells-18-tenders-for-ipl-media-rights/articleshow/54920425.cms>, accessed on 9 March 2017

50. Industry discussions conducted by KPMG in India

The digital revolution in distribution and consumption of sports in India

With a 30 per cent growth forecast for 2017 (GroupM, This Year Next Year 2017 report), the digital domain is set to break new frontiers in terms of advertising expenditure. This fast-paced growth is a sure-shot indicator of new alliances, experiential trends and the rise of OTT content across sports and entertainment alike. Being the year that witnessed a surge in digital content being created as well as devoured, 2016 turned out to be a game-changer. With smart packaging, lower data charges and growing mobile penetration, broadcasters have found a way to connect with millennials and people on the go via OTT platforms, which are predicted to grow at an accelerated rate over the next three years. The content acquisition space is all set to heat up with OTT platforms being key players. In fact, the most dominant parties may choose to join the bandwagon and figure out their business models as they go, as OTT content provides that kind of fluidity and transience.

OTT provides that second screen in India that is consumed on the go. No more is the viewership restricted to TV set or screen at a bar; it is the on the go and movable screens that are being used, and Hotstar's success is a proof. Earlier this year, Hotstar made headlines on the back of 25 million users that streamed the second One Day International (ODI) cricket match of the India-England series — with a majority of them on their mobile phones. This proves the fact that on the go content will be taking the traditional forms head on.

In a scenario where everybody is 'engaged' and consuming via apps, non-live sports content could prove to be the key differentiator for broadcasters. Much like how catch-up TV forms a significant viewership proportion of OTT platforms, such as Hotstar, for sports, non-live content would determine their longevity. Also, whether OTTs take to a paid business model or

a subscription-driven one will largely depend on whether the surge in internet and smartphone penetration continues to boost OTTs without damaging TV viewership. The coverage of the Rio Olympics 2016 broke a lot of barriers in terms of digital numbers, time zones as well as online conversation — making 2016 a trailblazer of sorts.

What remains to be seen is whether 2017 embraces the digital revolution in sports by slowly hacking away at the umbilical cord of cable TV, or if the pattern will take to a steady coexistence until OTT content turns predatory and usurps the territory. However, this may not significantly impact the TV business in India. Rural population still has a lot of catching up to do to match in terms of digital penetration and data costs. Coupled with the fact that OTT still has an 'on the go' persona to it as opposed to TV being the primary mode of consumption in the larger sense, having households do a sea-change and switch from cable to OTTs, is a bit far-fetched at this point in time.

To sum it up, while the buzzword today may be 'live' or as close as we can come to it, the real catchphrase is 'organising bandwidth'. While every household has one or more TV sets, to ensure that every household has one or more cell phones with accessible and affordable data that leverages bandwidth will be the deal-breaker or maker in the years to come.

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All views and opinions expressed herein are those of the author and do not necessarily represent the views of KPMG in India.





AR in sports broadcasting and advertising

AR has touched base with sports broadcasting, and is transforming the way billboard advertising is done. Known as Digital Billboard Replacement (DBR), the technology enables broadcasters to 'digitally replace' the in-stadium billboard advertisements for the TV/digital audience using separate broadcast feeds. While the stadium audience can view the original advertisement, the TV/digital audience can be made to see different ads on the same billboards — providing marketers more avenues for targeted advertising.⁵¹ AR is also being widely used to display virtual advertisements on ground, which are digitally placed and, thus, easily replaceable to provide scope for multiple advertisers in a single match.

The technology has found early adoption in some of the major sports events, including La Liga, the Spanish football league, and National Hockey League (NHL), the American ice hockey tournament.⁵² Given the potential of DBR to provide stadium owners as well as broadcasters an opportunity to further monetise the relatively inflexible stadium billboards, the technology is expected to find greater adoption in the coming years.

AR is also used by broadcasters to present statistics and analysis through infographics, and it helps commentators to play with the data to cull out relevant insights.

VR gathers steam

Globally, industry experts are predicting VR to gather steam in 2017 with increasing penetration of VR devices compatible with affordable smartphones. Player-perspective VR cameras are being experimented with, in a bid to enhance a fan's experience. Further, a 360-degree video feed can be used to provide a wholesome stadium experience through VR. Taking the experience miles ahead, companies are also building VR stadia. For instance, the U.S.-based start-up LiveLike VR has developed a mobile application to provide a virtual stadium experience, wherein users can create their own private VR suite and invite their Facebook friends who appear as avatars with a lip-synched voice. This kind of technology could also allow broadcasters to attract viewers and consequently, sponsors as well. While VR broadcasting rights currently fall under the ambit of digital rights, they could attract a standalone price once the technology has a well-established base.⁵³

The eSports league, ESL (originally called Electronic Sports League) is already leveraging VR to provide a more immersive experience to fans. However, the VR experience is likely to move beyond gaming and touch

base with live sports.⁵⁴ During the Rio Olympics in 2016, broadcasting networks BBC and NBC provided VR coverage of the events — viewable through a mobile application and VR headsets. However, the events were streamed only a day after. Various American sports leagues have also tried the VR technology; these include the NBA, NHL and NFL.⁵⁵

In India, Hotstar has partnered with VOKE, a start-up, to stream live sporting events via VR. The first such event to be broadcast live was the Kabaddi World Cup in October 2016.⁵⁶ This trend is likely to strengthen over 2017, and more events are expected to be broadcast over the VR technology globally as well as in India.

Rising use of user generated content (UGC) for sports marketing

Globally, sports brands are increasingly embracing content generated by fans for their marketing and promotional activities through social media. Fans create and post significant amount of sports-related videos as well as other content over social networking platforms, such as Facebook and Twitter. In February 2016, during the Super Bowl (the final championship game of the NFL), fans at the Levi's Stadium in the U.S. consumed 10.1 terabytes (TB) of data through the stadium's Wireless Fidelity (Wi-Fi) network — up 63 per cent y-o-y.⁵⁷ In India, Reliance Jio piloted the provision of Wi-Fi at the Wankhede Stadium in Mumbai during an India–Australia match in 2015, where 30,000 fans consumed 2.2TB data during the four-hour match.⁵⁸



51. <http://www.sporttechie.com/2015/10/19/marketing/ads-perimeter-walls-soccer-game-getting-hi-tech-touch/>, accessed on 9 March 2017
 52. <http://www.espglobal.com/insights/when-stadiums-met-augmented-reality>, accessed on 9 March 2017
 53. <http://fortune.com/2015/10/19/livelikevr-vr-sports-stadium/>, accessed on 9 March 2017
 54. <http://www.sporttechie.com/2016/12/20/industryinsights/sporttechie-trends-80-industry-experts-share-the-sports-technology-trends-and-innovations-to-watch-in-2017/>, accessed on 9 March 2017

55. <https://techcrunch.com/2016/09/15/how-virtual-reality-is-transforming-the-sports-industry/>, accessed on 9 March 2017
 56. <http://www.pnewsire.com/news-releases/voke-partners-with-media-giant-star-india-to-deliver-live-events-in-virtual-reality-to-sports-fans-in-india-for-the-first-time-300341173.html>, accessed on 9 March 2017
 57. <http://www.geekwire.com/2016/super-bowl-data-usage/>, accessed on 9 March 2017
 58. <http://www.livemint.com/Industry/WV5zMF6dbXJcyWR8wJwMO/RJio-to-offer-4G-at-six-stadiums-hosting-World-T20-cricket-m.html>, accessed on 9 March 2017

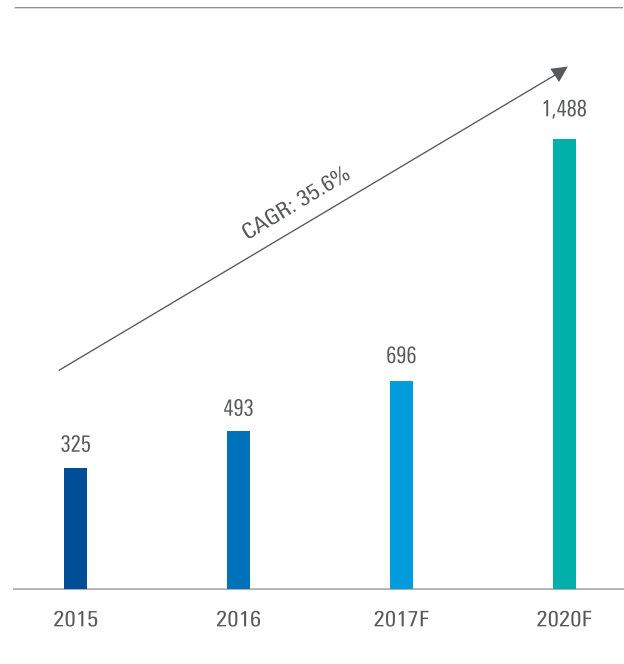
Several brands are looking to tap in to this trend, and are encouraging fans to post such content over their social media pages or to use hashtags that promote a brand — by offering promotional rewards or freebies. For example, during the FIFA World Cup 2014, Heineken encouraged consumers to share videos of them enjoying football matches with the brand’s beer. The campaign became popular amongst the fans, and also helped the company learn more about its consumers.⁵⁹ Even major sports broadcasters, including Fox Sports and ESPN, have started leveraging UGC to connect with their viewers. ESPN’s SportsCenter programme has a regular feature called ‘#Fantake’, wherein it asks Instagram users to submit videos, one of which is shown on-air.⁶⁰

IPL has also regularly partnered with Twitter for social media promotions. The two have come together in the recent past, and explored innovative ways to connect with IPL fans globally. These include generating multiple hashtags, which fans can use for several purposes, such as receiving updates on match fixtures, posting selfies that could be featured on IPL website, and receiving personalised photo messages from team captains.⁶¹ Twitter also introduced hashflags for IPL teams, which are triggered by the hashtags of each team (e.g., #DD for Delhi Daredevils); use of a team’s hashtag by a fan makes the flag of that team appear in front of the tweeted text.⁶²

Surge in broadcasting and viewership of eSports globally

The proposition of eSports — a concept of broadcasting multi-player, competitive video games played by professional gamers to a live audience — has quickly grown to feature millions of players and viewers globally. The global eSports market is estimated to reach USD696 million (INR46.6 billion)⁶³ in 2017.⁶⁴

Global eSports revenue (USD million)



Source: 2017 GLOBAL ESPORTS MARKET REPORT, newzoo, 2017

While video game tournaments have been in place for decades, the broadcasting of these events has significantly increased their audience in the past few years. Several companies have forayed in the global video game broadcasting sphere, including ESPN, YouTube, Facebook, Amazon-owned video streaming service Twitch.tv, and mobile eSports hosting platform Skillz. Millions of fans worldwide are regularly tuning in to TV and online platforms (including mobile) to watch professional gamers play.



59. <https://www.portada-online.com/2016/09/21/how-brands-can-use-fan-generated-video-content-in-sports-marketing-campaigns/>, accessed on 9 March 2017

60. <http://www.adweek.com/brand-marketing/top-10-list-sports-content-creators-shows-major-consumer-shift-165731/>, accessed on 9 March 2017

61. <http://www.iplt20.com/news/2014/announcements/4464/ipl-twitter-partnership-to-revolutionize-social-experience>, accessed on 9 March 2017

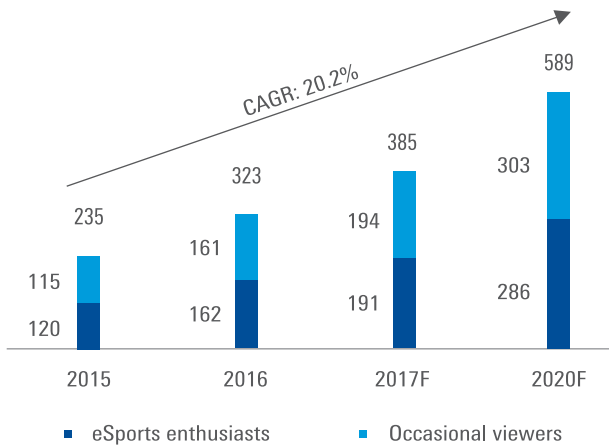
62. <http://www.iplt20.com/news/2015/announcements/5817/ipl-and-twitter-partner-to-bring-cutting-edge-experiences-for-fans>, accessed on 9 March 2017

63. Currency conversion from USD to INR done at USD1 = INR66.972 as on 6 February 2017

64. 2017 GLOBAL ESPORTS MARKET REPORT, newzoo, 2017



Global eSports viewership (million)



Source: 2017 GLOBAL ESPORTS MARKET REPORT, newzoo, 2017

The major eSports leagues, such as ESL and Major League Gaming (MLG), are now thriving on the back of abundant sponsorship and broadcast support. A stark rise in viewership has attracted several major sponsors towards these events, including Coca Cola, Taco Bell, Intel and Red Bull.⁶⁵ In June 2016, global telecom major, Comcast partnered with ESL and pro gaming organisation, Evil Geniuses as an official sponsor for its 'XFINITY' brand.⁶⁶

In India, the eSports market is still in its nascent stage, but is slowly catching up with its global counterparts. The country has 10 million 'serious' online PC gamers, and almost one-third of its define age group indulges in online gaming at least once a day.⁶⁷ Thus, several national level gaming competitions have come up, including ESL India Premiership (the Indian version of the global eSports league, ESL), Indian Gaming League (IGL), Indian eSports League (IESL) and Flipkart Gaming Online Championship (FGOC).⁶⁸ The first season of IGL, organised in February 2016, had garnered interest from some major sponsors including Sony, Red Bull and Paytm. However, India has a long way to go in realising the true potential of eSports and recognising gamers as professional athletes; the growth of eSports in India is currently inhibited by several factors, including high levels of video game piracy, high

costs of console gaming, and a general perception around gaming that it is an unproductive utilisation of time.⁶⁹

In-stadium advancements

Fans throng to stadia to see contests between competing teams/players; their experience while watching a game is the primary factor that decides their repeat visit.⁷⁰ To that effect, several stadia, globally, are investing in technologies that enhance a fan's experience. These include free Wi-Fi, electricity-generating floor tiles, mobile application-based in-seat food ordering and seat upgrades, beacons to provide fans with offers and sports trivia on their smartphones, and interactive screens.

Case in point: NBA franchise testing technologies for a futuristic stadium

The Golden State Warriors franchise of NBA is testing Apple's iBeacon technology at their home stadium in California, the U.S.; this technology is used to send notifications to fans about seat upgrades, deals/promotional offers, etc., by using Bluetooth technology. The NBA franchise is also playing with other technologies to enhance the game experience, such as VR broadcasting and Light Fidelity (Li-Fi), which use lights in a stadium to transmit data and allow users to stream content over the internet.⁷¹



65. <https://www.forbes.com/sites/baldwincunningham/2016/02/25/why-esports-is-the-next-big-thing-in-marketing/#428cdc803bfe>, accessed on 9 March 2017

66. <http://www.forbes.com/sites/darrenheitner/2016/06/02/comcast-enters-esports-with-sponsorship-of-esl-and-evil-geniuses/#35e2cbb75181>, accessed on 9 March 2017

67. <http://economictimes.indiatimes.com/magazines/panache/number-of-professional-e-sports-gamers-rising-in-india/articleshow/53201486.cms>, accessed on 9 March 2017

68. <http://economictimes.indiatimes.com/small-biz/startups/esports-opens-for-indian-gamers-in-global-fields/articleshow/56491257.cms>, accessed on 9 March 2017

69. <http://www.livemint.com/Consumer/y6lp70AJxANh54yCnGNvSN/eSports-comes-to-India-with-the-Indian-Gaming-League.html>, accessed on 9 March 2017

70. <http://www.espglobal.com/insights/if-you-build-it-will-they-really-come-stadium-conundrum>, accessed on 9 March 2017

71. <https://www.cnet.com/news/high-tech-warriors-a-glimpse-into-the-stadium-of-the-future/>, accessed on 9 March 2017

In addition, stadia are also employing devices to collect data on fans' in-stadium behaviour — what they buy, eat and which websites they visit on the stadium Wi-Fi network — in order to continuously improve the complementary experiences.

In Indian sports stadia, such technological advancements are yet to take off. However, initial steps are being taken in this direction. For example, during the ICC World Twenty20 cricket tournament in 2016, Reliance Jio provided free Wi-Fi at six stadia.⁷² Further, the country is coming up with modern multi-use sports facilities, such

as The Arena in Ahmedabad, Gujarat. Built by TransStadia at a cost of INR5.36 billion, the stadium has been installed with 14km of Wi-Fi cabling.^{73,74}

It is likely that in the next couple of years, some of the major existing stadia, as well as the ones built afresh, start leveraging technology to engage fans and improve their experiences. Most of the stadia in India are likely to be equipped with Wi-Fi in the next two to three years.⁷⁵ It is all the more significant now, as the country is undergoing a transition from being a single-sport nation to a multi-sport one.



72. <http://www.livemint.com/Industry/WV5zMF6dbXvJcyWR8wjwMO/RJio-to-offer-4G-at-six-stadiums-hosting-World-T20-cricket-m.html>, accessed on 9 March 2017

73. <http://everythingexperiential.businessworld.in/article/In-INR-536-Cr-we-have-developed-a-panacea-for-sport-and-entertainment-events-Udit-Sheth-MD-TransStadia/23-11-2016-108679/>, accessed on 9 March 2017

74. <http://transstadia.com/philosophy/>, accessed on 9 March 2017

75. Industry discussions conducted by KPMG in India



Changing economics amidst everything digital

Digital technologies have caused transformational changes in the business of sports globally. Key stakeholders — comprising, broadcasters, sponsors, advertisers, leagues and franchises — are impacting each other and the overall system. To stay relevant in this digital age, some of the industry players are leading the way, while others lag behind and risk losing out to their more agile counterparts. Nonetheless, the transformation is causing long-lasting changes to the economics of businesses involved.

Broadcasters focus on digital, remain dependent on TV for revenues

Sports broadcasting in India has effectively turned into a two-player market with SPN's acquisition of the Ten Sports network from Zee Entertainment. With the consumption of sports moving towards digital, both the major players, Star India and SPN, are investing significantly in building necessary capabilities.

While Star India has not disclosed the investment it is making in Hotstar, industry experts pegged the value at INR12 billion spread over five years from its launch in February 2015.⁷⁶ Star India acquired IPL's internet and mobile rights at a cost of INR3,020 million for three years (2015–17).⁷⁷ Further, Hotstar currently holds the rights to stream (in India) ICC events, EPL, Bundesliga (German football tournament) and other sports leagues, including PKL and ISL. It can safely be assumed that Hotstar's direct competitor in sports broadcasting, SPN, would also be investing commensurate amounts to build its digital offering Sony LIV. Moreover, there are other players that are likely to join the sports bandwagon, including Amazon, Twitter, Facebook and Reliance Jio Digital — all of whom have bought the tender documents for IPL media rights, which are up for auction for seasons starting 2018.⁷⁸ Amazon is touted to have set aside INR20 billion for building its OTT offering Amazon Prime Video in India; this amount is more than the combined yearly programming budget of top three Hindi general entertainment channels.⁷⁹ Thus, the competition in live sports streaming is expected to intensify in the future.

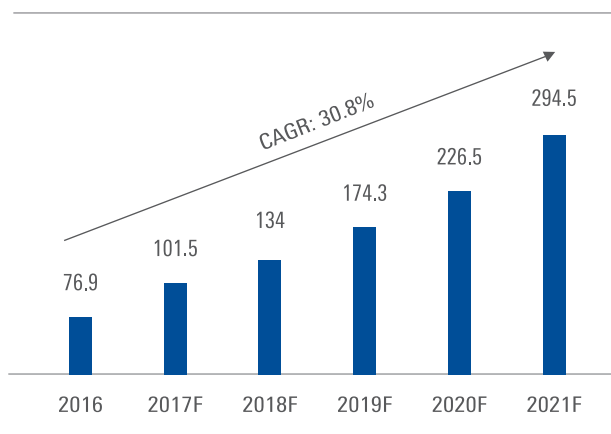
On the other hand, the current revenue stream from digital businesses is largely dependent on advertisements. Moreover, the ad rates charged by broadcasters remain low in the digital media space.⁸⁰

Hotstar's ad revenue from IPL 2016 was estimated to be just about INR400 million, compared with INR10.5 billion earned by SPN from TV.^{81,82} Thus, TV continues to dominate the revenue stream for broadcasters.

Driving revenues — digital advertisers and sponsors vs subscriptions

In 2016, the digital advertising spend in India was estimated to be INR76.9 billion — with mobile as the primary driver of growth.⁸³ Further, the share of digital in the overall pie is growing steadily.

Digital ad spend in India (INR billion)



Source: KPMG in India's analysis, 2017



76. http://www.business-standard.com/article/companies/after-sports-star-bets-on-mobile-tv-with-hotstar-115050501105_1.html, accessed on 9 March 2017

77. http://www.business-standard.com/article/companies/star-india-subsidiary-gets-select-ipl-media-rights-for-rs-302-cr-115021000914_1.html, accessed on 9 March 2017

78. <http://economictimes.indiatimes.com/industry/media/entertainment/media/bcci-sells-18-tenders-for-ipl-media-rights/articleshow/54920425.cms>, accessed on 9 March 2017

79. <http://timesofindia.indiatimes.com/companies/amazon-starts-prime-video-service-in-india/articleshow/55973106.cms>, accessed on 9 March 2017

80. <http://www.vccircle.com/news/media-entertainment/2016/03/30/can-viacom-18s-voot-change-game-ott-space>, accessed on 9 March 2017

81. <http://economictimes.indiatimes.com/industry/media/entertainment/media/ipl-is-a-money-spinner-as-it-amasses-rs-2500-crore-in-its-ninth-season/articleshow/52720049.cms>, accessed on 9 March 2017

82. <http://economictimes.indiatimes.com/industry/media/entertainment/media/not-feasible-bcci-expects-broadcasters-to-pay-rs-16000-crore-as-ipl-fee/articleshow/52771307.cms>, accessed on 9 March 2017

83. KPMG in India's analysis, 2017

Now that multiple platforms have proliferated the Indian market, potential revenue models are also likely to follow through. Since many of these platforms are currently providing a majority of live sports content for free, advertisements become all the more significant for sustainability. In the run-up to the 2016 season of IPL, Hotstar had bagged nine sponsors for the event,⁸⁴ and was looking to charge INR55 million to INR85 million for those sponsorships.⁸⁵ The rise of digital platforms as potential competitors to TV is leading to a shift in the overall advertising and sponsorship landscape. While the sports segment is yet to make a big mark in digital advertising in India, the gradual shift in the overall media rights landscape towards digital is likely to have some spill over effect on sports as well.

Moreover, with substantial monies being spent for acquisition of sports rights, OTT players could look at premium subscription models to monetise their investments in the long run. For example, Hotstar offers live sports content across its entire bouquet, along with other shows for a monthly subscription of INR199 — with users having the choice to watch every single match of the EPL live — a proposition that is not even available on TV. Zee Entertainment-owned dittoTV also offers the entire bouquet of Ten Sports channels for live viewing at a monthly fee of INR20.⁸⁶ Thus, the low-cost subscription models could also help bring a large volume of subscribers, generating a healthy and steady stream of revenues.

Going forward, the acquisition of broadcasting rights for these platforms could also take a long-term approach. The year 2017 is expected to shed more light on the future of OTTs in the Indian sports setting — as IPL media rights (both TV and digital) are up for grabs for the season starting 2018.

Uncertainties around the profitability of sports franchises

The sports leagues culture is currently in its nascent stage in India, as against some of the European and American leagues that have decades and even centuries of history. Thus, the business of leagues in India is cash intensive, and currently unprofitable for franchises. Several teams, even in IPL, are still not profitable. In the 2014 season, apart from the winning team Kolkata Knight Riders and the runners-up Kings XI Punjab, no other team returned profits.⁸⁷ The profitability of a team largely depends on its performance, which directly impacts

sponsorship deals and ticket sales. Further, it helps generate extra income in the form of prize money.

In the first season of ISL, each of the eight franchises of ISL are estimated to have lost INR350–400 million. The league's franchises are not expected to turn profitable until its fifth season which is to be conducted in 2018.⁸⁸ Similarly, the franchises in PKL, which has built a significantly high viewer base in India, are looking at profitability as a long-term goal. According to Supratik Sen, Chief Executive Officer of Unilazer Sports (owner of U Mumba franchise of PKL), the league is still in the investment stage; the team is focussing on generating profits from its fifth season onwards.⁸⁹

Several other leagues which have started in the past two–three years are in need of large amounts of investments to build the supporting infrastructure.



84. <http://brandequity.economicstimes.indiatimes.com/news/media/star-gets-nine-sponsors-on-hotstar-for-this-ipl-season/51505975>, accessed on 9 March 2017

85. http://www.exchange4media.com/digital/ipl-2016-digital-sponsorship-packages-start-from-rs-5.5-cr_64134.html, accessed on 9 March 2017

86. <http://www.livemint.com/Leisure/G689cHZgGoofNpWScwNIZN/Live-streaming-sports-and-more-Hotstar-Sony-LIV-Ditto-TV.html>, accessed on 9 March 2017

87. <http://economicstimes.indiatimes.com/news/sports/shah-ruk-khans-kkr-only-consistent-ipl-performer-in-making-money-revenue-grew-30-in-fy15/articleshow/52180516.cms>, accessed on 9 March 2017

88. <http://www.hindustantimes.com/football/despite-losses-franchises-see-isl-as-investment-in-indian-football/story-4RYvN0e9dKYN1PEM9nAqLK.html>, accessed on 9 March 2017

89. http://www.afags.com/news/story/47373_How-Star-turned-Kabaddi-into-a-TRP-Jackpot, accessed on 9 March 2017



Way forward

As the ongoing digital revolution unfurls, stakeholders in the sports ecosystem are increasingly witnessing their business and operating models get impacted. While sports broadcasters are strengthening their foundations in digital content delivery, advertisers are following suit and exploring various platforms for digital advertising. On the other hand, organisers of sports event and team management are continuously looking out for new technologies to engage fans and expand monetisation opportunities. The technology companies that enable the transformation to everything digital lie at the core of all these developments. However, to support and sustain this digital revolution in India, there are certain prerequisites that need to be met.



Key challenges and recommendations



Source: KPMG in India's analysis, 2017

Lack of a sporting culture in India

The most important and overarching issue facing the Indian sports ecosystem is the lack of a sporting culture across the country. Indians have traditionally been more inclined towards academics, which led to sports taking a back seat as a recreational activity.⁹⁰ Sports is a high-risk pursuit for Indians in terms of a career, as it lacks financial security. Thus, parents of Indian children typically do not encourage their children to spend a lot of time on the field. According to Boria Majumdar (a sports scholar), Indian athletes who have achieved international success are exceptions, rather than products of the country's sports system.⁹¹

Developing a sporting culture

The most crucial requirement for building a culture of sports in the country is to bring a change in the mindset of Indian parents — according to Erick Haskell, former Managing Director at Adidas Group India.⁹²

Sports and general fitness need to be imbibed as high priority disciplines in the school curriculum to drive

sports at the grassroots level. Upon his visit to India in October 2015, Brazilian footballer Pele advised to work at the grassroots level to develop the future for football in the country.⁹³ With various high profile sports leagues offering athletes an incentive to pursue sports as a viable career option, India is also likely to improve its performance at the international stage. These developments could help build a culture for sports in the country. However, it is an uphill task to influence the culture, which is an innate characteristic of existence. Moreover, several external factors impact it directly, such as the availability of supporting infrastructure and policies, which help provide a conducive environment for growth and development of sportspersons.

If the requisite environment is in place, it could potentially result in the development of a holistic sporting culture, and consequently, improvements in the country's performance at key international events such as the Olympic Games. It would certainly be a long road to success, which could be made a fruitful one, provided a strong foundation is built.



90. <http://www.euronews.com/2016/07/28/why-does-india-perform-so-poorly-at-the-olympics>, accessed on 9 March 2017

91. <http://www.cnbc.com/2016/08/19/lack-of-sporting-culture-institutional-support-and-inequality-blamed-for-indias-poor-olympic-record.html>, accessed on 9 March 2017

92. http://www.business-standard.com/article/management/building-a-sports-culture-in-india-114042700608_1.html, accessed on 9 March 2017

93. <http://www.thehindu.com/sport/start-at-the-base-peles-advice-to-indian-football-on-development/article7753752.ece>, accessed on 9 March 2017



Limited involvement of the private sector

The private sector is involved in sports development and training, primarily through three modes: public-private partnerships (PPPs), CSR and non-profits, and for-profit academies. While it can act as a champion of sports development in the country, the level of involvement of the private sector is currently limited. However, there is immense scope for individuals and corporates to get into grassroots development. Several Indian sportspersons — including Sania Mirza, P Gopichand, Mary Kom, Mahesh Bhupathi and Baichung Bhutia — have established training academies, and are essentially giving back to the country. These individuals, and other corporates need to be rewarded appropriately for their contributions.

Incentives for private investments

The government can encourage the private sector and individual involvement by providing monetary and/or tax incentives to establish sports training facilities, talent scouting and organisation of leagues and tournaments.

Ballooning costs of sports properties

Amidst a digital transformation and changing business models, broadcasters are also faced with rising costs of acquisition of media rights for marquee sports events. The IPL media rights — which were renegotiated in 2009 and sold at INR82 billion to SPN and World Sport Group (WSG) for a 10-year period⁹⁴ — are expected to be sold at a significantly higher figure this time, which could prove to be financially infeasible for the broadcasters. Nonetheless, the IPL media rights auction witnessed a great response from broadcasters with 18 players buying the tender documents, including Star India, SPN, ESPN Digital Media, Reliance Jio Digital, Sky UK, Amazon, Twitter and Facebook.⁹⁵

Moreover, as the Indian sports ecosystem becomes stronger with multiple sports properties on sale, broadcasters are expected to compete intensely for a bigger share of the market and drive up the costs of acquiring such properties. However, with Indian sports broadcasting effectively having turned into a two-player market with SPN's acquisition of the Ten Sports network from Zee Entertainment, the competitive intensity is likely to remain subdued.

Financial rationalisation to ride on the digital wave

As the costs of media rights rise, the sponsors, advertisers and broadcasters involved in the sports industry would increasingly face the mounting pressure of generating returns on their investments. Major sports

TV networks, including ESPN and Fox Sports, have lost millions of subscribers over the last few months of 2016 alone — primarily due to cord cutting in favour of relatively inexpensive online alternatives.⁹⁶ Moreover, the costs continue to rise despite the falling viewership numbers (in the U.S.) for some of the major sporting events globally, including that of NFL and the Rio Olympics.⁹⁷ On top of all this, the digital rights cost extra, and are likely to only get costlier in the foreseeable future.

In India, the viewership numbers for established as well as upcoming sports events draw up a pretty picture for all stakeholders alike; however, the scenario could change in the next few years — especially in the urban areas — which typically closely follow global trends. Moreover, the business of sports would require heavy investments to develop digital capabilities — in addition to the costs of media rights. Therefore, from a long-term perspective, the costs would need to be rationalised as the industry matures. Further, sports leagues and franchises would need to spend their money wisely to sustain the developing league culture in India.

Lack of international events

A large number of sports events that have a huge following across the globe — such as Ultimate Fighting Championship (UFC), WWE and even FIFA's football tournaments — have largely kept distance from the Indian fans. Although Indians have been consistent followers of WWE, and form a key market for the franchise, only a few times have WWE stars actually landed on Indian soil to entertain and inspire Indian fans. Similarly, UFC, an American MMA promotion company, organises events across the globe, but is yet to host a show in India. Moreover, 2017 would be the first time when India hosts a FIFA event — the U-17 World Cup.⁹⁸



94. <http://www.livemint.com/Home-Page/hRlOuvWwfxvw9sPOR1dywM/Sony-retains-IPL-rights-at-a-higher-price.html>, accessed on 9 March 2017

95. <http://economictimes.indiatimes.com/industry/media/entertainment/media/bcci-sells-18-tenders-for-ipl-media-rights/articleshow/54920425.cms>, accessed on 9 March 2017

96. http://www.huffingtonpost.in/entry/ESPN-lost-million-subscribers_us_583ef00be4b04fcaa4d5f2a8, accessed on 9 March 2017

97. <http://fortune.com/2016/10/07/weak-nfl-numbers/>, accessed on 9 March 2017

98. <http://www.fifa.com/u17worldcup/destination/host-country/>, accessed on 9 March 2017

Bringing international sports to India

The National Sports Federations (NSFs) and the Indian government would have to push towards bringing the live action of such sports events to Indian stadia. Further, the concerned stakeholders could invite international sports stars to interact with young Indian fans to inspire and encourage them to take up sports as a career.

Limited accessibility to high-speed internet

For a successful digital revolution, the country needs the supporting infrastructure as well. While digital TV penetration is high at an estimated 67 per cent at the end of 2016, the country has a long way to go in providing high-speed internet access to the masses.⁹⁹

By 2016, India had an estimated 411 million internet users, of which about 389 million (94.6 per cent) were wireless users.¹⁰⁰ Reliance Jio had managed to acquire about 100 million subscribers by February 2017.¹⁰¹ In addition, by 2021, 3G and 4G connections are expected to represent about 80 per cent of the total connections — up from 25 per cent in 2016.¹⁰² While these are impressive figures, India is still amongst the countries with the lowest internet penetration. The average internet speed in India is amongst the lowest in the world. According to the 'State of the Internet/Connectivity' report by Akamai, a Content Delivery Network (CDN) services provider, the country is ranked 105 globally on this parameter with an average speed of 4.1 megabits per second (Mbps) as of July–September quarter in 2016.¹⁰³

Building the necessary infrastructure

Since India lags behind its global counterparts in terms of internet penetration as well as access to high-speed internet, the country needs to support the development of the necessary infrastructure — in order to tap the massive potential offered by the sheer number of people waiting to be connected. With a large share of mobile internet users, India can capitalise on the growth in smartphone numbers and enable easier access to the masses. Affordability would be key here, which is evident from the quick proliferation of low cost Chinese smartphones in India. Moreover, the government should focus on supporting the domestic telecom industry in enabling greater penetration of high-speed internet, which could play a vital role enabling sports to ride on the digital wave.

Further, Wi-Fi enabled stadia, adoption of advanced technologies by the media and entertainment industry players, and innovative use of digital platforms by sports

events organisers (including leagues and franchises) to engage the modern Indian sports fan could ensure holistic growth in the development as well as utilisation of the supporting infrastructure.



99. KPMG in India's analysis, 2017

100. KPMG in India's analysis, 2017

101. <http://www.newindianexpress.com/business/2017/feb/15/reliance-jio-crosses-100-million-customers-mukesh-ambani-1570983.html>, accessed on 9 March 2017

102. KPMG in India's analysis, 2017

103. State of the Internet Q3 2016 report, Akamai, 2016



Animation, VFX and post-production

Storyboarding success!





Introduction

The art form continues to be a platform endowing substantial opportunities for imaginative filmmakers. Technology and creativity are continuously improving and becoming a pervasive vehicle that drive the use of animation and computer-generated imagery in live-action films. The year 2016 saw the Indian animation industry touching new heights. However, animation's primary market continued to be for kids in the age group of 0 to 14 years in the country. A number of properties that were alluring, particularly to the younger audience, saw the light of day. 'Motu Patlu King of Kings', 'Chhota Bheem: Himalayan Adventure' and 'Chaar Sahibzaade 2' — were among the year's few domestic animation theatricals that did well with the audience.

Visual Effects (VFX) also managed to grab considerable eyeballs with a number of big-budget Bollywood titles, such as 'Sultan', 'Dangal', 'Fan' and 'M.S. Dhoni: The Untold Story', which performed remarkably well at the box office. Further, 'The Jungle Book' raised the bar for the depiction of photorealistic animated animals and registered a remarkable box office performance in India.

With VFX extending its reach to formats other than films (such as television and advertising) and locally produced animation content making it big on traditional broadcasting as well as digital platforms such as YouTube and Amazon Prime, 2017 promises to be an eventful year for the Indian animation and VFX industry, offering an even bigger slate of experiential viewing for the audience.

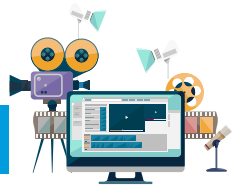
The narrative in the animation industry is changing. Story-telling technique is evolving. Consumption is increasing. Quality and throughput is rising. Technology in media creation is transforming. Distribution landscape is expanding. Economics of content creation is rationalising. The paradigm is shifting.

A K Madhavan

Founder and CEO

Assemblage Entertainment





Animation continues its growth trajectory

Animation industry's performance

Amount in INR billion

Segments	2012	2013	2014	2015	2016	Y-o-Y growth in 2016	2017P	2018P	2019P	2020P	2021P	CAGR % 2016–2021
Animation services	7.6	8.0	8.1	8.3	8.9	7.3%	9.7	10.8	12.1	13.2	14.2	9.8%
Animation IP production	4.5	4.7	5.1	5.6	6.1	8.7%	6.8	7.5	8.2	8.7	9.5	9.3%
Total	12.1	12.7	13.2	13.9	15.0	7.9%	16.5	18.3	20.2	21.9	23.7	9.6%

Source: KPMG in India's analysis and estimates, 2016-17

The animation industry in India registered a growth of 8 per cent in 2016, with revenues amounting to INR15 billion. Although animation services have always accounted for a lion's share of the revenue, animation IP production is fast coming to the forefront growing at a Compound Annual Growth Rate (CAGR) of close to 8 per cent during 2011 to 2016. In 2016, animation Intellectual Property (IP) production recorded a year-on-year (y-o-y) growth of 8.7 per cent. Though, over the next five years, animation services would continue to dominate the animation industry, the domestic content production would also pick up owing to the growing demand of IPs, new characters and storylines.

Animation services

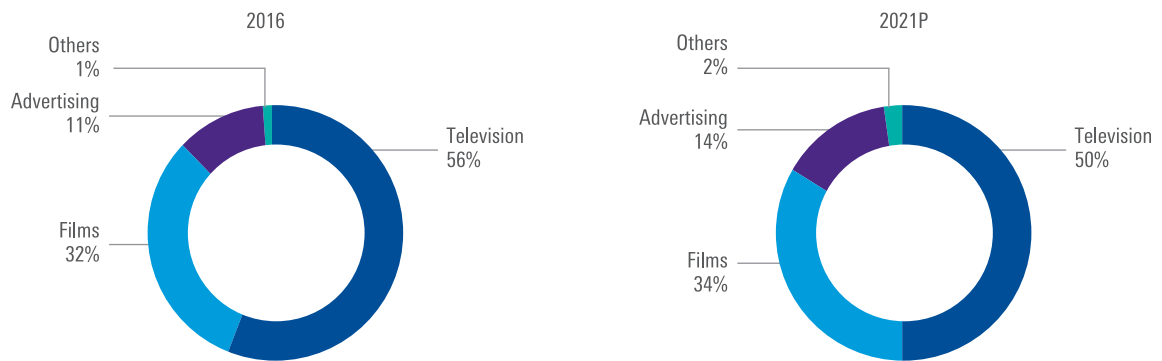
Inflow of projects from international television (TV) patrons drove the animation services space in 2016 while animation services for international films also witnessed a healthy increase. Together, revenues from outsourced TV and film projects accounted for around 85 per cent of the total animation service turnover in India.⁰¹ Conversely, the domestic animation services market remained tepid, with there being a dearth of projects outsourced internally. Going forward, the trend is likely to continue as growth will come from internationally commissioned projects, with the domestic services market also exhibiting strong growth – albeit on a smaller scale.

In 2016, TV projects continued to dominate the animation services markets on the back of outsourced work. However, films and digital advertising segments are expected to gain share in the total animation services pie over the next five years. As India makes further investment in the sector and strengthens its place in the global animation space, higher number of outsourcing work is expected to flow from international film industries and growing digital advertising domain.



01. KPMG in India's analysis and estimates, 2016-17

Break-up of India's animation services – by segments (2016, 2021P)



Note: Others includes animation work pertaining to segments Augmented Reality (AR)/Virtual Reality (VR), gaming, simulation, etc.
Source: KPMG in India's analysis and estimates, 2016-17

Further, miscellaneous categories such as gaming, Augmented Reality (AR), Virtual Reality (VR), simulation trainings, etc. could collectively see a CAGR of over 35 per cent during 2016 to 2021, while animation service for digital advertising would register a CAGR of more than 24 per cent in the same period.

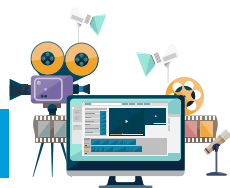
Animation IP production

Domestic animation IP production has started to prove its mettle. Production of local IPs across TV and digital domains has picked up dramatically. While broadcasters such as Viacom 18 and Disney have been vying for new content and partnerships with animation studios, the digital space has seen a massive demand of kids content with the introduction of channels such as ChuChu TV, CVS 3D Rhyme, Wow Kidz, etc. and increase in the amount of time spent by kids online. Additionally, advent of global VOD players such as Netflix, Amazon Prime, and YouTube Kids in India is further proliferating the demand for original content. Over the past few months, Amazon Prime has signed exclusive content licensing deals with a number of animation studios in India, while Netflix is aggressively looking for more partners to be able to feature more kids content not only in Hindi but regional languages too.

The growth of broadband and e-commerce has augured well for the licensing and merchandising of animation products. Despite playing second fiddle to animation services in terms of revenue, the animation IP production market has grown at a CAGR of close to 8 per cent over 2011-2016.⁰²



02. KPMG in India's analysis and estimates, 2016-17



Indian animation industry: On its way to becoming a global juggernaut

Over the past few years, the economics of the animation industry has made it viable for India to feed into the increasing demand of outsourced work. Having said that, over the last two to three years, the domestic production of animation content has also been fast gaining traction compared to sub-contracted business from other countries. The Indian animation industry is starting to sustain itself domestically through the rising content demand from TV, film and digital segments. The in-house animation production of content has picked up owing to growing number of kids channels, and increasing viewership on TV channels (such as Cartoon Network, Pogo and Nickelodeon) and online platforms, such as YouTube, Facebook, Vimeo among others. Further, the entry of global OTT/video players, such as Netflix and Amazon Prime, is likely to fuel the demand for locally produced IPs.

Animation on TV

Broadcasters have been on the continuous look out to have more channels and programmes for kids in their portfolio. With more than 30 per cent of India's population being below the age of 15⁰³, there is an abundance of Indian broadcasters that can cater to this significant proportion of young audience — falling between the preschool and teenager categories.

Some of the major networks operating kids channels in the country are:

Kids TV channels by major broadcasters

Broadcaster	Channels	Target audience age group
Disney	Disney	9 to 16
	Disney XD	Under 8
	Disney Junior	Pre-teens and young teenagers
Viacom18	Hungama	4 to 14
	Nickelodeon	8 to 17
	Sonic	10 to 17
	TeenNick	Pre-teens and teenagers
Turner	Nick Jr	2 to 6
	Cartoon Network	7 to 15
	POGO	3 to 14
Sun TV	Toonami	8 to 14
	Chutti TV	3 to 14
	Kochu TV	4 to 14
	Chintu TV	NA
	Kushi TV	3 to 14

Source: Disney annual report, 2016, Network18 annual report 2015-16, Time Warner annual report, 2016, Sun Network website, accessed on 20 February 2017

03. The Worldbank database, as accessed on 23 February 2017

04. Indian animation: From outsourcing to original IP, Spark Magazine, Animation Express, October 2016

05. Indian animation: From outsourcing to original IP, Spark Magazine, Animation Express, October 2016

06. Indian animation: From outsourcing to original IP, Spark Magazine, Animation Express, October 2016

07. Sun TV to launch kids' channel: brands it Chutti TV, Afaqs, 27 April 2007, http://www.afaqs.com/news/story/17671_Sun-TV-to-launch-kids-channel-brands-it-Chutti-TV, accessed on 5 January 2017

I see Asia, and particularly India, as the future of kids entertainment. With a growing kids population, a steady increase in the number of TV and digital broadcasters, with an overwhelming interest for local kids content and with a newfound love for content-derived kids consumer products, India holds immense potential for kids entertainment, especially the animation industry..

P. Jaya Kumar

CEO

Toonz Media Group



Domestic content emerging as the bedrock of animation on TV

Broadcasters are treating both domestic and international content with equal importance in line with the rising trend among the kids to interact more with locally germane stories and characters.

Presently, Disney's mix between foreign and domestic content on the Disney Channel stands at 65 per cent and 35 per cent, respectively, and the company plans to take it to 50:50 ratio.⁰⁴

- Domestic content on both Nick and Sonic currently sits at about 50 per cent, with shows such as 'Motu Patlu', 'Shiva' and 'Pakdam Pakdai' helping the network drive affinity and engagement.⁰⁵
- Turner's Cartoon Network airs more international shows, with a ratio of 80:20, compared to its other channel, Pogo, which is dominated primarily by popular shows, such as 'Chhota Bheem' and 'Mighty Raju'.⁰⁶
- When Sun TV introduced its kids channel in 2007⁰⁷, the company acquired international movies and cartoons majorly, and dubbed them in regional languages. Over the years, the company has added more native content, and presently offers 70 per cent foreign content and 30 per cent domestic content.⁰⁸

Recognising the potential, content creators such as Maya Digital, Toonz Animation, Green Gold, Screen Yug are going headfirst into development of local IPs. For instance, Screen Yug is currently developing a 360-degree show called 'Amazing Kids'. The company plans to launch the show as an animated series together with a reality show and, subsequently, an AR game.⁰⁹

08. Indian animation: From outsourcing to original IP, Spark Magazine, Animation Express, October 2016

09. Screen Yug plans to launch 'Amazing kids' as an animated series AR game and reality show, Animation Express, 9 August 2016, <http://www.animationxpress.com/index.php/latest-news/screen-yug-amazing-kids-animated-series-ar-game-and-reality-show>, accessed on 10 February 2017

At Cosmos-Maya, we follow a three-pronged content creation strategy; locally focussed India market dominating shows such as 'Motu Patlu' that travel to 20+ countries, non-dialogue animal protagonist led shows such as 'Eena Meena Deeka' that travel to 50+ countries and global co-productions such as 'Captain Cactus' which travel to 100+ countries.

Devdatta D. Potnis

Vice President: Sales,
Syndication & Marketing
Cosmos-Maya



The what, how and where of the content¹³

India is among the largest content markets and there is a demand for varied types of animation genres — comedy, fantasy, edutainment, interactive, preschool and action shows — from the Indian broadcasters, who are exploring new means to educate, amuse and sustain the interest of Indian kids. Not only are they focussing on the linear medium of connecting with the young audience, they are also making efforts to engage and support viewers across digital platforms.

Since kids have no limitations in terms of imagination, broadcasters are also focusing on airing international shows that are intriguing and represent local sensibilities. For instance, Japanese animation shows have connected well with the Indian kids as the stories, cultural settings and themes of the shows resonate well with the Indian culture. Additionally, broadcasters have also introduced language feeds in their animation shows, allowing audience to watch shows in languages other than Hindi and English.

Where is the money coming from¹⁰

The demand of animation content from TV as well as digital channels has been on the rise in India. In light of this, studios in India are upping their efforts in developing high quality shows and utilising them to create a perpetual revenue stream. Animation content has an extensive shelf life that provides a strong Return on Investment (RoI). With the growing allure towards domestic IP and content, developing a complete network around the key characters — through movies, web series and consumer products — is helping create additional revenue streams for some studios.

Further, investment and collaboration opportunities between animation studios and broadcasters in India have picked up, with the latter paying as high as INR1.5 million to INR4 million per 30-minutes of animation content.¹¹ Digital players in the kids content space are also seeing increasing revenues basis the number of views as well as the ads driven by their channels.¹²

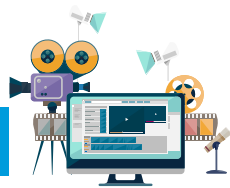
The advantage that broadcast networks enjoy over digital is that they have a dedicated set of audience for whom they have explicitly apportioned budgets. In digital, the producers take care of everything, right from getting the project funded, creating the content, pushing it to get the views, and eventually, based on mobilisation, extending it further. This entails a number of challenges as it is difficult to find investors who can wait two to three years to see the returns coming in. Digital also lags behind broadcast TV in terms of content discovery as even with the presence of content curators, content discovery on digital is cumbersome as the space is chaotic with there being a vast amount of content to sift through. In comparison, broadcast TV is a lot more organised.

Anand Pandey

Content Creator and Producer
Screenyug Creations Pvt. Ltd.



10. Indian animation: From outsourcing to original IP, Spark Magazine, Animation Express, October 2016
11. KPMG in India's analysis and estimates, 2016-17
12. KPMG in India's analysis and estimates, 2016-17
13. Indian animation: From outsourcing to original IP, Spark Magazine, Animation Express, October 2016



IP focus and scalability – Striking the right balance

When one looks at the historic evolution of the Indian animation industry, it is indeed heart-warming to notice the transformation from a service focussed approach to a content creation revolution. The Indian animation industry is at the inflection point of a massive growth curve and the future will be driven by successful IP creation only. As a business model, how one balances the scalability of individual IPs in a trans media scenario and also in terms of creative diversity between individual IPs will decide the magnitude of their respective successes.

The creative industry is trend driven and thus one needs to have a nimble footed strategy to adapt to its constantly fluctuating needs.

1. Strong partnership between content producers and

broadcasters: It is always tough to predict the success of a creative vision and how well it will resonate with the target audience. Thus, creative vision needs the right partnership to get the required push during both concept finalization and content production stage. For instance, when the idea of 'Motu Patlu' was pitched to broadcasters, most of the players were sceptical about the concept of the show, as child protagonists were in vogue. Nickelodeon stepped in at that time as they trusted the content and it's only because of the collaborative effort that show became an immediate success. Aided by strong partnerships, buddy comedies with high doses of slapstick humour have become a trend today in India.

2. Shift towards high quality 3D animation: Considering the pace at which the Indian animation industry is growing, it becomes imperative for the players to stay ahead of the curve and keep pace with the changing content production technologies. A few years back, the Indian animation industry was dominated by 2D animation shows. However, introduction of 3D animation by Cosmos-Maya acted as key catalyst in bringing about a paradigm shift in the Indian market. Soon, a number of players expanded their portfolio to include 3D animation services.

3. Variety is the key: The Indian animation industry has come a long way and now enjoys shows across genres ranging from slapstick comedy to superhero series to chase comedies to action adventures and musical comedies. With the audience group ranging from toddlers to teenagers, different genres allow animation studios and broadcasters to differentiate their offerings and attract larger audience base. To this end, we are currently working on fantasy adventure and an epic action adventure series.

4. Content for one, Content for all: In the era of trans media content, one of the most important aspects in terms of selecting IP is its scalability and how well does it lend itself for various media. Hygiene factors — such as can the highlight moments of a longer format be made into short

formats, can the gags of a comedy series be strung together for binge viewing, can the shorter episodic format be scaled up to a TV feature and even a theatrical feature — are now being kept in mind during the concept stage.

Digital platforms are providing a much needed buoyancy in an already growing market. For instance, WowKidz, Cosmos-Maya's YouTube channel, witnesses around 3.5 million views per day, without having produced a single minute of original content and with over 90 per cent of content geo-blocked in the primary market, India. A constant dialogue on original programming and regular conversations with SVOD platforms and egalitarian digital platforms such as YouTube help the animation studios develop a deeper understanding of the consumer psyche.

5. Expansion beyond national boundaries: In another area of focus in terms of scalability is the international footprint. Animation cuts across more boundaries than live action and this global boost is much needed for the Indian industry which has moved from the struggling to the growing phase. To this end, co-production deals are being chalked with international studios for the development of global IPs that have strong resonance with India. For instance, Cosmos-Maya has collaborated with renowned European artists, responsible for creating some of the most popular animation shows in Europe and the U.S. — Olivier Jean Marie and Gerhard Hahn, among others.

Thanks to such co-production deals, the average per half hour episode rate of INR2 to 3 million gets pushed to an INR10 million bracket, without really disrupting the economics of the Indian market. The geographies widen and thus the scale helps. This is definitely the trend going forward and in the coming years these new initiatives are likely to pave the way for newer global partnerships, in turn driving the industry. In these sort of deals, the production workflows continue to be similar to the service production models; but a significant chunk of the monies will also flow in the reverse direction. That is the power of the Indian market today which is where the co-production models will work

6. Rich content library, critical for long term growth: The biggest indicator of scale is the volume of the content library. All the leading animation studios and broadcasters operating in kids genre understand the importance of building a robust content portfolio for long term sustainability and growth. Thereby, at Cosmos Maya, we produce almost 25 half hours of content every month, which is almost a season per month. Over the last four years, Cosmos-Maya has managed to produce over 650 half hours of content and have confirmed contracts for the production of another 1,500 half hours of content over the next five years.

With a string of successes in the animation space, the next big thing on our radar is the AR/VR space. Maintaining the targets that we have set for ourselves and pushing the creative boundaries with every new production is critical for success. Blending the passion within the established scale both vertically and horizontally; across creative parameters and production volumes, while collapsing the hitherto known boundaries of geography will cumulatively drive the growth of this industry going forward.

Anish JS Mehta
 CEO
 Cosmos-Maya



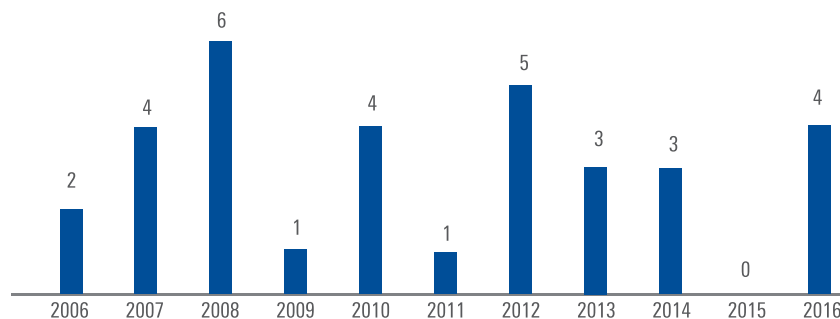
All views and opinions expressed herein are those of the author and do not necessarily represent the views of KPMG in India.

Animation in films

India's animation film space has seen only a handful of domestic productions over the last few years. Maya Digital Studios, in partnership with Viacom18 Motion Pictures and Nickelodeon, produced a 3D stereoscopic animation film 'Motu Patlu King of Kings' based on famous 'Lotpot' characters, Motu and Patlu. The film was released in Hindi and Tamil in more than 700 screens across India.¹⁴ In January 2016, Green Gold Animation, produced an animated feature, 'Chhota Bheem: Himalayan Adventure', based on the acclaimed Chhota Bheem franchise.¹⁵



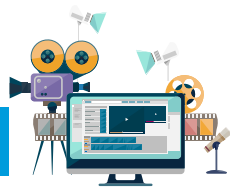
Number of Indian animation theatrical releases over the years



Source: KPMG in India's analysis and estimates, 2016-17

14. Viacom18 to bring 'Motu Patlu King of Kings' animation film, The Times of India, 8 September 2016, <http://timesofindia.indiatimes.com/tv/trade-news/hindi/Viacom18-to-bring-Motu-Patlu-King-of-Kings-animation-film/articleshow/54196439.cms>, accessed on 11 February 2017

15. Chhota Bheem: 2D & 3D CGI mark Green Gold's Himalayan Adventure, Animation Express, 24 December 2015, <http://www.animationxpress.com/index.php/latest-news/chhota-bheem-2d-3d-cgi-mark-green-golds-himalayan-adventure>, accessed on 15 February 2017



Production houses have been giving animated features a cold shoulder owing to limited returns. While the studios intend to replicate the success of animated content garnered over television, only a few Indian animation films have been successful in attracting significant footfall to theatres. Domestic animated features struggle at the box office due to under penetration of screens and direct competition with high quality Hollywood animated content. For the animation films to work, content costs need to be scaled down, which even at present, do not compare well with the competition from Hollywood. Further, studios looking to monetise their content by means of satellite (C&S) rights and merchandising also find it difficult as broadcasters are anyway shying away from acquiring films and counterfeits are hampering the growth of overall merchandising market. On the contrary, Hollywood features have performed exceedingly well in India, and resonate well with the audience across age groups. Thus, it is critical that Indian studios make continued efforts in brand building and widening the audience base for their IPs, to be able to drive television audiences to theatres.

Regional animation film space is also starting to pick up in India. 'Chaar Sahbzaade 2', a Punjabi animation film and sequel of highly claimed 'Chaar Sahibzaade', released in November 2016.¹⁶ The film received positive reviews from the audience. 'Punyakoti', currently under production, is likely to be India's first-ever animation feature in Sanskrit. Around 30 independent animators are working on the project.¹⁷

Hollywood has been adopting a 360-degree approach to market their films in order to attract crowds. While animation films in India are seen as a kids-centric genre, foreign producers are making efforts to position them as a whole family experience. Producers are also roping in leading brands from the food and beverage, and apparels industry to ease off the burden on their marketing and promotional budgets. Thereby, the number of animation films grossing more than INR100 million considerably shot up in 2016 compared to 2015.¹⁸

Box office collection in India for international animation movies in 2016 and 2015

Movie	Year	Gross collection (in INR million)	Movie	Year	Gross collection (in INR million)
Kung Fu Panda 3	2016	320	Minions	2015	173
The BFG	2016	180	Inside out	2015	94
Finding Dory	2016	149	Hotel Transylvania 2	2015	44
The Angry Birds Movie	2016	141	Home	2015	34
Moana	2016	133	The Good Dinosaur	2015	30
Zootopia	2016	114	The SpongeBob Movie: Sponge Out of Water	2015	12
Ice Age: Collision Course	2016	113			

Source: Box Office Mojo website, www.boxofficemojo.com/, accessed on 14 February 2017, Box Office Collection website, boxofficecollection.in/, accessed on 14 February 2017, 123 Box Office Collections website, www.123boxofficecollections.com/, accessed on 14 February 2017

16. Not just another sequel, The Hindu, 31 October 2016, <http://www.thehindu.com/features/cinema/Not-just-another-sequel/article16086140.ece>, accessed on 25 January 2017

17. India's First Sanskrit Animation Film has 30 Animators working on it and Ilayaraja's Music, The Better India, 16 June 2016, <http://www.thebetterindia.com/25774/india-first-sanskrit-film-will-have-30-animators-ilayaraja-music/>, accessed on 2 March 2017

18. KPMG in India's analysis and estimates, 2016-17

Animation in advertisement

In a highly cluttered television advertising space in India, only a minimal percentage of ads are animated. There is a great divide between the avenues used for television commercials in India and its western counterparts, with the latter constantly exploring new concepts. However, the Indian ad space has started witnessing diverse styles of animation in 2D, 3D, stop motion, puppet animation and other formats.¹⁹

- In 2016, Rajasthan Tourism appointed Ogilvy and Mather, an advertising agency, and Studio Eeksaurus, an animation studio, to refurbish and create a fresh version of its tourism campaign. Ogilvy and Eeksaurus created a new logo, the depth of which was represented by the use of clay and sand relief forms and a distinctive animation method. The storyline of the ad campaign encapsulated different features of Rajasthan, which were represented through sand.²⁰
- In 2016, Frooti, Parle Agro's mango drink brand, launched a new 50-second stop motion animation ad depicting a miniature world using tiny scaled models of vehicles, people and plants, while only the Frooti packaging and mangoes were kept in real life scale.²¹

Animation on digital channels

Digital consumption in India is growing at a significant rate, aided by intense market competition led by Reliance Jio's disruption, 4G launch by existing telcos and rate cuts announced by Bharat Sanchar Nigam Limited (BSNL). In addition to massive consumption on YouTube and Facebook, hordes of global and domestic OTT and VOD platforms, such as Netflix, Hotstar, Amazon Prime, Voot, HOOQ and Sony LIV, are competing for the market share.²²

While television is the future of television in India for now, digital is creating additional avenues for content consumption. Kids are digital natives and tech savvy, and like to consume content across multiple screens. Recognising the potential and changing consumption patterns, the industry players are expanding their presence across digital platforms to not only create new revenue streams for their existing content, but also broaden their brand's content library available at the disposal of the kids.

Nina Elavia Jaipiria

Head

Kids Entertainment



19. Are Indian Advertisers Putting Up a Fight With Western Counterparts in Stop Motion Films?, Advertising Age India, 23 January 2017, <http://www.adageindia.in/blogs-columnists/viewpoint/are-indian-advertisers-putting-up-a-fight-with-western-counterparts-in-stop-motion-films/articleshow/56722162.cms>, accessed on 8 February 2017
20. Eeksaurus brings alive the culture of Rajasthan through sand-animation, Animation Express, 20 January 2016, <http://www.animationexpress.com/index.php/latest-news/eeksaurus-brings-alive-the-culture-of-rajasthan-through-sand-animation>, accessed on 8 February 2017
21. Suck it, lick it, do the Mango Bango, 'Choos' the Mango: What's Frooti trying to say?, Afaqs, 31 March 2016, http://www.afaqs.com/news/story/47562_Suck-it-lick-it-do-the-Mango-Bango-Choos-the-Mango-Whats-Frooti-trying-to-say, accessed on 8 February 2017
22. KPMG in India's analysis and estimates, 2016-17



Top subscribed and viewed animation channels on YouTube

Rank	Channel name	Number of views ('000)	Number of subscribers ('000)
2	ChuChu TV Nursery Rhymes & Kids Songs	7,597,385	8,151
6	CVS 3D Rhymes	4,047,336	4,311
8	Videogyan 3D Rhymes - Nursery Rhymes & Kids Songs	3,158,851	3,785
27	ChuChuTV Surprise Eggs Toys	1,111,333	2,076
36	Chotoonz TV	867,405	744
41	Wow Kidz	793,717	698
50	HooplaKidz TV - Funny	696,199	987
70	eDewcate	540,636	545
93	MagicBox English Kids	403,837	511
97	Green Gold	392,135	619

Source: Social Blade: Top 100 YouTuber from India by Most Subscribed and Most Viewed, <http://socialblade.com/youtube/top/country/in/mostviewed>, accessed on 2 March 2017

The ingress of OTT platforms has seen the consumption of short form and preschool content rising. This has been a much needed shot in the arm for animation studios, many of which have upped their offerings for kids' content significantly. The advent of digital has also been a boon for smaller studios, which face challenges to find airtime on broadcast TV.

Major partnerships for kids' content in the digital space in 2016

Player/Platform	Partner	Shows
Amazon Prime (Amazon)	Green Gold Animation	<ul style="list-style-type: none"> • Super Bheem, • Chhota Bheem • Mighty Raju²³
	Xilam Animation	<ul style="list-style-type: none"> • Oggy & the Cockroaches • Zig & Sharko • Floopaloo Where Are You, • If I Were An Animal • A Kind of Magic²⁴
	SS Rajamouli	<ul style="list-style-type: none"> • Baahubali: The Lost Legends²⁵
	DHX Media	<ul style="list-style-type: none"> • Caillou • Inspector Gadget • Johnny Test • Strawberry Shortcake • Kid vs Kat, and others.²⁶
	ChuChu TV	<ul style="list-style-type: none"> • A multitude of kids content²⁷
Voot (Viacom18)	Turner India	<ul style="list-style-type: none"> • The Powerpuff Girls • Ben 10 • Roll No. 21²⁸
YouTube Kids (YouTube)	ChuChuTV Toonz Animation Sesame Workshop Appu Series	A multitude of content under learning, shows, music and explore categories ²⁹

Source: Social Blade: Top 100 YouTuber from India by Most Subscribed and Most Viewed, <http://socialblade.com/youtube/top/country/in/mostviewed>, accessed on 2 March 2017

23. Amazon India acquires rights for animated content for kids ahead of Prime Video launch, Mashable, 13 October 2016, <http://mashable.com/2016/10/13/amazon-prime-video-green-gold-animation-deal/>, accessed on 16 February 2017

24. Amazon hits back at Netflix with exclusive kids' programming deal in India, Fierce Cable, 10 January 2017, <http://www.fiercecable.com/broadcasting/amazon-hits-back-at-netflix-exclusive-kids-programming-deal-india>, accessed on 15 January 2017

25. Amazon Prime Video ties up to launch Baahubali animation series, The Hindu Business Line, 30 September 2016, <http://www.thehindubusinessline.com/companies/amazon-prime-video-ties-up-to-launch-baahubali-animation-series/article9168417.ece>, accessed on 22 February 2017

26. Deal highlights DHX Media as a 'go-to' content provider for global SVOD market, DHX Media, 13 February 2017, <https://www.dhxmedia.com/newsreleases/dhx-media-licenses-kids-series-to-amazon-prime-video-for-india/>, accessed on 18 February 2017

27. Amazon Prime Video signs exclusive deal to offer ad-free ChuChu TV content, Economic Times, 1 March 2017, <http://tech.economictimes.indiatimes.com/news/internet/amazon-prime-video-signs-exclusive-deal-to-offer-ad-free-chuchu-tv-content/57393537>, accessed on 2 March 2017

28. Viacom18 inks deal, Voot to show Turner's kids content, Television Post, 24 June 2016, <http://www.televisionpost.com/television/viacom18-inks-deal-voot-to-show-turners-kids-content/>, accessed on 8 February 2017

29. YouTube Kids app launched in India, Television Post, 10 November, 2016, <http://www.televisionpost.com/technology/youtube-kids-app-launched-in-india/>, accessed on 10 January 2017





In addition to several content driven partnerships, digital players are also producing their own content. Sony LIV, the digital video entertainment platform of Sony Pictures Networks India (SPNI), introduced a premium kid's content section called 'LIV Kids' on its platform. The content for the section is produced by Sony and majorly comprises famous nursery rhymes.³⁰

A major chunk of the platforms, launched by both digital-only players and broadcasters, currently leverage both advertising and subscription revenues for sustenance, with the former being the dominating segment. However, going forward, monetisation through ad and subscription revenues is expected to co-exist, driven by the growing penchant of the Indian audience towards animation content.

30. Sony LIV joins list of Indian OTT platforms building kids vertical, Television Post, 10 November, 2016, <http://www.televisionpost.com/tvp-special/sony-liv-joins-list-of-indian-ott-platforms-building-kids-vertical/>, accessed on 20 February 2017

It's an exciting phase to see digital players such as Amazon Prime and Netflix showing interest in original Indian content. Digital platforms will provide a medium for more edgy animated content too for non-kids audience. There are examples of international TV shows that were not allowed to be aired on broadcast TV but have performed exceptionally well on digital. The same shows, having gained much traction on digital, were eventually aired on TV. This model can be adopted in India as there is limited scope for edgy shows in broadcast due to there being a number of rules and standards to adhere to.

RK Chand

Co-Founder, Director of
Business Development

Digitales Studios



Branding, merchandising and promotions

The recognition and brand awareness of several IPs has paved the way for growth in merchandising as well as the increase in the number of collaborations and cross promotions in the animation industry.

Licencing and merchandising (L&M)

A noteworthy surge in consumer spending in India has acted as a catalyst to the growth of animation merchandising in India. The growth of modern retail formats and e-commerce have started to make merchandising more sustainable. Consumers, not only from tier I cities, but those from smaller pockets of the country are becoming mindful of branded and better quality products.

Animation giants are scaling up their merchandising offerings by launching new product categories and expanding their distribution network. For instance, in 2016, Disney collaborated with DLF to open about 50 stores in India.³¹ Further, for the Indian animation studios engaged in production of original content, the focus on licensing and merchandising business has been a natural progression. Animation studios have been launching a wide variety of products, such as apparels, toys, collectibles and stationery, through a multitude of licencing deals.

- Broadcasters leveraging partnerships with leading apparel brands:** Disney India, with its animated properties, such as Marvel, Mickey Mouse and Bambi, has started to focus on adult fashion. The company partnered with fashion brands Vero Moda and Only to introduce limited edition clothing line based on Bambi and Mickey Mouse, respectively, in 2016.³²
- Digital players also stepping up on the merchandising front:** Prominent YouTube kids channel 'ChuChu TV' has joined hands with Dream Theatre to inaugurate its global consumer products business. Dream Theatre would be responsible for crafting the brand architecture, in addition to creating a go-to-market design for the channel.³³
- Banking on licensing partnerships across offline and online channels:** Turner India's licensing and merchandising arm is targeting a robust growth as it increases its presence in new markets in South Asia in collaboration with large FMCG companies, including Parle, Perfetti, Unilever, Kellogg's, Heinz and United Biscuits. As part of the expansion, Turner's Cartoon Network (CNE) would also pursue partnerships with companies in retail and e-commerce spaces to reinforce its position in the market.³⁴

Merchandising was always an integral part of the animation business. Since India does not produce its own intellectual properties as much as the U.S., merchandising has not been explored to its potential. Some of the past Indian characters and their merchandise like "Little Krishna", "Chota Bheem" has earned its presence in animation business within local and international market to demonstrate the potential.

Prafull Gade
Managing Director
Deluxe India



Indian animation properties such as 'Chota Bheem' and 'Motu Patlu' and Japanese shows such as 'Doremon', 'Ninja Hattori' and 'Pokémon', which have tasted huge success on the viewership front, have also been taking big strides in the licensing space. Another segment that has performed well in terms of licensing is the language agnostic properties, including 'Tom and Jerry', 'Shaun the Sheep' and 'Oggy' which present an easy appeal for kids.³⁵

However, issues pertaining to distribution and piracy still impose a major barrier for the merchandising business. Infrastructural bottlenecks such as inadequate retail space and poor conditions of roads have created supply chain constraints and increased inventory holding and carrying cost for players. While online marketplaces (which support the 'reseller model') have created ample opportunities for L&M space, they have also acted as a nucleus for counterfeit products, with players finding it difficult to deal with non-legit products being continuously listed for sale.³⁶

31. Disney Co in talks with DLF brands for India retail foray, Economic Times, 29 March, 2016, <http://economictimes.indiatimes.com/industry/services/retail/disney-co-in-talks-with-dlf-brands-for-india-retail-foray/articleshow/51592737.cms>, accessed on 21 February 2017

32. Brands scale up youth merchandise, Live Mint, 6 October 2016, <http://www.livemint.com/Companies/RvShDJ9BPZnKnm17KvluM/Brands-scale-up-youth-merchandise.html>, accessed in 3 February 2017

33. ChuChu TV enters consumer products biz with Dream Theatre, Television Post, 14 October 2016, <http://www.televisionpost.com/technology/chuchu-tv-enters-consumer-products-biz-with-dream-theatre/>, accessed on 11 February 2017

34. Cartoon Network Outlines Ambitions For Consumer Products & Licensing Business, Turner, 21 September 2016, <http://www.turner.com/pressroom/cartoon-network-outlines-ambitions-consumer-products-licensing-business>, accessed on 10 February 2017

35. As market of licensing, merchandising expands, India set to witness fashion merging with entertainment, The Financial Express, 28 February 2017, <http://www.financialexpress.com/industry/as-market-of-licensing-merchandising-expands-india-set-to-witness-fashion-merging-with-entertainment/569186/>, accessed on 1 March 2017

36. Pokemon Go's popularity invites gatecrashing brands and piracy, Brand Equity, 18 July 2016, <http://brandequity.economictimes.indiatimes.com/news/business-of-brands/pokemon-gos-popularity-invites-gatecrashing-brands-and-piracy/53264401>, accessed on 7 February 2017



Nurturing IPs for a successful merchandising business

With more than 20 kids channels in India, there is a lot of healthy competition with players making efforts to create the next iconic property out of India. While the Indian animation studios may successfully create new shows/characters, the real winners would be those who have characters adept at creating a Licensing and Merchandising (L&M) ecosystem. Networks entering kids channel space are also now trying to leverage the business opportunity that is available on the merchandise front. However, it's not going to be a cake walk, as established broadcasters such as Disney, Turner and Viacom are already in the forefront in L&M space in India.

Back in 2008, the on-air success of 'Chhota Bheem' made us realise that we have created a show which had the potential to become a phenomenon. This drove us to start thinking of making comics, DVDs and T-shirts, and working with distributors across India. However, we recognised the fact that different products needed different distributors. For instance, comics had to be distributed through publishers, DVDs through home video companies, while t-shirt and toy distribution also presented a major challenge. We understood that we would have 20 to 30 different products that could lead us to work with multiple distributors. As, at that time, there were only a few start-ups in the L&M space, we felt that the best bet would be to build our own distribution network. We even setup our own soft-toy factory, 'Benny n Bunny', wherein we are currently producing nearly 10,000 to 15,000 plush toys a month. The merchandise business, which had a humble beginning with 1-5 products, stands strong today with more than 100 products, over 3,000 stock keeping units (SKUs) and about 150 licensing deals.

The L&M industry in India is still at a blossoming stage. Aside from the slowdown during demonetisation, there has been a

significant growth in consumer spending not only in Metros but also in tier I and II cities. Due to growth of organised retail companies such as Shoppers Stop, Lifestyle, Landmark, Crosswords, Reliance Trends etc., it has now become easier for L&M companies to distribute their products across India. The companies are no longer required to look out for partnerships with multiple regional distribution players, which wasn't the case a decade back.

Besides growth in the kids merchandise products, there has also been tremendous growth in sports merchandise. Established L&M companies who are smart enough to identify current trends and consumer's wants, and have a good distribution arm can expect a growth of 20 per cent to 40 per cent over the next 10 years.

One of the major challenges afflicting the industry is the dependence on imports as most goods still have to be procured from China, which, in addition to taking about two to three months to arrive, cost 40 per cent more due to import duties and shipping charges. This increases the retail price, which in turn slows down the return on investment. Also, players usually end up procuring more goods from China than required due to the high transit time of products. The merchandise industry is also plagued with counterfeit merchandise being openly sold in the market. Efforts, in the past, to curb counterfeit goods in the country have largely been ineffective.

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 Green Gold



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Branding and promotion

The year 2016 turned out to be a remarkable one in terms of brand associations for Hollywood animation movies in India. 'Finding Dory', the Disney Pixar's release, registered a record 16 brands partnerships for promotions, marketing and merchandising. The associations amounted to INR200 million of media value for the studio.³⁷ With the rising acceptance of the animation genre amongst the Indian viewers, brands are exceedingly clinging to studios and their properties, and consecutively driving the number of licensing, merchandising and promotions opportunities in the country.³⁸

Major Hollywood animation releases and their brand associations in 2016

Movie	Number of brands	Brands
Finding Dory	16	Myntra, Bioworld, First Cry, Hamley's, Trucare, Colgate, Yakult, Gingercrush and others
Kung Fu Panda 3	7	McDonalds, Britannia, Horlicks, ICICI Expressions Debit Cards and others
The Angry Birds	4	McDonalds, Kurkure, Mondelez (Cadbury Gems) and Club Mahindra

Source: Disney Pixar files high on brand tie-ups, Business Standard, 15 June 2016, http://www.business-standard.com/article/management/disney-pixar-files-high-on-brand-tie-ups-116061501160_1.html, accessed on 11 February 2017

37. Disney Pixar files high on brand tie-ups, Business Standard, 15 June 2016, http://www.business-standard.com/article/management/disney-pixar-files-high-on-brand-tie-ups-116061501160_1.html, accessed on 5 February 2017

38. Disney Pixar files high on brand tie-ups, Business Standard, 15 June 2016, http://www.business-standard.com/article/management/disney-pixar-files-high-on-brand-tie-ups-116061501160_1.html, accessed on 5 February 2017

- **In-game promotional campaigns:** Seventynine, a unit of digital media platform SVG Media, ran an in-game branding campaign for Parle G as part of the 'Chhota Bheem' mobile game, which registered about 10 million downloads. The brand campaign was experienced by more than 3.4 million gamers since its launch in November 2015, and the players consumed 1.2 billion virtual Parle G biscuits.³⁹
- **New avenue for film promotions:** In 2016, Turner India partnered with Yash Raj Films to promote their film 'Sultan'. The partnership aired two specials named 'Dholakpur Ka Sultan' and 'Dhobi Pachhaad with Sultan and Kris' on Pogo and Cartoon Network, respectively, which were inspired by the sports-driven story of 'Sultan'.⁴⁰

Outsourcing animation services

Over the years outsourcing has acted as a major catalyst to the growth of the animation industry in India. Akin to the explosion of the IT sector, the key element that has driven the growth of the animation industry is cost arbitrage. However, the improving quality of animation talent is also supplementing the growth of subcontracting work in India. Numerous major players, such as Disney, Warner Brothers and Sony, have been working with Indian animation studios for the production of a number of noteworthy animation features. The last few years have also witnessed several co-production partnerships and strategic alliances between the Indian and foreign studios.⁴¹

India's sophistication in computer graphics for the digital production of VFX and animation for movies, TV and Games is now globally acknowledged. The digital productions from India include the best movies, series and games of 2016. 'The Jungle Book' (for example) epitomises the arrival of India's talent and technology on the world stage.

Biren Ghose

Country Head, Technicolor India and
President, ABAI



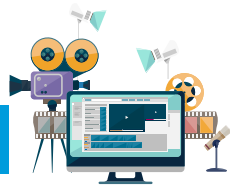
Films

Indian film animation outsourcing has seen a gamut of projects flowing in, including, end-to-end film production, production of TV spin-offs, production of direct to DVD/ Blu Ray films and other projects supporting key facets of the animation production value chain. While domestic outsourcing has been more or less stagnant, the meat of the projects have come from international outsourcing. The American animated feature 'Norm of the North', which released in the U.S. in January 2016, had gone through animation production in India. A team of approximately 160 artists from the company worked for about 14 months to complete the end-to-end production, performing tasks such as modelling, surfacing, rigging, compositing, lighting and rendering in the mentioned time span.⁴² In 2016, Digitaes Studio produced 'Alpha and Omega: The Big Fureeze' for Hollywood producer Splash Entertainment. The film was a direct-to-DVD production, released by Lionsgate.⁴³

TV

Animation outsourcing on TV followed a similar path to films, being majorly driven by international projects, which grew more than 30 per cent compared to domestic outsourcing.⁴⁴ In 2016, Digitaes Studios — an Indian animation studio — provided animation production services for the PBS KIDS animated series, 'Ready Jet Go!' The show, meant for three to eight years-old viewers, used the concepts of technology, innovation, astronomy, scientific exploration and invention to impart learning to the kids.⁴⁵

39. Parle G Scores a 'Bheem-Sized' win with Seventynine and Nazara Games, Exchange4media, 23 August 2016, http://www.exchange4media.com/industrybriefing/parle-g-scores-a-bheem-sized-win-with-seventynine-and-nazara-games_65689.html, accessed on 13 February 2017
40. Cartoon Network India And Pogo India Partner For Sultan Movie, Regular Capital, 28 June 2016, <https://www.regularcapital.com/2016/06/cartoon-network-india-and-pogo-india-partner-for-sultan-movie/>, accessed on 13 February 2017
41. KPMG in India's analysis and estimates, 2016-17
42. The Young Indian Animation studio Assemblage animates 'Norm of the North', Animation Express, 21 January 2016, <http://www.animationxpress.com/index.php/latest-news/animation-studio-assemblage-norm-north>, accessed on 9 February 2017
43. Dane Smith Joins India's Digitaes Studios, AWN, 17 October 2016, <http://www.awn.com/news/dane-smith-joins-india-s-digitaes-studios>, accessed on 15 February 2017
44. KPMG in India's analysis and estimates, 2016-17
45. Wind Dancer Films announces production of Season 2 of PBS KIDS series 'Ready Jet Go!', Animation Express, 19 August 2016, <http://www.animationxpress.com/index.php/latest-news/wind-dancer-films-announces-production-of-season-2-of-pbs-kids-series-ready-jet-go>, accessed on 21 February 2017



Animation co-productions

Animation co-productions have emerged as a viable option for the Indian animation studios, particularly the ones struggling to muster finances. Further, the quality of talent and tax reliefs available in other countries are also encouraging the content developers to opt for co-productions.

Major animation co-productions in 2016

Indian studio	Global partner	Product description
Toonz Entertainment	Chocolate Liberation Front (CLF) and Hahn Films	The series 'Sherazade: The Untold Stories' is intended be aired in a 26 x 24 minute format and is being produced for Network Ten (Australia). Hahn Film were responsible for the design related aspects which Toonz translated into their production quality. ⁴⁶
Digitaes Studios	Stan Lee's POW! Entertainment, Legend VR and illustrator Saumin Patel	The collaboration was the animated series, Stan Lee's 'Cosmic Crusaders'. The series was produced for 'The Hollywood Reporter' and Digitaes Studios served as the production studio for Cosmic Crusaders. ⁴⁷
Cosmos Maya	Olivier Jean-Marie, French filmmaker	Cosmos Maya unveiled the co-production 'Captain Cactus' at Marché International des Programmes de Communication (MIPCOM). ⁴⁸
	Studio Campedelli	The show, 'Atchoo', was introduced at the Annecy International Animated Film Festival (MIFA) in 2016. The show, which was pre-sold to Rai TV from Italy, is scheduled for a 2017 launch and garnered interest from broadcasters across the globe. ⁴⁹
Bhasinsoft	Fantastic Films International (FFI)	The entities signed a deal for global sales representation for 'Slick Rick', and a sales and co-production deal for 'Alley of Dreams', scheduled for completion in 2017. Furthermore, two more features, 'A Mouse's Tale' and 'The Winter Prince' (a co-production) were planned for delivery in the coming years. ⁵⁰

46. CLF partners with Hahn Film and Toonz to tell the untold stories of Sherazade, Chocolate Liberation Front, 23 September, 2016, <http://www.givemechocolate.me/blog/2015/09/23/clf-partners-with-hahn-film-and-toonz-to-tell-the-untold-stories-of-Sherazade>, accessed on 9 February 2017

47. Stan Lee's Cosmic Crusaders VR Experience, Hollywood Reporter, 21 July 2016, www.hollywoodreporter.com/heat-vision/stan-lee-s-cosmic-crusaders-vr-912865, accessed on 15 February 2017

48. One of the major changes in India's animation industry is focus on original Indian shows: Maya Digital Studios CEO, Economic Times, 12 October 2016, <http://economictimes.indiatimes.com/opinion/interviews/one-of-the-major-changes-in-indias-animation-industry-is-focus-on-original-indian-shows-maya-digital-studios-ceo/articleshow/54810276.cms>, accessed on 7 February 2017

49. Studio Campedelli & Cosmos-Maya announce their co-production Atchoo, Film Festivals, 13 June 2016

50. Multi-picture sales and co-production deal sealed by Fantastic Films International with India's Bhasin Studios, Animation Express, 11 November 2016, <http://www.animationxpress.com/index.php/latest-news/multi-picture-sales-and-co-production-deal-sealed-by-fantastic-films-international-with-indias-bhasin-studios>, accessed on 6 January 2017

Trends

Creators focussing on animated shorts

In India, the attention span of viewers has dropped significantly. As a result, in place of articulating themselves by means of a full-length movie, several Indian content creators are switching to making animated shorts and showcasing their properties in a short and concise format. Further, such films are also travelling around the world for numerous prominent film festivals, gathering great honours.

In 2016, 'Schirkoa' became the first Indian animated short film that qualified for the Oscars™. The film contested with 70 others that were in the running for qualification. The film also premiered at the LA Shorts Film Festival, bagging the 'Best Animated Short' award.⁵¹ Some of the major Indian animated short productions that have been presented at several film festivals over the last two years include 'True Love Story', 'Fisherwoman and Tuk Tuk', 'Fateline', 'Chhaya', 'Talking Walls' and '#Save Little Shelley'.⁵²

Focus on original Indian shows

The emphasis on original Indian shows has emerged as one of the key trends in the animation space. This is largely based on the establishment of a new business model that underpins the importance of characters.

The growth of e-commerce is also making it feasible for studios to invest in new characters so as to have more opportunities for diversification and monetisation through sales of merchandise. This is likely to continue in the future as studios would aim at consolidating their respective brands by creating more IPs. Though digital video and growing acceptance of OTT as well as foreign ideas and concepts are likely to disrupt IP creation, demand of local content from Indian broadcasters would grow considerably with more animated Indian shows finding airtime.

Key animation IPs/IP extensions introduced in 2016

Studio	Show	Broadcaster
iRealities	Sheikh Chilli & Friendz ⁵³	Discovery Kids
Green Gold Animation	Super Bheem ⁵⁴	Pogo
Graphiti Multimedia	Krish Trish and Baltiboy ⁵⁵	Cartoon Network

51. Ishan Shukla's 'Schirkoa' Is The First Indian Animated Film That Has Made It To The Oscars!, *Indiatimes*, 19 December, 2016, <http://www.indiatimes.com/entertainment/hollywood/ishan-shukla-s-schirkoa-is-the-first-indian-animated-film-that-has-made-it-to-the-oscars-267695.html>, accessed on 8 February 2017

52. *Animation Express Magazine*, June 2016

53. iRealities creates 'Sheikh Chilli & Friendz' for Discovery Kids in an animated feature film and episodic series form, *Animation Express*, 5 August 2016, <http://www.animationxpress.com/index.php/latest-news/i-realities-creates-sheikh-chilli-friendz-for-discovery-kids-in-an-animated-feature-film-and-episodic-series-form>, accessed on 20 February 2017

Challenges

Animation films not doing well at the box office

Despite India being among the most flourishing markets in the world in terms of the number of films produced, animation is yet to make an impact, particularly in the domestic content category. The number of animated films that have both enthused the imagination of Indian viewers and made it big at the box office are few. Conversely, Hollywood films have performed much better with several releases, such as the 'Kung Fu Panda 3', 'Minions' and 'Inside Out', registering handsome box office collections, even weeks after their initial release date in India. For studios in India, despite having access to technology, manpower and infrastructure, the budgets to make quality animated movies are not available. For instance, 'Kung Fu Panda 3' was made on a budget of around INR 9.4 billion (USD140 million)⁵⁶, a figure unfathomable for an animated film production in India. However, this could change going forward as the market grows, cinema screen penetration increases, animated content finds acceptance beyond the audience below 14 years, storylines appeals to universal audience and Indian films get the opportunity to travel to new international markets'.⁵⁷

No set standard for animation education

Currently, there is no benchmark for animation education and training in India. The country is in a dire need of a guidance centre, either funded by the government or privately-run, to establish benchmarks for animation education. Such a centre is likely to tighten up the entry and exit barriers resulting in better quality of talent placement. Furthermore, there needs to be more diversity and innovation in the delivery of education, something that the current education system lacks.⁵⁸

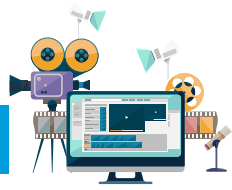
54. It's a bird. It's a plane. It's Super Bheem!, *Business Today*, 11 September 2016, <http://www.businesstoday.in/magazine/features/can-the-mighty-kid-woo-more-viewers-in-a-competitive-market/story/236333.html>, accessed on 22 February 2017

55. Indian animation: From outsourcing to original IP, *Spark Magazine*, *Animation Express*, October 2016

56. Exchange rate: USD1=INR67.08410

57. Cracking The Curse, *Box Office India*, 10 September 2016, <http://boxofficeindia.co.in/cracking-the-curse/>, accessed on 18 February 2017

58. KPMG in India's analysis and estimates, 2016-17



Close to 85 per cent of the students in animation schools in India come from tier-II and tier-III areas and they have a different perception about the animation industry. They think of it as a money-making business and hope to make it to the top in a short span of time without understanding the true nature and complexities of the industry. There is a dire need to educate the students, while in their schools, about the mechanics of the animation sector and how it fits into the overall business of entertainment and storytelling. Additionally, the animation industry is yet to receive an industry status and still falls under unorganised sector. There are hardly any norms around talent acquisition and employee retention. Thereby, people switching jobs without serving adequate notice period has become quite common in the industry as relieving letters is not a mandatory ask.

Tejonidhi Bhandare

CFO

Big Animation (I) Private Limited



A concern in the animation industry has been that most of the brighter and more competent students opt for specialised education in 3D animation. This is in contrast to the requirements of the domestic industry, where a majority of the work is in 2D. However, this is slowly starting to change with the balance between 2D and 3D animation improving. This is also partly due to the success of domestic content on Indian TV. That said, even today, there aren't enough high-end quality schools teaching long-term, full-time career programs in Animation and VFX in India, which is why quite a few students/young professionals looking to build a career in high quality animation end up leaving India. This is likely to change over the next few years with the proposed expansion of a couple of the high quality institutions, and the planned setup of the National Centre of Excellence in Animation VFX Gaming & Comics.

Chaitanya Chinchlikar

Vice President, Business Development

Whistling Woods International



Shortage of skilled talent is a grave issue hampering the Indian animation industry from reaching its maximum potential. While state governments are working towards AVGC policies, setting-up incubation centres and promoting animation courses, animation studios shall also come together and join hands with colleges and software vendors to develop the required training content and conduct workshops with students to take the programmes to the next level.

Rahul Bakshi

CEO

Pheobus Creations Media



Indian talent, not production ready

A major proportion of animation studios in India have been working on the principle of quantity rather than quality. This has led to Indian animation lagging behind more developed markets in terms of sharpening the budding talents. Students graduating of institutes along with those coming from smaller studios fail to match the expectation of production houses. There is a significant gap between what is being taught in academies and what is required to execute animation projects. This is turning animation studios in India into pseudo-universities. To bridge the mentioned gap and overcome the system inadequacy, some studios in India have chosen to invest in creating their own means for identifying, training, mentoring, and up-scaling local talent, and readying them to work on shows that test their skills.⁵⁹

59. Indian animation: From outsourcing to original IP, Animation Express, October 2016

Animation audience base still restricted to kids

Hollywood's animation content is widely accepted across various age groups in India. Films backed by blockbuster banners such as Disney have performed increasingly well owing to storylines that make for a family viewing.⁶⁰ However, the audience base for the Indian animation content has been largely restricted to kids in the age group of 0 to 14 years. While limited budget has been a constraint, mediocre story writing has also made it hard for the Indian animation content to gain traction beyond kids segment.

Globally, the animation genre is developing into a medium that connects with both kids and adults. As the Indian animation film space continues to evolve further over the coming years, it is expected that people from all ages will exhibit interest in animation content. Producers would be required to choose characters/stories and figure out ways to focus these on different sects of target audience. Storytelling, which has been a lingering issue in the animation space, would take the centre stage.

In India, the animation content is quite popular with the kids segment; however, it has been struggling in finding audience from other age groups. Having recognised this, a number of Indian studios are making efforts to leverage international talent in storyboarding, script development, voice talent encompassing a universal appeal and attracting newer audience. Some of the new content being developed by animation studios have a universal appeal and are thus, finding a footing in the markets abroad.

Ankur Bhasin

Director & CEO, Bhasinsoft

Secretary, Media & Entertainment Association of India



Role of the government

Driven by their respective governments, other Asian countries have emerged as major hubs for animation content production and outsourcing

While outsourcing has been a major driver of the vigorous growth in India's animation industry in recent years, competition from neighbouring countries with even cheaper wages is intensifying. A blend of both state-led investment and new talent is being tactically nurtured in the animation space in other Asian countries.

China animation: Burgeoning by the day

Over the past few years, state ministries in China have introduced a number of policies in order to propel the domestic animation industry. In 2016, numerous Chinese authorities, including the Ministry of Finance (MOF), the General Administration of Customs (GAC), and the State Administration of Taxation (SAT), announced a fresh round of tax incentives aimed at certified animation companies.

As per the new policies:

- Equipment/software imported by State Council certified animation companies and used to produce 'direct anime products'⁶¹ would be relieved from import Value-Added Taxes (VAT) and tariffs.
- In addition to tax incentives, MoF also dispensed a thorough list of imported products that were covered by the tariff's exemption policy. Explicitly, the list contained 13 categories of goods, including colour grading software, motion capture equipment and cartoon making software.

A huge chunk of animation work is moving to China, where language used to be a barrier but is not an issue anymore. In terms of the nature of work, China as an animation destination is prominent for budget conscious companies. While India has the upper hand in 3D animation, a lot of 2D animation work is flowing to China. Further, the Philippines has also emerged as a major outsourcing competitor to India. Though relatively expensive, the Philippines studios provide good quality and consistent animation services.

Anand Pandey

Content Creator and Producer

Screenyug Creations Pvt. Ltd.



60. KPMG in India's analysis and estimates, 2016-17

61. Note: Direct anime products include comics (comic books), cartoons, and mobile comic apps/online comic



China's local animation has also seen key partnerships between the government, and international and domestic players. For instance, the Ministry of Culture's China Animation Group (CAG), Walt Disney Corporation and Tencent formed 'The National Animation Creative Research and Development Cooperation' in 2012 aimed at training native talent and creating original content for both Chinese and global audience.⁶²

South Korean animation: Coming out of the woodwork

Studios in South Korea have been receiving official support from the government, while animators have upskilled through subcontracting work. In 2015, the South Korean Ministry of Culture, Sports and Tourism announced its plan to invest INR21.9 billion⁶³ (380 billion won) in cultivating its local animation and character industry and help it tap into international markets. Under the new initiative, the animation companies can spontaneously receive government subsidies depending on the performance of their previous projects. Also, the ministry introduced a state facility that supports start-ups in the development of content.⁶⁴

Malaysia: Locking horns with the outsourcing world

Recognising the prospective growth in the animation industry, the Malaysia Digital Economy sector Corporation (MDEC) launched an initiative known as the Global Acceleration and Innovation Network (GAIN) in 2016 to assist the growth of Malaysian technology companies. Under GAIN, MDEC's Creative Content and Technologies team (CCT) works diligently with creative companies in Malaysia, some of which include Giggle Garage, Lemon Sky Animation, MFX and Passion Republic.⁶⁵

Europe is not too far behind; France emerging as an animation destination

Hollywood, which has mostly been outsourcing animation projects to Asia, is starting to shift base to an alternative destination, France. Key factors such as a mixture of considerable tax incentives and a rising base of animation talent are luring Hollywood studios to France. France's liberal rebate system answers the cost-specific challenges faced by the studios. In January 2016, the French government increased the tax credits on animation work from 20 per cent to 30 per cent, with a maximum rebate of INR2.3 billion⁶⁶ (USD34 million) per film or TV series. Following this ruling, there has been

a stark change in the number of projects flowing into France. Between 2009 and 2014, Illumination was the only major company from Hollywood that outsourced work to France. In 2014, only four projects gained France's tax rebate for international production. However, in the first half of 2016, 11 productions that applied for such rebates were approved.⁶⁷

India is already struggling with its IT outsourcing sector, which, after years of robust growth, is beginning to smooth out. Increasing wages are eating into the profits of Indian firms, while IT service providers in countries such as Vietnam are using their lower labour costs to pull the customers away. To avoid something similar happening in the animation industry, India would need to up its game and would need a great degree of government intervention.

The government is playing an active role to promote the animation industry

With the AVGC industry rising high globally, India is on its way of joining the list of countries that boast a robust animation landscape. Initiatives for the furtherance of the industry in India are being undertaken by the central and a number of state governments. Some of the major initiatives are:

- The Government of Maharashtra has proposed several provisions in its IT/ITeS policy to encourage the growth of the AVGC sector, including inviting global companies and concentrating on legal framework for IP creation and protection. India's first training institute devoted to animation, visual effects, gaming and comics is going to be established in Mumbai. In 2017, the government authorised to allot 20 acre of land in Goregaon Film City to set up the National Centre for Excellence for Animation, VFX, Gaming and Comics.⁶⁸
- Karnataka's AVGC Policy comprises developing a Centre of Excellence for stimulating AVGC education in the state and establishing Digital Art Centres to carry out digital art and animation curriculum in certain fine art schools across Karnataka.⁶⁹
- Government of Telangana is also aggressively supporting AVGC sector and is planning to set-up an incubation centre called 'Innovation in Multimedia, Animation, Gaming and Entertainment' (IMAGE) in Hyderabad, which would provide an ideal environment for businesses in the animation, visual effects, gaming and comics industry.⁷⁰

62. New Players in the Asian Animation Industry: Growth in China and South Korea, Asia Pacific Foundation of Canada, 1 December 2016, <https://www.asiapacific.ca/blog/new-players-asian-animation-industry-growth-china-and-south>, accessed on 24 February 2017

63. Exchange rate: 1 Korean won= INR0.05765

64. S. Korean gov't to invest \$345.8 million in animation industries by 2019, The Korea Times, 26 February 2016, <http://www.koreatimesus.com/s-korean-govt-to-invest-345-8-million-in-animation-industries-by-2019/>, accessed on 7 February 2017

65. Putting life into creative content, The Star Online, 15 November 2016, <http://www.thestar.com.my/business/business-news/2016/11/15/putting-life-into-creative-content/>, accessed on 5 February 2017

66. Exchange rate: USD1=INR6708410

67. French Animators Lure U.S. Studios With Tax Rebates, Diverse Talent, Variety, 15 June 2016, <http://variety.com/2016/film/global/disney-sends-animation-projects-to-france-1201795423/>, accessed on 18 February 2017

68. Maharashtra gov't sanctions 20 acres of land for AVGC training, Animation Express, 4 January 2017, <http://www.animationxpress.com/index.php/latest-news/maharashtra-government-20-acres-avgc-training-institute>, 12 January 2017

69. Development of an Animation, Visual effects, Gaming and Comics (AVGC) Lab, Government of Gujarat, September 2016, <https://vibrantgujarat.com/writerreaddata/images/pdf/project-profiles/Animation-Visual-effects-Gaming-and-Comics-AVGC-Lab.pdf>, accessed on 10 February 2017

70. Telangana to build world-class animation and gaming city, Times of India, 6 April 2016, <http://timesofindia.indiatimes.com/good-governance/telangana/Telangana-to-build-world-class-animation-and-gaming-city/articleshow/51712435.cms>, accessed on 14 January 2017

- The Government of Gujarat is pursuing investments to launch an AVGC lab in the state that would provide a number of facets in the Gujarat AVGC sector a technological boost.⁷¹
- Government of India has permitted 100 per cent FDI in the animation industry through automatic route on a condition that it needs to be in agreement with the Reserve Bank of India guidelines.⁷²

However, a lot still needs to be done⁷³

The Indian animation industry is struggling with two key challenges – lack of funding support for the growth of local IP development and dearth of talent at the entry level — which hamper regular scalable growth whether for services or for IP development companies. Almost all studios have to set-up in-house training for all new intakes to meet the minimum requirement of production, which is a significant cost and can be reduced by establishing a structured and more collaborative training approach between the academia and industry players. Some initial steps have already been taken to support the local IP development ecosystem, such as signing of the various co-production treaties. However, it is high time that we get commercial incentives for local IP development and production as well as set up a PPP media fund to help reduce the challenges in getting initial seed funding for local IPs development.

RK Chand

Co-Founder, Director of Business Development
Digitales Studios



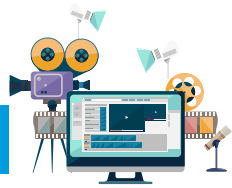
Wishlist

Category	Initiative
Awareness	Increase awareness about AVGC and prospects in the sector in several cities by conducting training sessions for artists, graduates and students at different levels
	Organise an annual summit for AVGC, assembling the appropriate stakeholders under one roof
Infrastructure	Provide land at subsidised rates for developing animation and gaming studios
	Set-up creative infrastructure and labs
Incentives/Subsidies	Offer subsidies for sending delegations to international summits
	Provide funding for animation films
	Offer subsidies based on previous milestones
Talent development	Offer tax rebates and incentives for start-ups in the animation and gaming industry
	Offer the ease to access loans for animation education
Other	Invite global animation studios to establish their offices in India
	Encourage television broadcasters to earmark a fixed proportion of airtime to air domestic animation content.

71. Development of an Animation, Visual effects, Gaming and Comics (AVGC) Lab, Government of Gujarat, September 2016, <https://vibrantgujarat.com/writereaddata/images/pdf/project-profiles/Animation-Visual-effects-Gaming-and-Comics-AVGC-Lab.pdf>, accessed on 10 February 2017

72. Development of an Animation, Visual effects, Gaming and Comics (AVGC) Lab, Government of Gujarat, September 2016, <https://vibrantgujarat.com/writereaddata/images/pdf/project-profiles/Animation-Visual-effects-Gaming-and-Comics-AVGC-Lab.pdf>, accessed on 10 February 2017

73. Indian animation: From outsourcing to original IP, Spark Magazine, Animation Express, October 2016



Outlook

The Indian animation industry has started to chart out a successful route for itself and has been gaining grounds in nearly all forms of content consumed by the audience. The future of the industry would see the number of intellectual properties increasing, with companies focussing on monetisation and brand consolidation of these properties. Broadcasters, whose content portfolios currently comprise majority of international content would start to acquire more domestic content to stay pertinent in the animation space. Increasing the private sector participation would also take the industry places. For instance, in 2016, Reliance Entertainment announced that it would invest in 20 Indian gaming start-ups on account of the increasing smartphone penetration in the country.⁷⁴ This could be a significant opportunity of animation studios as the ominous growth in local mobile gaming market would create demand for more animation work.

The animation business is gradually being acquainted with the potential that India has from a creative standpoint. However, the industry is faced with a talent crunch, with production-ready and capable people being the need at this point in time. With the shifting mind set of viewers, animation holds the potential to develop into one of the most desirable avenues for entertainment and storytelling in India. On the other hand, this would require a major impetus from the government in the form of incentives for talent and IP development along with an evolved approaches and attitude on the part of content creators.⁷⁵

“I see tremendous growth in the sector of Augmented and Virtual Reality for e-commerce. With new technologies emerging for mobile and desktop devices, the online shopping experience of buyers will be enhanced multi-fold. This means an opportunity for large number of skilled people in Modeling, Texturing, Lighting & Animation.”

Rajiv Srivastava

CEO and Founder

NextGen Shopping PTE Ltd.



74. Reliance Entertainment to invest in 20 Indian gaming startups, Economic Times, 26 April 2016, <http://economictimes.indiatimes.com/small-biz/startups/reliance-entertainment-to-invest-in-20-indian-gaming-startups/articleshow/51999425.cms>, accessed on 17 January 2017

75. KPMG in India's analysis and estimates, 2016-17



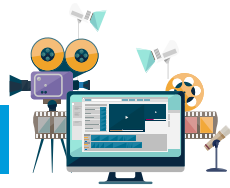
VFX

Overview

Visual Effects (VFX) have become indispensable to the production cycle of feature films over the past several years and the Bollywood space is witnessing certain projects that are pushing VFX to the forefront of moviemaking. In 2016, VFX redefined storytelling on the big screen with the release of 'Fan', 'M.S. Dhoni: The Untold Story', 'Sultan', 'Shivaay' and 'Mohenjo Daro', all of which had VFX component built into them. Films based on well-known properties/banners, such as Marvel, DC and Transformers have received raving successes with the Indian viewer base. Further, domestic filmmakers have also begun using VFX increasingly, looking to unearth IPs of bigger scales.

Although Indian films are becoming more competitive, the country has only seen a handful of films, such as 'Krish' and 'Robot', produced in genres such as disaster and science fiction, unlike the West. However, this could change in the coming years as Indian studios have started to adopt a harmonic blend of skills and expertise from developed VFX markets in other countries. This would enable artists in India learn a lot and become individual artists to incubate their own ideas. Increasing investments in VFX centric science fiction action films would also see the genre gaining traction in the country. The upcoming sequel to 'Robot', 'Robot 2' is estimated to have a production budget of INR3.5 billion, making it India's most expensive film.⁷⁶

76. Rs 350 crore: That's the production cost for Rajinikanth and Akshay Kumar's Robot 2.0, details inside!, DNA India, 28 November 2016, <http://www.dnaindia.com/entertainment/report-india-s-most-expensive-film-2277570>, accessed on 25 January 2017



VFX carries on bringing the goods

VFX industry's performance

Amount in INR billion

Segments	2012	2013	2014	2015	2016	Growth in 2016	2017P	2018P	2019P	2020P	2021P	CAGR % 2016–2021P
VFX	7.7	9.3	11.3	14.4	18.9	31%	24.0	30.2	37.6	46.7	57.8	25%
Post-production	15.5	17.7	20.4	22.8	25.7	13%	29.0	32.8	37.7	43.3	50.2	14%
Total VFX and post-production	23.2	27.0	31.7	37.2	44.5	20%	53.0	62.9	75.2	90.0	108.0	19%

Source: KPMG in India's analysis and estimates

The VFX industry in India has recorded an unprecedented growth over the years, majorly led by more and more Hollywood studios tapping into the massive pool of VFX professionals in India to work on their projects. While cost arbitrage continues to be pivotal in attracting studios to farm out work to India, improving quality of VFX has also been paramount to the industry. The VFX and post-production industry grew around 19 per cent in 2016, propelled by a 27 per cent growth in the VFX industry. There has been a high demand for VFX in India from hordes of films across different genres. Even producers with lower budgets are opting for VFX to do basic touch up of certain elements in their films. While there are bigger studios executing projects from around the world, several smaller studios that are in the early stages of establishing their core teams are also coming up.⁷⁷

However, VFX revenue from international projects continued to be the major contributor, accounting for more than 73 per cent of the industry revenue.⁷⁸ While VFX revenue from international projects would continue to form the major portion of the revenue pie owing to the ingress of marquee projects, revenues from domestic projects is expected to grow at a much faster pace on account of increasing budgets being apportioned for VFX in domestic films.⁷⁹

With the improving standards of VFX in domestic productions, the Indian VFX industry is on its way to becoming a force to be reckoned with. So far, VFX mostly accounted for less than 10 per cent of the total production budgets in India, however with a few recent successful films with heavy VFX, the trends seems to be tilting in the favour of the VFX industry.⁸⁰ Some of the prominent production studios in the country now have a proper VFX department, which wasn't the case a few years back when mere 10 per cent of filmmakers understood the

nuances of VFX. Now, about half of the filmmakers in the country show an inclination towards including VFX in their projects as they understand the impact it can bring to the overall project. Given this, the VFX revenue from domestic projects is projected to grow at a CAGR of more than 31 per cent during 2016 to 2021.⁸¹ The demand would not only come from Hindi, but also from regional movies — with producers in these industries pouring in more investments in VFX.⁸²

Further, with more VFX concentrated content being commissioned beyond films, such as TV and OTT/VOD platforms (Netflix and Hulu), there would be new avenues for VFX studios in India to establish their artistic and technical expertise.

VFX work is incredibly time consuming and labour intensive, done for little or no profit. Changes and compressed schedules increase the costs further. In such a scenario, just imagine what a production company could afford to pay us when the film's major part of the budget goes to the actors. Very rarely it happens that the VFX house is paid for the value addition it offers to the film. Moving forward, I see this changing, as VFX is becoming one of the top departments in film making.

Naveen Paul
Co-Founder and VFX Supervisor
NY VFXWAALA



77. KPMG in India's analysis and estimates, 2016-17

78. KPMG in India's analysis and estimates, 2016-17

79. KPMG in India's analysis and estimates, 2016-17

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VFX in domestic productions: Getting bigger and better

Film-makers in India are beginning to acknowledge and accept how VFX can support and enhance their storytelling, giving rise to a cultural shift in perceptions of the process. VFX companies are being brought on board much earlier, in pre-production, delivering a host of creative and financial benefits to the production. Early involvement not only allows companies to help develop the film-makers' ideas through pre-visualisation, concept design and research and development — it also allows them to offer greater cost efficiencies and optimal crew deployment throughout the lifetime of the project.

Nishant Fadia
Group COO
Prime Focus



The Indian VFX industry took a tremendous leap in terms of growth in the last few years. Nearly all the A-listed Indian films have a built-in VFX element. The component may not be in the form of explicit VFX shots, and may only include re-creating backgrounds, landscapes, cities, crowds, etc.⁸³

- 'Shivaay', which crossed the INR848 million mark, had 4,500 VFX shots. With a run time of close to 160 minutes, the movie had six major VFX sequences, all of which were designed differently. About 70 to 75 per cent of the film was shot against the green/blue screens and around 100 artists worked on the project for a period of about 11 months.⁸⁴
- In 'Fan', the lead actor was de-aged and shrunk in size frame by frame for the complete duration of about 120 minutes.⁸⁵
- 'Sultan' registered more than INR3,000 million on the domestic box office collection and featured more than 2,200 VFX shots. Some of the important sequences in the movie, such as the lead actor's rooftop training sessions and fight scenes in the ring, had VFX at their core. For scenes depicting fights, the VFX team converted a small stadium into an international arena filled with a deluge of spectators.⁸⁶
- 'M.S. Dhoni: The Untold Story', a biopic based on Indian cricketer MS Dhoni's life, showcased real-world events and employed VFX to reconstruct several periods of latter's life.⁸⁷

Key Bollywood movies of 2016 and 2015 with highest number of VFX shots

Year	2016 movies	Number of VFX Shots (approx.)	VFX partner	Net Domestic Box Office Collection (INR million) ⁸⁸
2016	Shivaay	4,500	NY VFXWAALA ⁸⁹	848
	Fan	3,300	Red Chillies VFX ⁹⁰	840
	Sultan	2,000 plus	Yfx Studios ⁹¹	3,007
	M.S. Dhoni: The Untold Story	910	Prime Focus ⁹²	1,191
2015	Bajirao Mastani	1,800 plus	NY VFXWAALA ⁹³	1,750
	Dilwale	1,600	Red Chillies VFX ⁹⁴	1,480
	Prem Ratan Dhan Payo	1,200 plus	Prime Focus ⁹⁵	2,074

Source: Box Office India website, www.boxofficeindia.com/, accessed on 10 February 2017

83. KPMG in India's analysis and estimates, 2016-17

84. 4500 VFX shots by NY VFXWAALA made Ajay Devgn's 'Shivaay' the visual delight that it is, Animation Express, 30 November 2016, <http://www.animationxpress.com/index.php/latest-news/4500-vfx-shots-by-ny-vfxwaala-made-ajay-devgn-shivaay-the-visual-delight-that-it-is>, accessed on 10 February 2017

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87. Experts on VFX, DI used in MS Dhoni biopic: It was challenging to recreate the various time periods of Dhoni's life, Indian Express, 6 October 2016, <http://indianexpress.com/article/entertainment/bollywood/experts-on-vfx-di-used-in-ms-dhoni-biopic-it-was-challenging-to-recreate-the-various-time-periods-of-dhoni-life-3064438/>, accessed on 5 February 2017

88. Box Office India website, accessed on 10 February 2016

89. 4500 VFX shots by NY VFXWAALA made Ajay Devgn's 'Shivaay' the visual delight that it is, Animation Express, 30 November 2016, [http://www.animationxpress.com/index.php/latest-](http://www.animationxpress.com/index.php/latest-news/4500-vfx-shots-by-ny-vfxwaala-made-ajay-devgn-shivaay-the-visual-delight-that-it-is)

www.animationxpress.com/index.php/latest-news/4500-vfx-shots-by-ny-vfxwaala-made-ajay-devgn-shivaay-the-visual-delight-that-it-is, accessed on 10 February 2017

90. 'FAN' VFX Breakdown by redchillies.vfx, Filmelon, 10 December 2016, www.filmelon.com/movies/fan/videos/fan-vfx-breakdown-by-redchillies-vfx, accessed on 10 January 2017

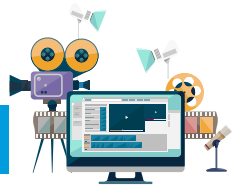
91. Sultan: Behind The Scenes VFX Breakdown by yfx Studios, Yash Raj Films (YRF), The Virtual Assist, 14 September 2016, <http://thevirtualassist.net/sultan-behind-the-scenes-vfx-yfx-studios/>, accessed on 7 February 2017

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'Baahubali' has brought VFX to the vanguard in the regional language films. South Indian cinema is also competing neck and neck with Bollywood in terms of VFX use in films; a recent example is 'Kaashmora', which released in 2016. The VFX team of the film worked on more than 70 minutes of footage, with most of the work comprising set extension. The film also used 3D face scan technology, shooting fight scenes with stunt doubles and merging the actor's face onto their bodies.⁹⁶ Released in 2017, 'Gautamiputra Satakarni' had more than 40 minutes of VFX work on screen, majority of which were powerful action sequences. The producers of the

film spent close to INR100 million, of the total INR550 million movie budget and about 25 studios were hired to do the VFX work.⁹⁷

'Baahubali 2', scheduled to be released in 2017, has appointed about 30 VFX studios from around the world.⁹⁸ Further, an upcoming film based on freedom fighter 'Uyyalawada Narasimha Reddy' is likely to get the VFX team of 'Baahubali' on board.⁹⁹

M.S.Dhoni: The Untold Story

'M.S. Dhoni: The Untold Story', a biopic based on the life of Indian cricketer Mahendra Singh Dhoni and starring Sushant Singh Rajput in the title role, chronicles the cricketer's life from his early days as a young athlete and railway ticket collector all the way through to his incredible success as the captain of the Indian national cricket team. Upon its release, the film tasted instant success with Indian and global audiences, grossing over INR1,330 million at the Indian box office.

From the earliest stages of pre-production it was clear that inserting actor Sushant Singh Rajput into archive broadcast footage of the key cricket matches of Dhoni's career was a complicated task, as was 'de-aging' the actor to create an authentically younger, teenage version of the cricketer. The ultimate scope of work taken on by VFX partner, Prime Focus also comprised extensive crowd replication for the various stadium shots and background alterations to fix period continuity issues in real world locations.

Creating a teenage Dhoni

The teenage Dhoni faced his first formidable test during the Under-19 Cooch-Bihar trophy final between Bihar and Punjab in 1999, played at the Keenan Stadium, Jamshedpur. This match was an important highlight of Dhoni's journey as he eventually missed out on a chance to be selected for the Indian cricket team. In order for the audience to connect with the despondent Dhoni, the director decided that it was imperative to feature Sushant Singh in the scene rather than having a child actor portray him.

To 'de-age' the actor, a three-fold technique was employed to digitally adjust the lead actor's facial and physical characteristics to give him the appearance of a teenager.

- 1. Original shot:** A 15-year-old stand-in was shot first, picked primarily for his cricketing ability rather than any physical resemblance to Sushant. The stand-in's head was then removed (in post!) and the paint and roto artists at Prime Focus reconstructed the missing obscured background detail using additionally shot clean plates where necessary. Since the sequence required a lot of movement and action from the stand-in, the team quite often ended up

reconstructing other background actors that the stand-in's head was passing over - an arduous task in itself. There were also some shots of the stand-in removing and replacing his helmet, which were rebuilt using compositing and plates; no lit 3D CGI was used at all in these sequences.



- 2. Head replacement:** The next part of the process was to shoot 'head plates' with actor Sushant Singh Rajput which was a very tricky technique and demanded a lot from the actor, as well as Keith Devlin, Prime Focus's VFX Supervisor. Once the head plates were shot, the team adjusted the bone structure of Sushant's face relative to reference photographs of him at 15, removing his stubble and adult pores and generally giving him a smooth child-like skin. Prime Focus artists also modified his neckline and volume with reference to perspective, reducing his jawbone density and width, and his Adam's apple.

For the close-ups, Sushant was shot full-bodied in an oversized shirt and helmet. Again while shooting the green-screen plates, it was ensured that the camera alignment was corrected back to the main action. And although such camera triangulation and plate matching is a standard VFX technique, it was essential to take into account that Sushant was about a foot and a half taller than his 15-year-old digital incarnation, and eye lines and line delivery marks had to adjusted accordingly.

96. 'All directors should learn the basics of visual effects', The Hindu, 2 December 2016, <http://www.thehindu.com/features/cinema/%E2%80%98All-directors-should-learn-the-basics-of-visual-effects%E2%80%99/article16078762.ece>, accessed on 16 February 2017

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99. Baahubali VFX team roped in for Chiranjeevi's upcoming biopic?, India Today, 1 February 2017, <http://indiatoday.intoday.in/story/baahubali-vfx-team-chiranjeevi-uyyalawada-narasimha-reddy/1/871633.html>, accessed on 3 March 2017

3. De-aged final shot: The final technique was full green-screen studio shots recreated with matte painted backgrounds and with Sushant shot full body and digitally adjusted to have the physical appearance of a 15-year-old. The shots were usually so tight in terms of viewing angle that the body adjustment itself was minor with just the face to deal with. The team was eventually able to achieve the desired look without the use of any prosthetics or 3D CGI.

Inserting Sushant into live action broadcast footage

The technique used to insert Sushant into the historical broadcast footage of key matches was similar to the one employed for the under-19 cricket match. A mixture of head replacement on Dhoni's body, full body replacement when he was batting or fielding and entirely green-screen recreated shots with stand-ins for some of the other cricketers, usually with their back towards the camera.

The broadcast footage based shots were tough in terms of the forensic video work the team had to do in order to construct a meaningful way to match the footage and process it into a ~24fps movie timeline. The challenge was to come up with processing techniques to make the footage usable in a 24fps movie timeline but still preserve its inherent broadcast

look. An optical flow based de-interlacer was written for the interlaced field-based broadcast material to smoothly turn it into progressive frames that had the correct level of motion blur, so that it retained the maximum amount of detail but ran at the right frame rate without the action seeming slowed down and without strobing or stuttering.

The team deliberately avoided cleaning up the broadcast footage itself too much in order to preserve its varied visual texture compared to the live action, opting instead to match back the effects plates which were natively of much higher spatial and colour resolution than the broadcast footage. Failure to match all the broadcast video limitations would have made the VFX work instantly visible to the audience, shattering the illusion that the filmmakers wanted. The audience had to believe that Sushant had seemingly gone back in time and was actually Dhoni in the subverted reality of the film. Since the matches and physical footage were so well known to the fans, the objective was to playfully subvert the footage, ideally to a level that would make the audience marvel at watching Sushant instead of Dhoni in the footage.

Source: Prime Focus

All views and opinions expressed herein are those of the author and do not necessarily represent the views of KPMG in India.

Innovative VFX techniques continue to define Hollywood cinema

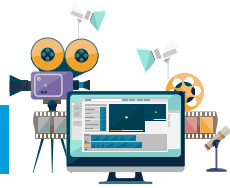
Several Hollywood releases, such as 'The Jungle Book', 'Arrival', 'Captain America: Civil War', 'Doctor Strange', 'Rogue One: A Star Wars Story', 'X-Men: Apo calypse' and 'Deadpool', have tasted phenomenal success in India in 2016. While the use of VFX in India has also picked up, domestic production studios can take a leaf from Hollywood's book in terms of the techniques being employed in some of the productions.

The year 2016 has demonstrated that when it comes to digital content creation, we need to think about 'machines that think.' 3D avatars have replaced or supplemented character performance in movies such as Fast and Furious 7 (Paul Walker), Terminator Genisys (Schwarzenegger), The Jungle Book (Mowgli). Have we unwittingly already arrived at a post biological era in film making? What was once science fiction, is now a thrilling, exciting and scary present day reality.

Biren Ghose

Country Head, Technicolor India and
President, ABAI





VFX techniques used in Hollywood films in 2016

Creating a new frontier in depicting animals

The Jungle Book

'The Jungle Book' highlighted complex detailing for actions and expressions of several animals in the film, attaining incredible photorealism by utilising visual effects. The film employed high level of detailing for reconstructing the digital landscapes based on real-life situations, and also ensured that the actor depicting Mowgli was able to interact with the props that denoted several characters in the film. SimulCam method was employed for combining puppet character props interacting with the actor against the chroma screen while the Director was able to view low-resolution computer generated characters and the environment on a screen.¹⁰⁰

Bringing back characters to life

Rogue One: A Star Wars Story

The film registered more than INR67 billion¹⁰¹ (USD1 billion) at the global box office and was nominated for the Oscar™ for best visual effects in 2017.¹⁰² Lucasfilm, responsible for the film's production, employed the use of digital effects to bring back to life two actors that in the role they portrayed in the 1977 movie 'Star Wars: Episode IV - A New Hope'.¹⁰³

Depicting mind-bending cityscapes

Doctor Strange

'Doctor Strange' incorporated VFX to showcase implausible visuals, combining actors with reality-bending objects and landscapes. The film also depicted cityscapes folding in while actors slid along building walls, and wormholes that led characters from one location to another.¹⁰⁴

Slicing time to achieve VFX mastery

Deadpool

In the film, time slice technique was used for crafting a completely computer generated (CG) car chase sequence for the opening credits. The sequence was made to look as if shot in real time, with VFX studio creating a CG environment for portraying the cityscape and creating CG models of the actors that were included in the sequence.¹⁰⁵

VFX outsourcing: Still the industry's bread and butter

India continues to be amongst the preferred outsourcing destinations for a number of significant film production houses around the world. A combination of factors, such as availability of exceptional talent at lower costs, high-speed internet and improvement in certain aspects of film production, such as special effects, have led to a surge in companies subcontracting VFX works to India. Over the last few years, Indian VFX artists have been behind some of the world's highest grossing film productions. The year 2016 was no different and saw a number of successful foreign films that utilised Indian talents.

While in the past, work was outsourced to India keeping the bottom line of the studio in check, nowadays the scenario is such that work outsourced to India is purely based on the valuable skills and expertise that the artists can bring to the table, which they have gathered over the years. And with more VFX heavy content being created for not just movies, but television as well as OTT/VOD platforms such as Hulu and Netflix, it further creates a whole new avenue for VFX studios globally to showcase their technical and creative prowess in the near future.

Keitan Yadav
Chief Operating Officer
Redchillies.vfx



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101. Exchange rate: INR1=USD 67.08410

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105. Box Office Mojo website, www.boxofficemojo.com/, accessed on 4 January 2017

Major outsourcing projects in 2016

Company	Movie/Show	Project description
Prime Focus World (PWF)	Fantastic Beasts and Where To Find Them	The studio was responsible for delivering a major share of the key action sequences and the stereo conversion of double negative's VFX work. The project had teams working from the company's India, the U.K. and Canada facilities. ¹⁰⁶
	The Legend of Tarzan	PFW was involved in the stereo conversion for the film. The studio, which had its team from India involved at every step of the project, delivered more than 1,700 shots for the film, about 1,200 of which were VFX. PFW also worked with several other VFX vendors on complicated VFX shots to add more detail and precision to the stereo conversion. ¹⁰⁷
Moving Picture Company (MPC)	Suicide Squad	The studio delivered about 600 shots for the film. The shots included a blend of environments, computer generated characters, fire, set extensions and destruction sequences. The shots were distributed across the company's studios in Bengaluru, Montreal, Vancouver and London. ¹⁰⁸
	The Jungle Book	MPC created the jungle for the film, creating an extensive selection of trees, plants, rocks and vines. Artists at the MPC's Bengaluru studio shot approximately 100,000 photographs of actual locations of Indian jungles, which were later used to construct an archive of resource material that helped recreate the jungle with minutest of detail. The jungle was central to the movie, making up for 80 per cent of the frame for 100 per cent of the run time. ¹⁰⁹ 'The Jungle Book' won the Oscar™ for the movie with the best visual effects in 2017, adding to the list of outsourced films to India that have previously won the award. ¹¹⁰

What makes complexity beautiful is Simplicity

Disney's 'The Jungle Book', which won the VFX Oscar™ and BAFTA's Special Visual Effects award in 2017, has set a new benchmark for photo-real VFX by blurring the boundaries between computer graphics animation and live-action VFX.

Photo-real visual effects, while having a complex web of technologies at its heart, has essentially been a simplifier for 21st century story-telling. Complementing the artistry of hundreds of creative professionals that worked on this magnum-opus was 30 million hours of render time. To produce the 106-minute movie, VFX production houses worked on over a thousand shots, and more than hundred thousand final frames in order to create the massive jungle.

In totality, 54 unique species, 224 unique animals, 58 master sets, 224 sub-sets, 63 custom-made environments, 275 unique-plants, 227 unique-trees, 22 unique close-up branches and thousands of rock were used to showcase the jungle, which formed the core of the film. To capture the jungle, the production team of the film covered 18,000 kilometres by road to shoot 400,000 photographs across 10 states in 60 locations.

The shots captured included cliffs, waterfalls, boulders, rocks, tree, foliage, skies and animals.

Further, since the movie was produced in stereoscopic 3D, it required two frames to produce every single frame of the movie thereby adding another layer of complexity. However, while a significant effort goes into the creation of imagery none of this complexity is apparent even to the most discerning viewer. The viewer is meant to just be lost in the jungle inside a Kipling adventure.

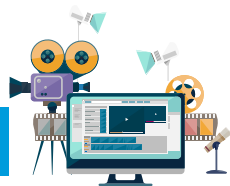
This experience is all about how simplicity is key to a 'good story well-told'.

Source: Moving Picture Company

All views and opinions expressed herein are those of the author and do not necessarily represent the views of KPMG in India.

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Trends

Use of VFX in advertising

The use of high-end VFX is no longer limited to big-budget films, as advertising agencies have been using it remarkably to create innovative advertisements for major consumer brands. India's television advertising landscape is growing at a high pace. Among the many factors driving the ads on TV and in the digital space is the eruption of VFX as a means to create ads. The

continuous progression of technology is opening doors to new possibilities in creativity, making visual effects indispensable to ad agencies, just as copywriters and visualisers are. The advent of VFX has enabled ad filmmakers harness technology to catalyse brand storytelling, and in doing so they are considerably improving the visual appeal and retention power of their respective ad films.¹¹¹

Major ads that employed VFX in India

Movie/Show	Project description
Ching's Secret	Ching's Secret, an Indian brand of Chinese cuisine ingredients, introduced a new TV commercial 'Ranveer Ching Returns' in 2016. The ad was claimed to be the most expensive ad film ever made, with an advertising and promotion budget of INR750 million, similar to that of a mid-size Hindi film. The ad was directed by renowned film maker Rohit Shetty and showcased a dystopian future where the lead actor rides a chariot into an arena to combat hunger and save the people from starvation. Supported by Yash Raj Films (YRF), the five and a half minute ad registered more than six million views on YouTube alone upon its release. NY VFXWAALA, a VFX studio, was responsible for creating the dystopian city. ¹¹²
Ambuja Cement	In 2015, Ambuja Cement ran a new ad campaign featuring The Great Khali, a popular wrestler. The TV commercial demonstrates the complications faced by the wrestler due to this size and strength, while he tries to lead a normal life in his house. Eventually, Ambuja Cement helps the wrestler by providing him with a strong enough home. The ad featured an extensive use of VFX, which was completed by Metropolitana, a VFX studio based in Spain. ¹¹³
Coca Cola	In 2017, Coca Cola introduced an Indian rendition of its global 'Brotherly Love' ad campaign in the form of a TV commercial. The concept of the film was laid out by McCann Worldgroup India, while Purple Vishnu Films was responsible for the production. Prime Focus carried out online editing and grading services for the ad film. ¹¹⁴

From labour-intensive jobs to executing high-quality projects¹¹⁵

Although VFX business has been thriving in India on the basis of the number of foreign projects flowing in, it was plagued with a challenge pertaining to the quality of work. Of the 400 odd animation and VFX studios in the country, only a fraction used to be involved in creative work. Most of the other studios used to purely do labour-intensive jobs, such as match moving, rotoscoping, wire removal and keying. Such tasks could be accomplished by any personnel trained for a specific purpose. However, this has slowly started to change as the opinion of India as a purely outsourcing destination for rudimentary VFX jobs is being upended as studios in India have begun engaging local talent in exhaustive training programmes. Studios are incorporating VFX practices that are on a par with their counterparts in other countries and executing high-quality projects end-to-end. This has compelled Indian VFX studios to focus on skill development by training freshly hired talent in-house.¹¹⁶



I can comfortably say that the Indian VFX industry is ready to rub shoulders with our friends globally and create content that would continue to raise the bar for visual effects. Earlier the kind of work that primarily was outsourced to Indian studios were BG prep and clean-up work, but over the past few years Indian artists have been entrusted with intense compositing and FX work as well for Hollywood big budget tent-poles and superhero movies. The primary reasons is that they have continued to refresh their skill sets with the years gone by and have also contributed towards some of the most complex and heavily laden visual effects projects.



Harry Hingorani

Chief Creative Officer

Redchillies.vfx



111. KPMG in India's analysis and estimates, 2016-17

112. "Rohit Shetty's 'Ranveer Ching Returns' is the most expensive ad film ever made": Ajay Gupta, Capital Foods, Afaqs, 25 August 2016, http://www.afaqs.com/news/story/48771_Rohit-Shettys-Ranveer-Ching-Returns-is-the-most-expensive-ad-film-ever-made-Ajay-Gupta-Capital-Foods, accessed on 24 February 2017

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114. Prime Focus India website, <http://www.primefocusindia.com/>, accessed on 27 February 2017

115. Animation Express Magazine, June 2016

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As India continues to lead the world as a key production partner for the global visual effects industry, it is even more imperative that we keep abreast of the latest technology developments in our industry. As the work we provide from India becomes more complicated and the amount of data we are handling increases, it is crucial that we invest in our national technology infrastructure to facilitate the movement of this huge amount of data, and that we invest in training the next generation of artists to have the requisite skills to deliver world-class work. This is the future of our industry.

Merzin Tavarria

**Co-Founder and
Chief Creative Director**

Prime Focus



The age of cloud computing has revolutionised the VFX industry. From software designed specifically for cloud delivery, cloud-based collaboration to the use of virtual workstations and to top it all cloud-based rendering. The cloud has evened the playing field by enabling smaller companies to render large and complex sequences which were earlier only accessible to bigger global VFX studios. Moving visual effects to the cloud is certainly a game changer.

Gaurav Gupta

Managing Director
FutureWorks Media Ltd.



Use of cloud in VFX

The VFX requires ample data storage and processor-intensive capabilities. Access to considerable resources such as superior server power to sustain the highly time-consuming and expensive processes of rendering VFX data is crucial for VFX studios. Further, the improving image fidelity and increasing resolutions for deliverables have made it even more important for VFX studios to make investments in the processing systems that can handle their render needs. This has given cloud-based rendering a major push, which is benefitting film and VFX studios that employ hundreds of VFX artists. By lining up renders to the cloud, studios do not slow down their local network with server overload, and can save costs of building and maintaining servers.¹¹⁷ The VFX studios in India have started to embrace cloud. For instance, in 2016, Prana Studios, selected IBM Cloud to run new high resolution rendering jobs that are essential to generate high-quality visual effects. Prana Studios' rationale to partner with IBM was to operate efficiently even on complex projects.¹¹⁸

117. Cloud-Based Rendering for the Animation Industry, Technology and Operations Management, Harvard Business School, 18 November 2016, <https://rctom.hbs.org/submission/cloud-based-rendering-for-the-animation-industry/>, accessed on 25 February 2017

118. Prana Studios join hands with IBM Cloud to render complex visual effects, 2 November 2016, <http://www.animationxpress.com/index.php/latest-news/prana-studios-join-hands-with-ibm-cloud-to-render-complex-visual-effects>, accessed on 25 February 2017

119. Watch: 'Baahubali 2' team takes us on a 360° VR tour of massive sets of film, Deccan Chronicle, 23 October, 2016, <http://www.deccanchronicle.com/entertainment/bollywood/231016/watch-baahubali-2-team-takes-us-on-a-360-vr-tour-of-massive-sets-of-film.html>, accessed on 12 January 2017

120. Historical Gobindgarh Fort makes way for 'Mayanagri', Singh Station, 14 December 2016, <http://singhstation.net/2016/12/historical-gobindgarh-fort-makes-way-mayanagri/>, accessed on 5 March 2017



AR and VR: A new beacon of growth for animation and VFX

From real world to virtual one

Augmented Reality (AR) and virtual Reality (VR) technologies are attempting to bring about a fundamental shift in the way people interact with their surroundings — whether it be everyday life, or sectors, such as entertainment, healthcare and education. A deeper user engagement is an underlined principle of AR and VR technologies. India has gradually started to embrace these technologies and a number of factors – such as sizable mobile consumer base, India's prowess in the software development space, launch of 4G services by Reliance Jio and other telecom operators, and major boost from the government to 'Digital India' initiative – are likely to drive the growth.

The AR and VR are likely to penetrate the animation and VFX space and studios are likely to see more projects based on these technologies flowing in. The groundwork for this has already started to take shape. For instance, in 2016, the production team of the film, 'Baahubali 2', launched a 360-degree virtual reality video showcasing the gigantic sets of the film.¹¹⁹

The AR and VR would also make its presence felt in the live events domain. Maya Digital, a leading animation studio, will be converting the 'Gobindgarh Fort' in Punjab into 'Mayanagri', a virtual reality theme park. The tech-savvy makeover, would comprise of a 3D live show, projection mapping and other entertainment shows.¹²⁰ Video games are expected to be one of the biggest drivers of AR and VR adoption in India. While VR technology heightens the video game experience by enabling a user to get immersed into it completely, AR technology turns the physical world into a gaming canvas. Hence, PC and mobile gamers present a significant upside to the gaming potential. The adoption of AR and VR in console/PC gaming is dependent on the availability of Head Mounted Displays (HMDs), consoles and other hardware at affordable prices. While the first phase of growth is likely to come from console gaming, mobile gaming is expected drive the revenues in the long run.

The increasing adoption of AR and VR games is likely to be a significant incentive for animation and VFX firms as they are expected to witness an upsurge in both the domestic and foreign outsourcing jobs. The increase in the adoption of VR headsets in the coming years could make players in the film, television and digital space commission more VR-based content, impelling the demand of animation and VFX services. Recognising the growing potential in AR and VR domain, a number of start-ups have mushroomed in India. India has, now, more than 70 start-ups in this space, which are investing in techniques to create innovative content. For instance, Bigsharks Studio, a visual effects and stereo conversion outfit established in 2015, uses the X3D pipeline. The

Some of the emerging markets, Virtual Reality (VR) and Augmented Reality (AR), give potential opportunities for animation industry to evolve newer business verticals in future. Further, hand held devices has huge demand for gaming and hence that segment will boost animation opportunities to a higher level.

Prafull Gade
Managing Director
Deluxe India



pipeline enables VFX artists to create some of the leading VR and cinema-ready 2D and 3D stereo products, while at the same time decreasing human errors.¹²¹

Even though the prospects for AR and VR growth in India are substantial, there are some crucial challenges that would need to be addressed going forward. The existing hardware costs in India prohibits mass adoption. Cheaper card-based alternatives, such as Google Cardboard VR, lack the true immersive experience that other hardware provide. Given the average selling price of smartphones in India, the HMD pricing would need to come down to comparable levels to initiate mass adoption. Additionally, the majority of the current smartphone base in India, which is about 200 million units, is not designed to support the VR content.



121. Animation Express Magazine, June 2016

122. VFX: Is Indian VFX on par with Hollywood?, Times of India, 15 January 2017

Key challenges

Even though the Indian VFX space is headed towards substantial growth, it is still mired in certain challenges. One such challenge is the bargaining power that international studios have while hiring VFX vendors from India. Further, certain studios have been victims to the fixed bidding system, bidding for work on the basis of number of shots, with no grants for extra hours that are needed for alterations, etc. The continuing growth of the industry would greatly depend on how VFX studios, particularly smaller ones, are able to acquire some market power over their clients, so as to increase their bottom lines.

Another issue is with the psyche of young artists, who consider VFX work as a fixed nine-to-five profession. This is a major reason behind the declining quality of VFX in Indian productions, which is not on par with Hollywood titles.¹²² Some VFX studios are also faced with inadequate director participation in the VFX process. Lacking a decision maker to offer supervision on the progress of VFX, valued time and effort can be squandered on works that either need improvement or are eventually discarded. Lack of subsidies from the both central and the state governments has also plagued VFX vendors in India. This could lead to a number of studios considering a move to other countries that offer subsidies — a cost-effective proposition.

Outlook

With VFX making inroads into all the outlets of visual media, including films, TV and ads, studios in India would continue to grow, both in terms of numbers as well as their capacity to deliver projects that require a great deal of creative and technical expertise. On account of the increasing competition in the domestic VFX market, prominent studios would continue to scout for more foreign work by establishing offices abroad, something that studios such as Prime Focus and Prana Studios have already done.

While in some skill sets the Indian VFX sector is competing with the best in the world, it needs to up its game in others. As this happens and as the studios and the industry grows bigger, better and faster, due credit for VFX work will inevitably come. Currently it's more about the opportunity.

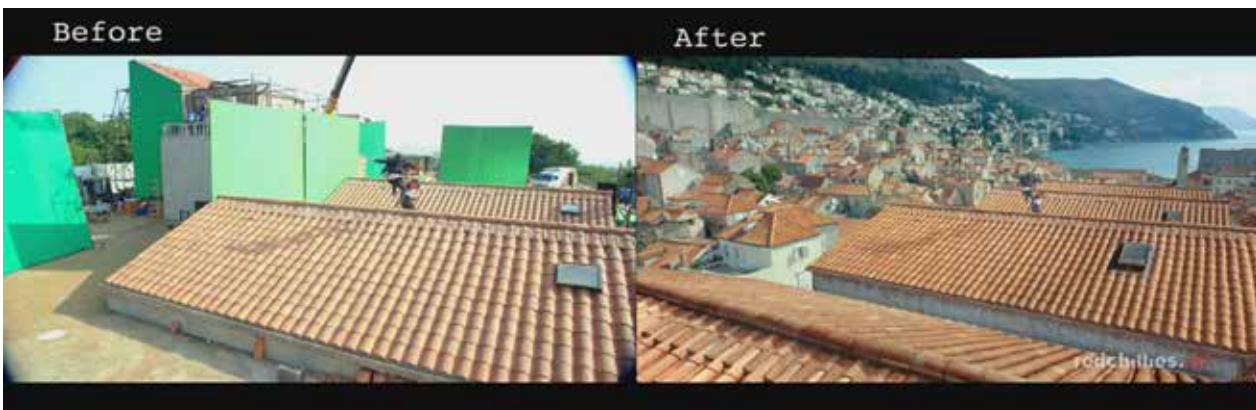
Krishna Murthy

CEO and Founder

Anibrain



The government would need to recognise the VFX space as a major driver of the economy, and provide complete support to make sure that the next generation of VFX artists receives quality and dedicated training to help reinforce India's position as a leading film-making hub. The government would also need to figure out ways that can allow the formation of a landscape wherein collateral-free loans/financing are made easier at the entry gate, that is training, which can be repaid when a student lands with a job at the exit gate. Employment at the exit gate would form the foundation of creating a scalable and sustainable model in the VFX industry.¹²³



123. KPMG in India's analysis and estimates, 2016-17



Live events

The show does go on...





Live Events: Experiences, delivered

Live Events (LE) industry experienced a healthy growth of 20–25 per cent in 2016 over 2015.¹ Some of the emerging trends of 2015 continued to drive growth in 2016, including increased expenditure on events by several governments, greater penetration into tier-II and tier-III cities by industry players, and improved consumer spending.

Notable linchpins of growth in 2016 have been the increase in Intellectual Property (IP) events; emergence of central government and several state governments as crucial customers to the LE industry players; greater focus on tier-II and tier-III cities; dawn of sports leagues other than cricket; an increasing demand of the young Indian population for music, arts, literature and comedy events; and, the ability of the players to optimally leverage the disruptive technological and digital advancements. Higher ticket prices, particularly for IP events in 2016, also contributed to the growth with average ticket prices ranging between INR4,000 and INR8,000, nearly 33 per cent higher than the price range of INR3,000–6,000 in 2015.²

On the regulatory front, positive steps were taken by the governments of Delhi and Maharashtra as they implemented single-window clearance mechanisms for events in their respective states. With Goods and Services Tax (GST) regime in the pipeline, the industry expects the overall impact to be positive.

As the year drew towards a close, the LE industry was distorted due to demonetisation.² While the sudden cash shortage caused temporary trouble in the last two months of 2016, the situation started improving in January 2017 owing to improvement in cash availability and use of digital payment platforms for cashless transactions.²

Despite the several improvements, the situation remains far from ideal. There is still a lack of skilled labour in the industry, and the formal education in this space along with improvement in the state of infrastructure seems to be the need of the hour. Now that single-window clearance mechanism has been established in two states, the industry hopes that other state authorities will soon follow suit.



01. At 28-30% growth, Indian events industry could reach \$10 billion in a 10 year horizon: Sudhanshu Vats, [exchange4media.com](http://www.exchange4media.com), [http://www.exchange4media.com/marketing/at-28-30-growth-indian-events-industry-could-reach-\\$10-billion-in-a-10-year-horizonsudhanshu-vats_66369.html](http://www.exchange4media.com/marketing/at-28-30-growth-indian-events-industry-could-reach-$10-billion-in-a-10-year-horizonsudhanshu-vats_66369.html), accessed on 20 January 2017

02. Industry discussions conducted by KPMG in India



Snippet of the LE industry in 2016

Parameter	Compared with that of in 2015
Number of events (estimation)	Nearly 100% increase in IP events About five times increase in government-related events
Ticket prices	Approximately 33 per cent increase
Government policies	Minor improvement in some states
Taxation	Unchanged; the GST is expected to be introduced in 2017
Infrastructure	Continues to be a challenge; moderate improvements in some states
Skilled labour	Still a shortage
Formal education	Very little progress; some steps have been taken
Regulatory bodies	Absent; continues to remain self-regulated

Source: Industry discussions conducted by KPMG in India in 2016-17

Exclusions

According to industry experts, the estimated industry revenue could be in the range of INR55,000–65,000 million.² However, owing to the highly fragmented nature of the industry, estimation of its revenues remains a challenge.

The unorganised part of the industry is dominated by social gatherings (weddings, get-togethers, celebrations, etc.) and political events. While these events are large in number (perhaps forming the biggest portion of the total

events) and register significant spends, they are largely cash transactions and are smaller in scale.² This chapter excludes these events due to dearth of verifiable data and predominance of cash transactions.

Key growth themes

1. Increase in the number of IP events

The last year witnessed a significant increase (nearly 98 per cent) in the number of IP events organised.² They emerged as a major driving force to the industry and have shown incredible promise when executed professionally and meticulously. There has been an exponential increase in the demands of younger audience for music, literature, dance events, etc. This has unfolded a number of opportunities, especially for the bigger players of the industry, to develop IP-based events. However, making IP events sustainable continues to be a struggle.³

Events in the form of IP's like music festivals, awards etc. have increased by nearly 100 per cent in 2016 as compared to past two-three years. This is a good reflection of the fact that propensity to spend by consumers on ticketed events has increased over the years, they are willing to spend more for better experiences.

Mandeep Singh
General Secretary
EEMA



01. At 28-30% growth, Indian events industry could reach \$10 billion in a 10 year horizon: Sudhanshu Vats, www.exchange4media.com, [http://www.exchange4media.com/marketing/at-28-30-growth-indian-events-industry-could-reach-\\$10-billion-in-a-10-year-horizon-sudhanshu-vats_66369.html](http://www.exchange4media.com/marketing/at-28-30-growth-indian-events-industry-could-reach-$10-billion-in-a-10-year-horizon-sudhanshu-vats_66369.html), accessed on 20 January 2017

02. Industry discussions conducted by KPMG in India

03. Industry discussions conducted by KPMG in India

A few large global IPs operating in India are illustrated below:

IP event	Property owners	Organiser	Dates	Venue	Description
Global Citizen Festival ⁴	Global Citizen	Wizcraft	19 November 2016	MMRDA Grounds, Mumbai	Global Citizen Festival is an annual music festival established in 2012. The festival is organised by Global Poverty Project, and is a part of a continued movement to end extreme poverty by 2030. This mega event, which saw a footfall of 80,000 people, was probably the biggest concert to date the country has ever seen ⁵
Electric Daisy Carnival ⁶	Insomniac Events	OML and Insomniac Events	12–13 November 2016	Buddh International Circuit, Noida	EDC is one of the biggest electronic dance music festivals in the world with the flagship event being held annually in Las Vegas
Sensation ⁷	ID&T	ID&T and Voila Events	5 March 2016	Gachibowli Stadium, Hyderabad	It started 15 years ago as a one-off in Amsterdam, and is now a worldwide phenomenon. Dressing in white, the crowd becomes a part of a new and distinct experience

Other prominent IP events are illustrated below:

IP event	Property owners	Organiser of the 2016 edition	Dates	Venue	Description
Absolut Enchanted Valley Carnival ⁸	Twisted Entertainment and Universal Group	Twisted Entertainment and Universal Group	17–18 December 2016	Aamby Valley City, Lonavala	EVC is a multi-genre music and camping festival, with an electronica, international pop and Bollywood line up
IIFA Awards ⁹	Wizcraft	Wizcraft	23–26 June 2016	IFEMA – Feria de Madrid, Madrid	IIFA is an award show to commemorate the great performances of Bollywood artistes
Mahindra Blues Festival ¹⁰	Mahindra	Fountainhead	13–14 February 2016	Mehboob Studios, Mumbai	Asia's largest Blues festivals , bringing together some of the world's best Blues musicians for a two-day festival in Mumbai ¹¹
ET Global Business Summit ¹²	The Times Group	Fountainhead	29–30 January 2016	Taj Palace, New Delhi	GBS is a platform where industry leaders convene to reflect and discuss India's contribution to the world's business development ¹³
Lakmé Fashion week ¹⁴	Lakmé and IMG Reliance	70 EMG	24–28 August 2016	The St. Regis, Mumbai	Lakme Fashion Week is a bi-annual fashion event that takes place in Mumbai. It is considered a premier fashion event in India ¹⁵

04. Wizcraft Makes India Proud; Recreates History with Coldplay in 2016 after MJ in 1996, Eventfaqs.com, <http://www.eventfaqs.com/news/ef-13112/wizcraft-makes-india-proud-recreates-history-with-coldplay-in-2016-after-mj-in-1996>, accessed on 20 January 2017

05. Footfall for Global Citizen Festival, <https://www.festivalsherpa.com/review-global-citizen-festival-india-2016-going-books/>, accessed on 26 February 2017

06. 14 November 2016, EDC India Review: An Estimated INR 12-16 Cr. Game Changer for Indian EDM Market, Eventfaqs.com, <http://www.eventfaqs.com/news/ef-13076/edc-india-review-an-estimated-inr-12-16-cr-game-changer-for-indian-edm-market>, accessed on 20 January 2017

07. Will Sensation India Make Business Sense? Also: Exclusive Chat With Vijay Amritraj of Voila, Eventfaqs.com, <http://www.eventfaqs.com/news/ef-11872/will-sensation-india-make-business-sense?-also-exclusive-chat-with-vijay-amritraj-of-voila>, accessed on 20 January 2017

08. Enchanted Valley Carnival, Enchanted Valley Carnival, <http://evc.co.in/>, accessed on 24 January 2017

09. IIFA 2016 Weekend Celebrations in Madrid with Ranveer, Priyanka, Sonakshi & others, Eventfaqs.com, <http://www.eventfaqs.com/news/ef-12464/iifa-2016-weekend-celebrations-in-madrid-with-ranveer-priyanka-sonakshi-others>, accessed on 23 January 2017

10. The Mahindra Blues Festival '16: Produced by Oranjucce Ent. & Headlined by Joss Stone, Eventfaqs.com, <http://www.eventfaqs.com/news/ef-11899/the-mahindra-blues-festival-16-produced-by-oranjucce-ent-headlined-by-joss-stone>, accessed on 23 January 2017

11. About us, Mahindra Blues Festival, <http://www.mahindrablues.com/about.html>, accessed on 23 January 2017

12. Fountainhead MKTG Manages ET Global Business Summit '16; Addressed by PM Modi, Eventfaqs.com, <http://www.eventfaqs.com/news/ef-11837/fountainhead-mktg-manages-et-global-business-summit-16-addressed-by-pm-modi>, accessed on 23 January 2017

13. The Times of India: Voice of the country for 175 years., Global Business Summit, <http://et-gbs.com/2016/Conference.php>, accessed on 23 January 2017

14. Lakmé Fashion Week W/F 2016 Roundup: 15 Sponsors, 92 Designers, 2 Agencies + More, Eventfaqs.com, <http://www.eventfaqs.com/news/ef-12769/lakme-c3a9-fashion-week-wf-2016-roundup-15-sponsors-92-designers-2-agencies-more>, accessed on 23 January 2017

15. Lakmé Fashion week. Lakmé Fashion Week, <http://lakmefashionweek.co.in/home/about>, accessed on 23 January 2017



2. State and central governments emerged as significant spenders

With a multitude of schemes being rolled out by the incumbent central government, it was only a matter of time that it took to events to disseminate its important messages to the masses. While the number of events held by the central and several state governments was 40 in 2015, it went up to 200 in 2016, a five-fold increase.³ This is only expected to grow in 2017 with more state governments following suit.

As initiatives such as 'Make in India', 'Digital India', 'Start-up India, Stand-up India', Invest India and the likes gaining popularity not just across India, but also globally, the industry is expected to have a promising future ahead.

3. Penetration into tier-II and III cities

Tier-II and -III cities across the country have witnessed significant changes over the past three–four years backed by high economic growth, infrastructure development, and evolution of the service sector. Industry experts claim that companies are dedicating a much larger proportion of their promotional budget pie to the rural, tier-II and III markets. While metro cities witnessed the bulk of development in the past, future is expected to see the emergence of tier-II and III cities, which are largely unexplored markets.

There is immense unexplored potential in tier II and III and rural markets of India. Companies especially in the software, telecom, FMCG, real estate and automobile sectors have started shifting their focus to these markets from metros.

Sabbas Joseph

Director

Wizcraft International
Entertainment Private Limited



03. Industry discussions conducted by KPMG in India

Certain noteworthy events that took place in tier-II and -III cities in 2016 were:

Event	City	Organiser	Date	Description
Bacardi NH7 Weekender ¹⁶	Shillong	OML	21–22 October 2016	The second edition of Bacardi NH7 weekender featured prominent names, such as Steven Wilson, Vertical Horizon, Wild Palms, Natty, Mr Woodnote and Lil Rhys along with Indian events, such as Nucleya, Farhan Live
XII South Asian Games (Opening ceremony) ¹⁷	Guwahati	Encompass	5–6 February 2016	The opening ceremony of the twelfth edition of the South Asian Games was hosted at the Indira Gandhi Athletics Stadium. The event showcased the rich and diverse culture of Northeast India
The Volkswagen Ameo Dynamic Drive ¹⁸	Wai	70 EMG	5–11 June 2016	Volkswagen planned an exclusive drive for over 50 media experts and bloggers to review the launch of its new car Ameo. The Volkswagen Ameo Dynamic Drive started in Pune and culminated in Wai, Maharashtra
Jaipur Literature Festival ¹⁹	Jaipur	Jaipur Virasat Foundation	21–25 January 2016	The world's largest free literary festival had over 100 speakers, ranging from Nobel laureates and Booker winners to debut authors and local language writers. In 2016, the Jaipur Literature Festival entered into the Limca Book of Records ¹⁹
Fashionista ²⁰	Lucknow, Kanpur, Cochin, Vizag, Mangaluru, etc.	Yukti Shankar (fashion designer)	Multiple exhibitions every year	Fashionista, an event with some of the best designers and exhibitors from India and abroad, has now entered its tenth year with cumulative 150 exhibitions. It started with three exhibitions held across two cities in 2008; the event has expanded to 27 exhibitions held across 24 cities in 2016

4. Advent of sports leagues

Sports tournaments' contribution to the live events industry revenue is estimated to be 11–13 per cent.²¹ While cricket is still undoubtedly the most famous sport, other sports such as kabaddi, wrestling, hockey, badminton and football are gaining prominence. Indian Super League, Premier Badminton League, Pro Kabaddi League, Pro Wrestling League and Hockey India League are just a few success stories that have brought fame to the Indian sporting fraternity.²¹ With slight changes to the traditional formats of these sports and blending of international and domestic talent, these leagues have gained immense popularity.

Premier Futsal League held its first edition in 2016 in India and exposed the Indian audience to the likes of Ronaldinho, Hernan Crespo, Ryan Giggs, Paul Scholes, Michel Salgado and Cafu. The second edition is expected to be held in 2017 with the



16. Bacardi NH7 Weekender 2016 Announces Venue & Festival Schedule for Hyderabad and Shillong, Eventfaqs.com, <http://www.eventfaqs.com/news/ef-12923/bacardi-nh7-weekender-2016-announces-venue-festival-schedule-for-hyderabad-and-shillong>, accessed on 21 January 2017

17. South Asian Games Kicks Off with Colourful Opening Ceremony, dnaindia.com, <http://www.dnaindia.com/sport/report-south-asian-games-kicks-off-with-colourful-opening-ceremony-2174363>, accessed on 21 January 2017

18. The Volkswagen Ameo Dynamic Drive: Curated by 70EMG from Pune to Wai For Media Profs & Bloggers, Eventfaqs.com, [http://www.eventfaqs.com/news/ef-12420/the-volkswagen-ameo-](http://www.eventfaqs.com/news/ef-12420/the-volkswagen-ameo-dynamic-drive-curated-by-70emg-from-pune-to-wai-for-media-profs-bloggers)

dynamic-drive-curated-by-70emg-from-pune-to-wai-for-media-profs-bloggers, accessed on 22 January 2017

19. Jaipur Literature Festival entered into the Limca Book of records, <http://www.limcabookofrecords.in/record-detail.aspx?rid=1038>, accessed on 26 February 2017

20. Fashionista India exhibitions, <http://www.fashionistaindia.com/about.html>, accessed on 26 February 2017

21. Industry discussions conducted by KPMG in India



organisers in talks with Ricardo Kaka and David Beckham. Another league that debuted in 2016 is the Women's Kabaddi Challenge. Furthermore, the Indian Table Tennis League, which was indefinitely postponed in 2016 due to the Rio Olympics, is set to be launched in 2017.²²

A non-exhaustive list of operational sports leagues across several sports in India is illustrated in the table below:

League	Sport	Number of teams	Number of seasons
Indian Premier League (IPL)	Cricket	8	9 (2008–16)
Indian Super League (ISL)	Football	8	2 (2014–15)
Premier Futsal League	Futsal	6	1 (July 2016)
Pro Kabaddi League (PKL)	Kabaddi	8	4 (2013–16)
Women's Kabaddi Challenge (WKC)	Kabaddi	3	1 (2016)
Hockey India League (HIL)	Hockey	6	4 (2013–16)
Pro Wrestling League (PWL)	Wrestling	6	1 (December 2015)
Premier Badminton League (PBL)	Badminton	6	2 (2013 and 2016)
International Premier Tennis League (IPTL)	Tennis	5	2 (2014–15)

Source: The Business of Sports, KPMG in India, September 2016

Successful editions of such sports have resulted in more money being invested by marketers, invariably increasing sponsorship money at an exponential rate.²¹

5. Increase in sponsorships

For many brands today, live events form a significant portion of the marketing mix, with 25–30 per cent of the advertising budget earmarked for sponsoring/creating live events.²⁴

The growing popularity of live events (especially IPs), rising footfalls and increasing event outreach are attracting sponsors from across industries. Marketers are not only making significant investments but are also changing the traditional rules of the sponsorship game.

Strategy and creativity are the cornerstones of the new era of experiential marketing. The contemporary campaigns are driven by the 360-degree experience culture that the audience demand now.²¹ A distinct experiential marketing experience allows consumers to easily identify, sample, touch, feel, purchase and recall products or services, which translates into a long-lasting brand–client relationship.²³

Major sectors that showed increased sponsorship budgets in 2016 were automobile, digital payment systems, mobile handsets companies and banking.²⁰ On the sports front, sponsorship in cricket increased approximately 12 per cent in 2016 over 2015, on a base of about INR40,000–50,000 million. In other sports, such as kabaddi, hockey, badminton and football, sponsorship grew nearly 100–150 per cent in 2016 over 2015, on a comparatively smaller base of INR1,000–1,250 million.²⁴

Live events sponsorship has been dominated by sectors such as automobile, digital wallets, telecommunication hardware and banking. These sectors are expected to drive the industry at least for the next three years.

Vinit Karnik

Business Head - Entertainment,
Sports & Live Events
GroupM



20. Fashionista India exhibitions, <http://www.fashionistaindia.com/about.html>, accessed on 26 February 2017

21. Industry discussions conducted by KPMG in India

22. Premier Futsal Season 2 - talks on with Kaka and Beckham, Sportskeeda, <https://www.sportskeeda.com/football/premier-futsal-season-2-talks-kaka-beckham>, accessed on 28 January 2017

23. Entire Marketing Scenario in India Today is Founded on 'Experiential' – Nazneen Karimi, Percept ICE, Eventfaqs.com, <http://www.eventfaqs.com/news/ef-12983/entire-marketing-scenario-in-india-today-is-founded-on-%E2%80%9Bexperiential%E2%80%99-nazneen-karimi-percept-ice>, accessed on 22 January 2017

24. Industry discussions conducted by KPMG in India

6. Socio-economic factors

In the current population of India, with a median age of 27.6 in 2016²⁵, there is colossal demand for newer experiences. Today, more people are attending galas, gigs, events and live shows to celebrate and get entertained. For the industry, this presents a great opportunity to create value for customers and build a lasting relationship by creating sustainable IPs, enhancing connections and experiences.²⁶

With the consumer spending capacity increasing significantly²⁷, industry players could only be assured that the expenditure undertaken by an average Indian consumer on various sources of entertainment would further increase.²³

Collaborations and consolidations

Industry experts have revealed that the process of consolidation of the many fragments of the industry has started. With many players in this space lacking in-house expertise or the scale to organise extravagant events, collaborations have become a common trend to meet the otherwise unrealistic expectations of the contemporary audience.²⁸

A prime example of collaborative efforts put in by multiple organisations is the Indian Convention of Wedding Fraternity (ICWF). ICWF presents a forum where pioneers, leaders, mature players, and fresh entrants get together to discuss, strategise and build a framework that can act as a blueprint for future transformations.

ICWF culminated in Jaipur in August 2016, with the felicitation ceremony popularly called Great Indian Wedding Awards (GIWA), which featured Swarovski as the trophy partner. Other partners and sponsors at ICWF included Rixos Hotels, EMF, EY, Kurl-on, Gulmohar by Taluka's, Taluka Tent Decorators, Camas, Event and Entertainment Management Association (EEMA) and Everything Experiential.³⁰



Case in point: Make in India week^{31,32}

'Make in India' week is an ideal example of the collaboration required to execute a large scale event. The initiative is said to fuel economic growth in 25 sectors, with the Maharashtra Government planning to attract investments of INR4,000 billion during the 'Make in India' week.

The week saw 55 events and participation from 49 nations, 17 states, business delegations from over 60 countries, over 200 exhibitors, and close to 40 seminars and parallel discussions being held. Never before an event of this size and magnitude has been conceptualised by a collaboration between the private and government sectors.

About INR1000 million is said to have been spent jointly by the centre and the state government on media blitzkrieg and event management during the 'Make In India' week, and all preparations were managed in a meagre three-month lead time to the event.

The landmark event kicked off on 13 February 2016 and saw its closure on 18 February 2016. The 'Make in India' exhibition was held at MMRDA Grounds, Mumbai and showcased exhibitions of some of the most innovative products and manufacturing processes across 11 sectors and several states. Major players of the industry, such as Wizcraft, Showtime, Dynamix Media, Star Dimension and One Films, partnered and managed various activities at the event. The inaugural ceremony and dinners and gatherings were organised by one company, while the audio-visuals solutions and other displays were executed by the other, assisted by a third-party, which provided electricity and other necessary infrastructure. At the same time, the execution of lion installation and other signage were taken care of by a different company.

23. Entire Marketing Scenario in India Today is Founded on 'Experiential' - Nazneen Karimi, Percept ICE, Eventfaqs.com, <http://www.eventfaqs.com/news/ef-12983/entire-marketing-scenario-in-india-today-is-founded-on-%E2%80%98experiential%E2%80%99-nazneen-karimi-percept-ice>, accessed on 22 January 2017
24. Industry discussions conducted by KPMG in India
25. Median age of the population in selected countries in 2016* (in years), Statista, <https://www.statista.com/statistics/264727/median-age-of-the-population-in-selected-countries/>, accessed on 23 January 2017
26. When brands take to live entertainment to bond with customers to make for a right fit, The Financial Express, <http://www.financialexpress.com/industry/when-brands-take-to-live-entertainment-to-bond-with-customers-to-make-for-a-right-fit/510848/>, accessed on 25 January 2017
27. India Consumer Spending, Trading Economics, <http://www.tradingeconomics.com/india/consumer-spending>, accessed on 27 January 2017
28. Industry discussions conducted by KPMG in India
29. About us, International Convention of the Wedding Fraternity, <http://www.icwf.net/about.php>, accessed on 27 January 2017
30. ICWF 2016 Comes to a Close with The GIWA Awards with Winners in 27 categories, Eventfaqs.com, <http://www.eventfaqs.com/news/ef-12657/icwf-2016-comes-to-a-close-with-the-giwa-awards-with-winners-in-27-categories>, accessed on 27 January 2017
31. Wizcraft Gets Very Busy Ahead of Make In India Week; Wiz Viraf Shares Details, Eventfaqs.com, <http://www.eventfaqs.com/news/ef-11765/wizcraft-gets-very-busy-ahead-of-make-in-india-week-wiz-viraf-shares-details>, accessed on 24 January 2017
32. Make in India week: Who's doing what?, Eventfaqs.com, <http://www.eventfaqs.com/news/ef-11767/make-in-india-week-whos-doing-what?>, accessed on 23 January 2017



A temporary disruption

Demonetisation

The announcement of demonetisation led to a sudden cash shortage, which affected the LE industry adversely, as the cash component involved is significantly higher. As a result, some events scheduled towards the end of 2016 were cancelled or postponed.

Although, today, most of the ticket sales are cashless and taking place online, such is not the case with F&B sales at the events. The F&B sales were temporarily impacted by at least 15–20 per cent due to liquidity crisis, and increased downtime of servers of digital payment wallets due to increased online traffic for cashless transactions.³³

However, with the government encouraging use of digital platforms and customers and merchants gradually accepting the digital payment mechanism, adverse effects of demonetisation eased by January 2017.

Case in point:

A few events that got cancelled or postponed were:

1. GoBazinga Momo Festival³⁰

All set to be taking place on 26–27 November 2016, the festival was postponed to 17–18 December 2016. The participating restaurants at the festival had little cash to go ahead with the festival or pay their manpower and the digital wallet servers were crashing beyond measure with multiple transactions taking place at the same time.

2. Delhi Cookout World Barbecue Festival³⁰

The organisers of the event, Trifecta Entertainment, decided to postpone the event from 9–11 December 2016 to 3–5 February 2017. The organisers claimed that the sentiment of the people had been impacted adversely due to demonetisation and that people were dealing with the sudden decrease in liquidity. Sponsors were also shaky as they looked for more clarity and a sense of certainty.

Other festivals, such as NDMC Palate Fest and Gourmet High Street, too felt the blow whereas some founders of certain prominent culture events — for example Comic Con India — went ahead with the festival dates unchanged with a lot of changes to the original event.³⁰



30. ICWF 2016 Comes to a Close with The GIWA Awards with Winners in 27 categories, Eventfaqs.com, <http://www.eventfaqs.com/news/ef-12657/icwf-2016-comes-to-a-close-with-the-giwa-awards-with-winners-in-27-categories>, accessed on 27 January 2017

31. Wizcraft Gets Very Busy Ahead of Make In India Week; Wiz Viraf Shares Details, Eventfaqs.com, <http://www.eventfaqs.com/news/ef-11765/wizcraft-gets-very-busy-ahead-of-make-in-india-week-wiz-viraf-shares-details>, accessed on 24 January 2017

32. Make in India week: Who's doing what?, Eventfaqs.com, <http://www.eventfaqs.com/news/ef-11767/make-in-india-week-whos-doing-what?>, accessed on 23 January 2017

33. Industry discussions conducted by KPMG in India

Goods and Services Tax (GST)

GST, which is generally described as 'one tax for one nation', would subsume all existing indirect taxes such as excise duty, service tax, CVD, VAT, entertainment tax at state level and entry tax. GST is expected to be levied and collected on value additions at each stage of supply of goods and services at the national level.

Under the current tax regime, event organising companies receiving sponsorship service are liable to pay service tax on reverse charge basis and, accordingly, are required to reverse the CENVAT credit due to revenue from sponsorship service since the same is excluded from definition of output service. Under the GST regime, central and state government, on recommendation of the GST Council has been entrusted with the power to specify categories of supply of goods and/or services on which this tax is payable on reverse charge basis and the tax thereon shall be paid by the recipient of such goods and/or services. Hence, detailed rules and notifications in this respect are expected to be released which would help determine the taxability under reverse charge mechanism in case of sponsorship service.

Currently, taxes (in totality) range anywhere between 25 per cent and 45 per cent, primarily because every state has a different rate of entertainment tax.³³ However, as has been discussed under the GST section of the report, under the GST regime, tax rates would have four slab rates (5 per cent, 12 per cent, 18 per cent and 28 per cent) and state level entertainment taxes will be subsumed. However, it is pertinent to note that only state level entertainment tax will be subsumed and the local levy of entertainment tax shall continue to remain applicable.

Further, service tax exemption has been provided in respect of certain events where the consideration for admission to such events does not exceed INR500. Such exemption is in view of entertainment tax levied on such events. However, under the GST regime, state level entertainment tax will be subsumed and hence it is likely that such exemption may not continue and the entire value of consideration would be subject to GST and hence no reversal of CENVAT credit on inputs and input services may be required.

While the introduction of the GST may show the inevitable teething problems of any newly introduced system, it could start showing positive results for the industry in the coming one–two years.



Demonetisation has caused some disruption in the LE industry but the impact is only short-term. Similarly, GST would have teething problems but would start showing positive results in one - two years, with the introduction of GST, companies will start getting tax credits. Currently, entertainment tax is high in states such as Maharashtra and Karnataka. This is also expected to rationalise.



Sabbas Joseph

Director

Wizcraft International
Entertainment Private Limited



33. Industry discussions conducted by KPMG in India

34. Demonetization Woes: Ticketed & Consumer Event Planners Narrate Their Predicament, Eventfaqs.com, <http://www.eventfaqs.com/news/ef-13197/demonetization-woes-ticketed-consumer-event-planners-narrate-their-predicament>, accessed on 27 January 2017

35. About GST in India, GstIndia.com, <http://www.gstindia.com/about/>, accessed on 30 January 2017



Digitisation

Digitisation has led to a complete transformation of the live events industry. Earlier, companies primarily focussed on executing a spectacular live show, and event coverage via print and other media. But now, there is an increased demand from customers for live minute-by-minute update through various social media and Over the Top (OTT) platforms, such as Facebook, Twitter, Instagram, Snapchat, Voot and Hotstar. All events now require aggregation across various digital platforms and immediate turnaround to involve more people. The contemporary audience are extremely impatient and demand prompt updates with accuracy.³⁶

Ticketing

The e-ticketing platforms, such as Bookmyshow.com and insider.in, have witnessed a boost in ticket sales

because of the user convenience they offer. This has also significantly reduced, if not eliminated, over the counter ticket sales.³⁶

Engagement

Digital apps, social media marketing, e-mails and a responsive website can communicate a brand's message effectively and give its audience a sneak preview of things to come, thereby driving awareness, interest and desire. Hashtags distinct to an event can create recall and help to trend the activity, thereby expanding the reach and engagement far beyond the limited on-ground area of activation.³⁷

The following table illustrates the social media outreach of certain marquee events:

Event	Genre	Facebook likes	Instagram followers	Twitter followers
IIFA Awards	Film	4,371,785	280,327	163,451
Sunburn	Music	2,029,554	279,000	1,154,762
Vh1 Supersonic	Music	1,095,388	59,700	266,078
Pro Kabaddi League	Sports	917,949	6,078	112,166
Comic Con India	Fiction	649,942	11,085	20,600
Global Citizen Festival	Music	520,962	16,492	71,230
Bacardi NH7 Weekender	Music	468,676	10,262	402,826
Mahindra Blues	Music	196,308	1,377	3,102
Beauty and the Beast	Musical	54,350	-	605
ET Global Business Summit	Business	47,713	-	7,104

Source: KPMG in India analysis, 2017

36. Industry discussions conducted by KPMG in India

37. Entire Marketing Scenario in India Today is Founded on 'Experiential' – Nazneen Karimi, Percept ICE, Eventfaqs.com, <http://www.eventfaqs.com/news/ef-12983/entire-marketing-scenario-in-india-today-is-founded-on-%E2%80%98experiential%E2%80%99-nazneen-karimi-percept-ice>, accessed on 22 January 2017

Broadcasting and live streaming

A live event's outreach can easily be increased multifold by partnering with streaming and broadcasting agencies. Viacom18 entered into a strategic partnership with the Global Citizen Festival (GCF) to strengthen public awareness campaign in India on quality education, gender equality, clean water and sanitation. Under this deal, the GCF was telecast live exclusively on VH1 and streamed live, exclusively on Voot. It was also aired on Colors in December, while Colors Infinity and MTV showcased content around the festival.³⁸

Case in point:

1. Bacardi NH7 Weekender 2016³⁹

OML's Bacardi NH7 Weekender 2016 saw digital platforms being optimally leveraged. Official Bacardi NH7 Weekender mobile application was launched to keep fans updated with all the information they needed, including the schedule, FAQs, emergency information and more. This edition also witnessed a symbolic partnership between Channel V and Bacardi NH7 weekender for the first time. Channel V got the perfect market to gain presence while NH7 got coverage on Channel V. Hotstar set up Wi-Fi zones at the festival for fans to use. For today's generation that loves to constantly update their social media profiles, these Wi-fi zones provided the perfect platform to be able to post live updates from event.

2. Sunburn 2016⁴⁰

Percept's flagship property, Sunburn, in its new dwelling in the serene hills of Pune, saw digitisation solving not just the need for the audiences to be connected on social media at all times, but also conveyance troubles. The Ola select lounge provided fans with a facility to pre-book their cabs and shuttles. Airtel made sure that the fans were connected to the internet at all times by installing two towers in the region that supported 4G. The ITC Virtual Reality zone gave the fans an opportunity to get up close and personal with their favourite artistes and a 360-degree view of the festival using Google glasses.

The venue was fully equipped with a high-speed network connection required for live streaming and security systems to function without any hassles. Nearly 400 metres of fibre cables were laid down across the venue with a dedicated 300Mbps speed of data uplink and downlink. Right from the action on-stage to candid moments with the artistes and fan reactions, the entire event was streamed live on Facebook and received a phenomenal response. The engagement on Facebook had 69 million impressions and 8.5 million views on the live stream.



38. Viacom18 partners with Global Citizen Festival to reinforce public awareness campaign, Best Media Info, <http://www.bestmediainfo.com/2016/11/viacom18-partners-with-global-citizen-festival-to-reinforce-public-awareness-campaign/>, accessed on 30 January 2017

39. The bigger picture of Bacardi NH7 Weekender 2016, Radioandmusic.com, <http://www.radioandmusic.com/entertainment/editorial/news/161208-bigger-picture-bacardi%3%AD-nh7-weekender-2016>, accessed on 31 January 2017

40. Sunburn 10 Generates INR 250 Cr. Business for Pune Economy Reveals Percept, Eventfaqs.com, <http://www.eventfaqs.com/news/ef-13292/sunburn-10-generates-inr-250-cr-business-for-pune-economy-reveals-percept>, accessed on 31 January 2017



Key challenges that continue to impede the industry's growth, silver linings and industry's expectations

1. Venues

India does not have enough venues to maintain the scale and speed of growth of the LE industry. Only modern infrastructure that was built in the last few years is capable of successfully executing contemporary ideas in this space.

Expectation — The contemporary events that are being put up by various organisations require infrastructure of the highest quality. For this, it is crucial that central and state governments invest in building infrastructure suitable for the needs of the industry, and that the policies related to the use of existing infrastructure are relaxed.³³

Our first stage musical – Beauty and the Beast, launched a couple of years back, mesmerised families with astounding local talent, stunning sets and breathtaking performances, making it a must watch in Mumbai and Delhi. We would be keen on taking the experience to other cities within India, but due to lack of infrastructure in tier II and III cities, we are left with limited options.

Vikrant Pawar
Head, Live Entertainment
Disney India



Some industry experts claim that existing infrastructure is not being properly utilised. Sports stadia, such as Jawahar Lal Nehru Stadium in Delhi, which was revamped for the Commonwealth Games of 2010, are not properly monetised. Globally, stadia are one of the most used venues for live events. However, in India, they are not utilised effectively.

Silver lining — Amidst this, the LE industry has constantly been working towards persuading the various state authorities for less restrictions on venues. A few state governments have started being more cooperative and welcoming to events in their states. Furthermore, private infrastructure, such as Reliance Jio Garden, Mumbai and Dome, and the National Sports Club of India, Mumbai, have helped the LE industry by hosting some of the marquee events of 2016.



33. Industry discussions conducted by KPMG in India

2. Compliances and permissions

Another issue that has been impeding the growth of this industry is the number of licences required from fire department, municipality, police and other authorities to conduct events. Anywhere between six and sixteen approvals/licences are required to organise an event.⁴²

A non-exhaustive list of licences required to hold an event is illustrated below⁴³:

Licence/approval	Description
Phonographic Performance Limited (PPL)	Allows public performance, display of recorded music or videos
Loudspeaker licence	Required for loudspeakers and obtained from the local police authorities
Performance licence	Any event that features a child artiste below the age of 18 requires this licence
Excise licence	Required to keep alcohol at the event
No Objection Certificate (NOC)	A non-ticketed or invite-based event needs to obtain a NOC from the collector
Commercial tax licence	Required for any ticket-based event

Additionally, there have been instances in the recent past where officers have denied permissions at the last minute, leading to cancellation and postponement of events and severe losses to the organisers. Many big names have seen their shows getting cancelled in India. In January 2017, the concert of Grammy award winning DJ, David Guetta, got cancelled in Bengaluru and delayed in Mumbai. In 2015, the show of Golden Globe winning stand-up comedian, Jerry Seinfeld got cancelled due to issues related to traffic and parking. The American metal band, Korn, withdrew its event in 2012 due to safety concerns. In 2011, event of an American pop star, Akon was called off since the organisers did not have the necessary foreign artiste performing licence.⁴⁴

Silver lining — The governments of Delhi and Maharashtra have started implementing the single-window clearance mechanism for events in their respective states. Other metro cities are expected to follow suit.

Maharashtra’s state tourism minister Jaykumar Rawal claims that his department is in the process of creating an ‘immediate and hassle-free single-window clearance mechanism’ for live events that can reduce delays, limit licences, and ease the multi-layered administrative process that currently exists.⁴⁴

Expectation — There have been many instances where certain internationally acclaimed artistes have not been able to perform in India due to red tapism that exists because of bureaucracy. If the policy framework is rationalised into a single window, eliminating the need to go to varied departments for approvals, can bolster the growth of the LE industry.



42. Live and big-Ticket, The Hindu Business Line, <http://www.thehindubusinessline.com/blink/work/live-and-bigticket/article7637593.ece>, accessed on 25 January 2017

43. Organizing a concert – Permits, Licenses and Tax, Explara Ticketing University, <http://www.explara.com/ticketing-university/organizing-concerts-permitslicensetax/>, accessed on 25 January 2017

44. Single-window clearance for live events soon: Minister, The Times of India, <http://timesofindia.indiatimes.com/city/mumbai/single-window-clearance-for-live-events-soon-minister/articleshow/56978792.cms>, accessed on 05 February 2017



3. Skilled labour and formal education

The M&E industry currently employs 0.6 million as in 2016 and is expected to reach 1.3 million by 2022 translating into 0.7 million additional employment opportunities during period 2016–22.⁴⁵ Owing to high dependency on human resources, the industry is expected to have a strong correlation between employment growth and output value.

There is a shortage of skilled manpower in the LE industry. The pace at which this space is growing could only make this challenge look graver in the coming years. There are no traces of content of this field in any of the formal courses in India.

Silver lining — Media & Entertainment Skills Council (MESC) has been set up under the National Skills Development Mission, Government of India, under the aegis of the National Skills Development Corporation (NSDC) and promoted by FICCI. MESC (FICCI) has a mandate to create 1.2 million skilled workforce by 2022 and contribute to the National Skill Mission of creating 500 million skilled workforce by 2022.⁴⁵ MESC would ensure the generation of adequately skilled workforce, which is industry-ready and employable.

FICCI, being an industry association, has taken the initiative of incubating the sector skill council in Media & Entertainment. FICCI seeks to address key challenges, such as unavailability of skilled force and employable resources, absence of standards, absence of infrastructure support and existence of unorganised manpower in the Media & Entertainment sector, through MESC.

Further, a few industry players have taken the matter seriously by taking a step towards formal education. EEMA is looking towards organising training workshops, boot camps and recruitment drives in colleges. It also intends to go to premier schools of the country to educate them about the immense potential that this space possesses. Job fairs are also in the pipeline. Finally, EEMA is also looking forward to creating programmes to enhance the skills of the talented people in the shortest time possible so that they are ready to make their mark in the industry.⁴⁶

Expectation — With the first step taken by the Media & Entertainment Skills Council (MESC) under the National Skills Development Mission, industry experts expect the government to take major initiatives towards this issue. It is ultimately the government that can implement education in this space pan India.



45. M&E industry employs 0.6 million as in 2016: Human resource and skill requirements in the Media and Entertainment sector report, KPMG in India, February 2014

46. "It's the Beginning of a New Event Industry" — Sabbas Joseph-President, EEMA, Eventfaqs.com, <http://www.eventfaqs.com/news/ef-12622/%E2%80%9C%E2%80%99s-the-beginning-of-a-new-event-industry%E2%80%9D-%E2%80%94-sabbas-joseph-president-eema>, accessed on 02 February 2017

2017: Looking a bit hazy, yet bright

The industry was unsettled by the unexpected high-currency note ban and the dust had not settled by the end of 2016. Even before equilibrium restores in the LE space, the advent of the GST is expected to disturb the balance yet again. There is still a dearth of venue infrastructure which needs a good few years to develop if acted upon with immediate effect. The challenge of lack of skilled manpower in the industry is being assessed by various private organisations, with initiatives towards skill development by these bodies are yet to reap benefits. The need to go through multiple departments to get licences has been a major roadblock to the LE industry's growth. A single-window clearance mechanism has been introduced in Delhi and Maharashtra, and the industry expects more and more states to follow suit in time as it has been proved time and again that live events have a multiplier effect and indirectly contribute to local economies. The precarious nature of the impediments discussed, has been acting as a major challenge for the LE industry.

On the brighter side, 2016 saw an increase in IP events by almost 100 per cent and government events increased nearly five-fold.⁴⁹ The ability and willingness of audience to spend on different sources of entertainment has increased and they are willing to pay a premium for one of a kind experiences. Food and comedy events are expected to be the driving force of the industry going into 2017.⁴⁹ As far as pricing is concerned, it is expected to remain dynamic and aggressive since great experiences that a majority of players have been offering, command a premium. With a majority of India's population residing in tier-II and -III cities and rural areas, these regions have already started being the focal point of efforts of a significant number of players in the industry.⁴⁹ Some of these markets were tapped in 2016 by various sports initiatives, such as the Pro Kabaddi League and Indian Super League. Interestingly, the increased spends of several governments on events to propagate the multitude of initiatives launched in the recent years, is also expected to sustain in 2017.⁴⁹

India has been the centre of attraction for a lot of international properties as well. Notable music IPs such as The Global Citizen Festival, Electric Daisy Carnival, Sensation and Don't Let Daddy Know, are just a few of the IPs that debuted in India and received an extremely

Comedy and food festivals will increasingly contribute to the live events business in 2017. Tier II and III cities will also see more live events being organised.

Ajay Nair

Director

Only Much Louder (OML)



positive response. These are expected to be back with better offerings for the audience in 2017.

Lastly, there is little doubt that live events enable tourism.⁴⁹ Sunburn 2016 epitomises this claim. Being held in Pune for the first time instead of its usual venue in Goa, the event generated INR2,500 million for the Pune economy through hotel, F&B, transport and other miscellaneous sectors.⁵⁰ At the same time, hotel prices in Goa declined. Other events that have shown impeccable promise to give tourism a boost are Taj Balloon Festival held in Agra, Jaipur Literature Festival in Jaipur, Worli Festival held at Worli Sea Face Promenade and Mahalaxmi Race Course in Mumbai.⁴⁸

Various destination based events have come up such as Bacardi NH7 Weekender Shillong, Jaipur literature festival, among others. Live events play an important role in driving tourism and are an investment as they generate economic activity for local communities.

Ajay Nair

Director

Only Much Louder (OML)



47. Wizcraft MIME Launches Specialised Courses in Event Management, Eventfaqs.com, <http://www.eventfaqs.com/news/ef-13106/wizcraft-mime-launches-specialised-courses-in-event-management>, accessed on 21 January 2017

48. 3 cutting edge executive certificate programmes in, Wizcraft International Entertainment Private Limited, http://www.wizcraftworld.com/wizcraft_mime.php, accessed on 21 January 2017

49. Industry discussions conducted by KPMG in India

50. Sunburn 10 Generates INR 250 Cr. Business for Pune Economy Reveals Percept, Eventfaqs.com, <http://www.eventfaqs.com/news/ef-13292/sunburn-10-generates-inr-250-cr-business-for-pune-economy-reveals-percept>, accessed on 22 January 2017



Despite the many obstacles, the LE industry has shown a lot of potential and promise. Industry experts that were interviewed are unanimous in their view that cooperation from several state authorities across the country is important to address the lack of infrastructure and venues and overcome the need for excessive permissions. They are also of the view that recognition from the central government in tackling the existing challenges related to formal education, skilled labour and high rates of taxation is of utmost significance to help the LE industry realise its full potential. Until then, the steps taken to address the various challenges and significant growth experienced in this space point to a greater confidence in 2017 and beyond.





Media for the masses: The promise unfolds
Live Events - The show does go on...

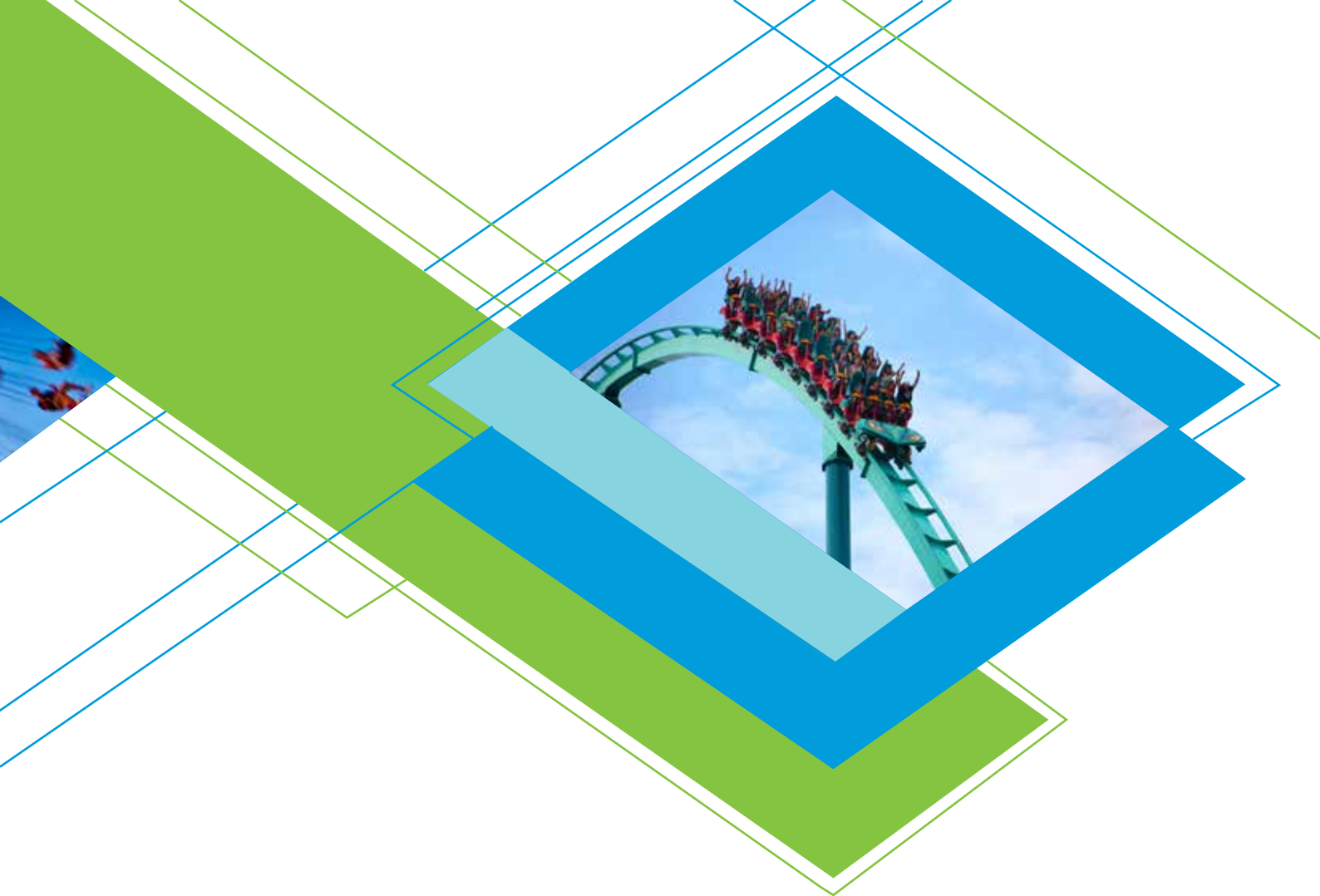




Theme parks

On a roller coaster





The Indian theme park industry grew at 10.25 per cent in 2016 to reach INR29.3 billion¹ as compared to INR26.6 billion in 2015¹. However, the industry is currently at a nascent stage when compared globally as the global theme park market currently stands at INR2.66 trillion². Theme parks in India are realising the importance of international standards such as holistic experience, hygiene, safety amongst others. This introspection coupled with economic growth, increase in investment and greater spending on leisure activities by consumers, is expected to take the industry to INR69.8 billion by 2021, at a CAGR of 19.1 per cent³.

Global theme parks overview

Theme parks have become an important contributor to the leisure and entertainment industry worldwide. In general, amusement parks and theme parks are used interchangeably, however, theme parks are distinct in their offerings which are structured around a particular theme or story. The offerings can be divided into two components: The core component including varied rides and ancillary components including retail stores, restaurants, hotels, wax museums, media houses, etc. aimed at providing a holistic experience to the visitors and complement the revenues of the park.



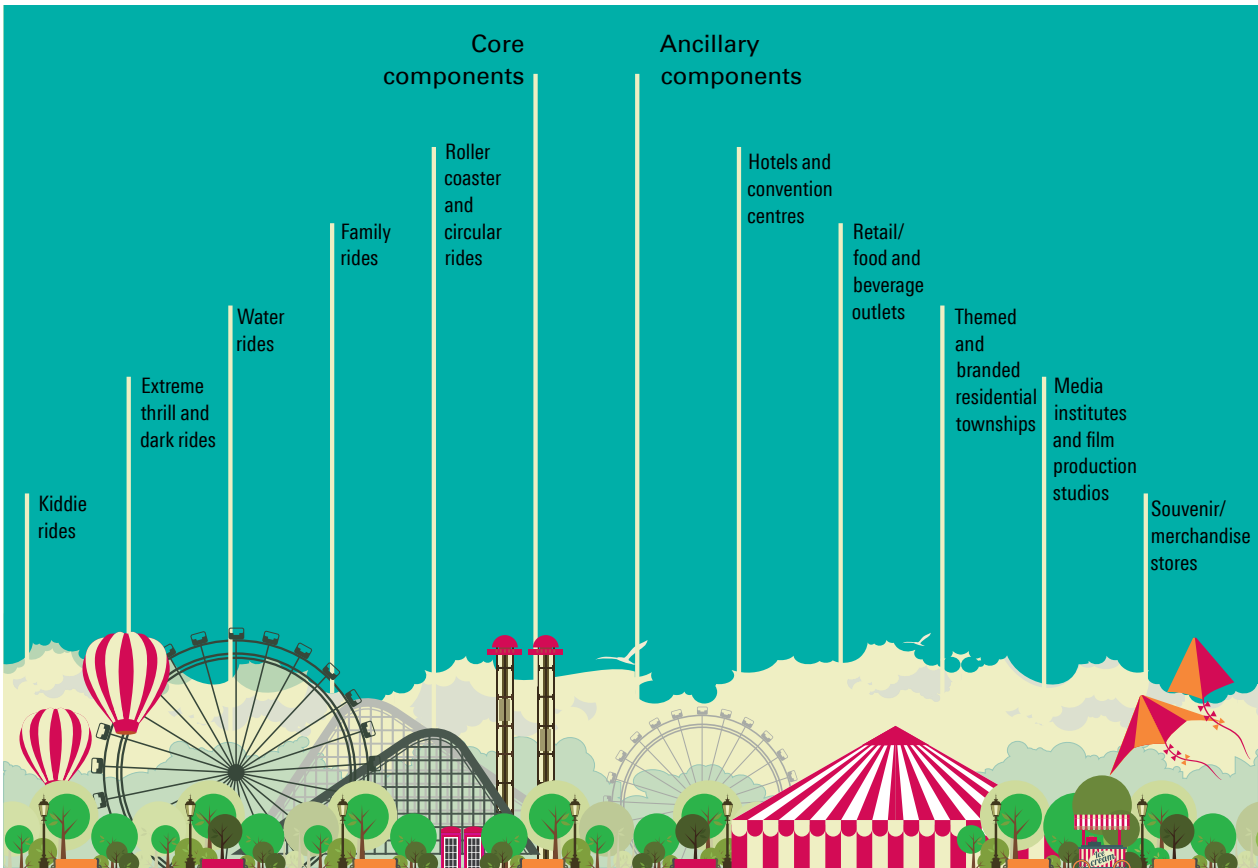
01. IBEF Indian Entertainment Industry Report published by IBEF in December 2016, accessed on 10 February 2017, KPMG in India's analysis, 2017

02. IAAPA Global Theme and Amusement Park Outlook 2016-2020, published by Wilkofsky Gruen Associates in 2016, accessed on 1 February 2017, KPMG in India's analysis, 2017

03. India Amusement Parks – Opportunities Galore published by Anand Rathi in December 2015, accessed on 10 February 2017, KPMG in India's analysis, 2017



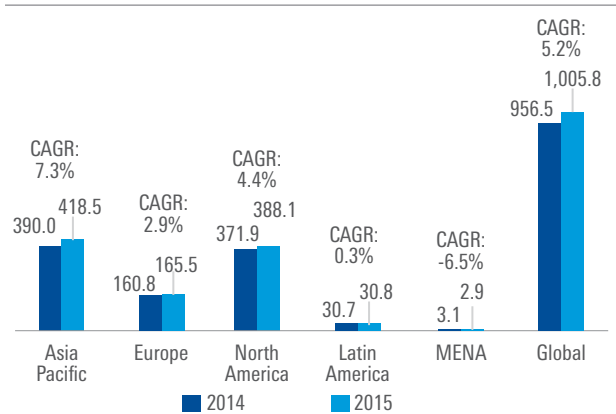
Theme Park Concept



The theme park industry has witnessed a steady growth across several regions of the world propelled primarily by rising attendance with Asia-Pacific registering the fastest growth in attendance. Global theme park spending is expected to touch INR3.86 trillion by 2020 from INR2.66 trillion in 2015, registering a CAGR of 7.5 per cent.⁴

North America remains the largest geographic market attracting 47 per cent share in the global footfall in 2015, followed closely by the Asia-Pacific region capturing 42 per cent of global footfall⁴. While, the growth in the Middle East and North African region has contracted gradually, the opening of new parks in Dubai and Abu Dhabi such as Six Flags and theme parks by 20th Century Fox and Warner Bros. is expected to provide a fillip to the industry in this region.

Share of global theme park attendance by region in million: 2015



Source: IAAPA Global Theme and Amusement Park Outlook 2016-2020, published by Wilkofsky Gruen Associates in 2016, accessed on 1 February 2017, KPMG in India's analysis, 2017

04. IAAPA Global Theme and Amusement Park Outlook 2016-2020, published by Wilkofsky Gruen Associates in 2016, accessed on 1 February 2017, KPMG in India's analysis, 2017

Top 25 theme parks globally by attendance

Sr. no.	Park	Location	Theme	Attendance in 2015 (mn)	Attendance in 2014 (mn)	% Change
1.	Magic Kingdom	Walt Disney World, FL, U.S.	Thrill and adventure/fun and learning/ lifestyle and film	20.49	19.33	6.0 %
2.	Disneyland	Anaheim, C.A., U.S.	Thrill and adventure/fun and learning/ lifestyle and film	18.27	16.76	9.0%
3.	Tokyo Disneyland	Tokyo, Japan	Thrill and adventure/fun and learning/ lifestyle and film	16.60	17.30	-4.0%
4.	Universal Studios	Osaka, Japan	Thrill and adventure/ film and lifestyle	13.90	11.80	17.8%
5.	Tokyo Disney Sea	Tokyo, Japan	Thrill and adventure	13.60	14.10	-3.5%
6.	Epcot	Walt Disney World, FL, U.S.	Fiction and fantasy/ fun and learning	11.79	11.45	3.0%
7.	Disney's Animal Kingdom	Walt Disney World, FL, U.S.	Environment and nature	10.92	10.40	5.0%
8.	Disney's Hollywood Studio	Walt Disney World, FL, U.S.	Thrill and adventure/ film and lifestyle	10.82	10.31	5.0%
9.	Disneyland Park	Marne-le-Vallee, France	Thrill and adventure	10.36	9.94	4.2%
10.	Universal Studios	Universal Orlando, F.L., U.S.	Thrill and adventure/ film and lifestyle	9.58	8.26	16.0%
11.	Disney's CA Adventure	Anaheim, CA, U.S.	Thrill and adventure	9.38	8.76	7.0%
12.	Islands of Adventure	Universal Orlando, F.L., U.S.	Thrill and adventure	8.79	8.14	8.0%
13.	Chimelong Ocean Kingdom	Hengqin, China	Environment and nature/ adventure	7.48	5.50	36%
14.	Everland	Gyeonggi-Do, South Korea	Thrill and adventure	7.42	7.38	0.6%
15.	Ocean Park	Hong Kong SAR	Thrill and adventure /environment and nature	7.38	7.79	-5.2%
16.	Lotte World	Seoul, South Korea	Thrill and adventure	7.31	7.60	-3.9%
17.	Hangzhou Songcheng Park	Hangzhou, China	Fun and learning	7.28	5.81	25.5%
18.	Universal Studios Hollywood	California, U.S.	Thrill and adventure/ film and lifestyle	7.09	6.82	4.0%
19.	Hong Kong Disneyland	Hong Kong SAR	Thrill and adventure	6.80	7.50	-9.3%



Sr. no.	Park	Location	Theme	Attendance in 2015 (mn)	Attendance in 2014 (mn)	% Change
20.	Nagashima Spa Land	Kuwana, Japan	Thrill and Adventure	5.87	5.63	4.3%
21.	Europa-Park	Rust, Germany	Thrill and Adventure	5.50	5.00	10%
22.	Seaworld FL	Florida, U.S.	Environment and Nature	4.77	4.68	2.0%
23.	Tivoli Gardens	Copenhagen, Denmark	Thrill and Adventure	4.73	4.47	5.7%
24.	De Efteling	Netherlands	Thrill and Adventure	4.68	4.40	6.4%
25.	Songcheng Lijiang Romance Park	Lijiang, China	Fun and Learning/ Thrill and Adventure	4.67	1.73	170.4%

Source: The Global Attractions Attendance Report 2015, published by Themed Entertainment Association in 2015, accessed on 1 February 2017, KPMG in India's analysis, 2017

The top 25 theme parks in the world account for over 50 per cent of the global attendance share⁰⁵. From an operator perspective, Disneyland and Universal Studios are the top two theme park groups accounting for 71 per cent of the global attendance share in 2015⁰⁵, however, emerging market theme park operators such as OCT Parks China, Chimelong Group, Songcheng Worldwide amongst others are witnessing significant growth in attendance and are among the top 10 theme park groups worldwide.

11 of the top 25 theme parks globally are in the Asia-Pacific region with eight out of eleven such parks in the developed markets of Asia Pacific such as Japan, South Korea and Hong Kong, however, the top 25 parks also include theme parks from China, which is an emerging market. As of 2015 there were three theme parks based out of China, which are among the top 25 global theme parks. The rise of the Asia-Pacific region and growth of the emerging markets of China and India, shall see more theme parks from China and India entering the top 25 list globally going forward.

Industry segmentation

The global amusement park industry can be segmented into various concepts with thrill and adventure being a major segment being adopted by theme parks globally.

Thrill and adventure: The main attraction at these parks is thrilling roller coaster rides, ferris wheels, water parks, etc and advanced video games and simulations along with other adventurous activities. Six Flags (Mexico, United States) and Adlabs Imagica (Maharashtra, India) are some examples under this category.

Sports: These parks' primary offerings include activities such as rock climbing, rafting, swimming, sports car racing, etc. Ferrari World (Abu Dhabi, United Arab Emirates) is a prominent example.

Fun and learning: The idea of these parks is to provide a blend of entertainment and learning and are based on themes related to art and culture, historical events, science, music and dance. The Epcot Center (Florida, U.S.A.) and Gulliver's Eco Park (Milton Keynes, United Kingdom) are some examples under this category.

Environment and nature: Promoting the idea of wildlife conservation and creating awareness about the environmental challenges facing the world is the central theme of these parks. Major parks under this category include Disney's Animal Kingdom (Florida, United States) and Seaworld (Florida, United States)

Apart from the above mentioned categories, concepts also include Lifestyle and Film-based parks such as Ramoji Film City, Hyderabad, India and fiction/fantasy based parks such as The VOID-Vision of Indefinite Dimensions, United States of America.

⁰⁵ The Global Attractions Attendance Report 2015, published by Themed Entertainment Association in 2015, accessed on 1 February 2017, KPMG in India's analysis, 2017

Global theme park case studies⁶

Theme parks globally have focussed on providing a holistic experience with respect to core and ancillary components which have resulted in growth of footfalls for such parks. Parameters around product offering, pricing and key success factors are discussed here under:

Global theme park case studies

	Disneyland, USA	Universal Studios, Singapore	Atlantis, Dubai
Location	California, U.S.A.	Sentosa, Singapore	Dubai, U.A.E.
Area (in acres)	85	49	113
Launch year	July, 1955	March, 2010	September, 2008
Theme	Thrill & adventure/fun & learning/film & lifestyle	Thrill & adventure/film & lifestyle	Thrill & adventure/environment & nature
Attendance 2015 (mn)	18.27	4.2	1.4
Increase in attendance over 2014	9.0%	9.4%	0.0%
Core components	8 themed zones, 83 rides and attractions	7 themed zones, 21 rides, water park, aquarium, dolphin bay, Lake side fireworks show	Dolphin Bay, Water Park Aquarium, Scuba Diving
Ancillary components	3 hotels, 57 retail shops, 104 restaurants, gaming arcades, fitness centres, spa, 4 pools and poolside cabanas	7 hotels with more than 1,500 rooms (part of Resort world, Sentosa), 3D museum, 30 restaurants and food carts, 20 unique retail stores, casino	1,539 room 5 star resort, 20 restaurants, spa and fitness centre, helicopter tours, yacht and boat cruises, night club
Ticket price	INR4,000 (1 day) to INR23,000 (1 week) approximately	INR1,700 to INR3,500 (1 day)	INR4,000 to INR5,000 (1 day)
Key success factors	Themes built around storytelling and Disney characters, focus on public relations, effective crisis management team, innovative marketing campaigns, adequate media coverage of every event, adoption of new technologies.	Themes built around entertainment such as film production tours, leveraging public interest in film and gaming industry, staged stunts, focus on public safety, adoption of new technologies.	Grand opening with world famous celebrities and sports stars invited from all over the world, state of the art modern slides, international safety standards, adoption of new technologies.

Source: Disneyland, Universal Studios and Atlantis websites accessed on 10 February 2017, KPMG in India's analysis, 2017

06. Disneyland, Universal Studios and Atlantis websites accessed on 10 February 2017, KPMG in India's analysis, 2017



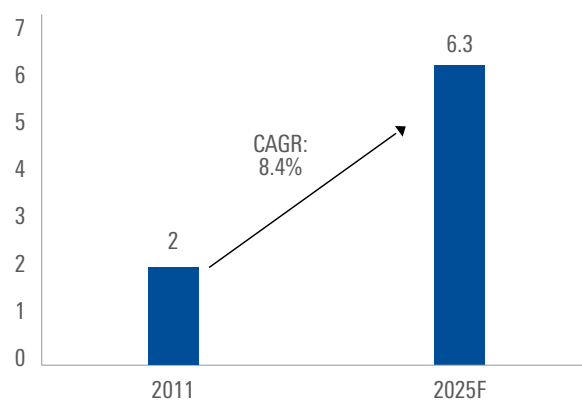
Augmented Reality/Virtual Reality, a key emerging trend globally

Over the years, theme parks have evolved continuously by using sophisticated technology to provide a more immersive experience to its visitors. One of the areas which has attracted significant interest and investment recently, is the use of Virtual Reality (VR) and Augmented Reality (AR). Unlike sit at home VR experiences, theme parks' visitors enter a Virtual Entertainment Centre (VEC) which simulates a virtual environment for people to move around and interact with. For example, Vision of Infinite Dimensions (VOID) park at Salt Lake City in the U.S.A. utilises VR systems which combines physical experiences with specialised equipment like a head mounted display to simulate a wide variety of fantasy environments from popular movies like 'The Matrix' and 'Star Trek' to provide a stimulating experience to its visitors.⁷ Cedar Point theme park in Ohio, U.S.A. has developed a game using augmented reality which allow the visitors to interact with their environment and compete with each other using a smartphone application. The players need to scan the targets spread across the park using their phone and answer trivia questions to earn points and the winner at the end of the day gets a victory pin to highlight their victory.⁸

Indian theme park industry

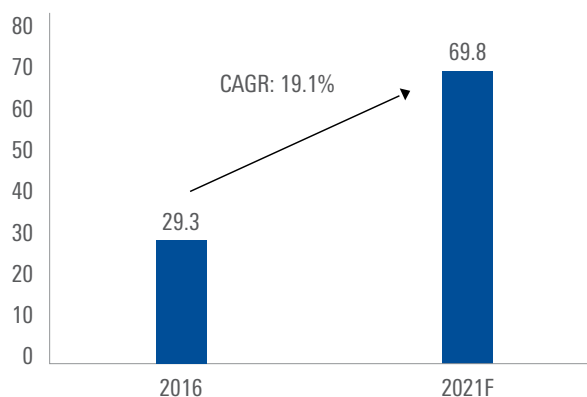
The Indian theme park industry grew at 10.25 per cent in 2016 to reach INR29.3 billion⁹ as compared to INR26.6 billion in 2015¹¹. Backed by robust economic growth, increase in investment and greater spending on leisure activities by consumers¹⁰, the industry is expected to reach INR69.8 billion by 2021, with an annual growth of approximately 19.1 per cent¹¹.

Consumer spending on leisure in India (INR trillion)



Source: India Consumption Story published by Kotak Research, 2012, accessed on 6 March 2017, KPMG in India's analysis, 2017

Projected size of Indian theme park market (INR billion)



Source: IAAPA Global Theme and Amusement Park Outlook 2016-2020, published by Wilkofsky Gruen Associates in 2016, accessed on 1 February 2017, KPMG in India's analysis, 2017

07. KPMG in India's analysis, 2017 based on company website accessed on 10 February 2017

08. AListDaily Website, <http://www.alistdaily.com/media/cedar-point-became-augmented-reality-theme-park/>, accessed on 1 February 2017, KPMG in India's analysis, 2017

09. IBEF Indian Entertainment Industry Report published by IBEF in December 2016, accessed on 10 February 2017, KPMG in India's analysis, 2017

10. India Consumption Story published by Kotak Research, 2012, accessed on 6 March 2017, KPMG in India's analysis, 2017

11. India Amusement Parks – Opportunities Galore published by Anand Rathi in December 2015, accessed on 10 February 2017, KPMG in India's analysis, 2017

In the Indian context, theme parks can be broadly categorised into three segments - large, medium and small parks, based on parameters such as capital expenditure investment required, area covered, annual footfall, etc. In India, only 10-15 per cent of the theme parks fall under the category of large parks catering to approximately 20 per cent of the footfalls.¹²

Categorisation of theme parks in India

Parameter/classification	Large parks	Medium parks	Small parks
Capex (INR million)	>700	300-700	<300
Area covered (acres)	>40	10-40	<10
Average ticket price (INR)	>400	250-400	<250
Footfall (millions)	>0.5	0.3-0.5	<0.3
Location	Metros and outskirts	Outskirts of metros, tier I cities	Tier II cities, small towns, outskirts of metro and tier I cities
Few operators	Essel World, Adlabs Imagica, Mumbai Nicco Park, Kolkata Wonderla, Kochi and Bengaluru	GRS Fantasy Park, Mysuru Ocean Park, Hyderabad	Fun N Food Kingdom, Dehradun
Number of parks	16-18	40-45	85-95



Starting from the inaugural of Appu Ghar in Delhi 1984, India now has over 150 theme parks across different states for its 1.3 billion population¹³, however, park-to-population ratio is quite low in India considering that of the USA, which has about 400 theme parks for a population of 319 million¹².

The top performing theme parks in India have witnessed annual attendance in excess of one million per annum. Rising disposable incomes, focus on safety standards and hygiene, offering holistic experience have driven the growth of the industry. The top 10 theme parks in India can be categorised into large and medium parks, with eight of them coming under large parks category.¹²

12. India Amusement Parks – Opportunities Galore published by Anand Rathi in December 2015, accessed on 10 February 2017, KPMG in India's analysis, 2017

13. Worldometers website, <http://www.worldometers.info/world-population/india-population/> accessed on 6 March 2017



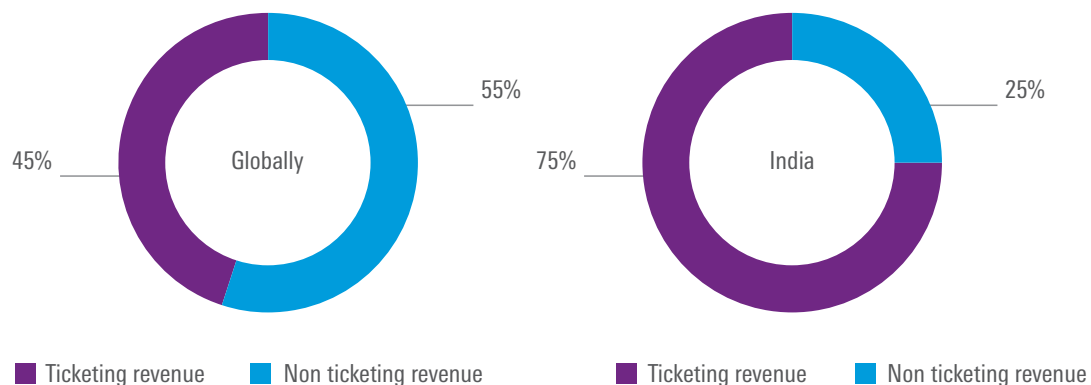
Top 10 theme parks in India

Sr. no.	Name	Location	Area (acres)	Park category by size in acres	Theme	Attendance FY15 (mn)
1	Essel World and Water Kingdom	Mumbai	~90	Large	Thrill and adventure	1.8
2	Nicco Park	Kolkata	~40	Medium	Thrill and adventure/ fun and learning	1.5
3	Ramoji Film City	Hyderabad	~2,000	Large	Film and lifestyle/thrill and adventure	1.5
4	Wonderla	Bengaluru	82	Large	Thrill and adventure	1.25
5	Wonderla	Cochin	~93	Large	Thrill and adventure	1.09
6	Adlabs Imagica and Aquamagica	Mumbai	132	Large	Thrill and adventure	1.06
7	MGM Dizze World	Chennai	45	Large	Thrill and adventure	1
8	Kishkintha	Chennai	120	Large	Thrill and adventure	0.7
9	Adventure Island	Delhi	24	Medium	Thrill and adventure	0.7
10	Black Thunder	Coimbatore	65	Large	Thrill and adventure	0.5

Source: India Amusement Parks – Opportunities Galore published by Anand Rathi in December 2015, accessed on 10 February 2017 KPMG in India's analysis, 2017

Compared to their global counterparts, the top Indian parks are smaller in size and limited in terms of their offerings. The revenue from sale of ticket and admission fee accounts for approximately 75 per cent of the total revenues for the Indian theme parks, as compared to the global average of 45 per cent. This is expected to change in the coming years due to increasing tendency of visitors to spend on food and beverages and merchandise¹⁴.

Revenue split for theme parks in 2015



Source: India Amusement Parks – Opportunities Galore published by Anand Rathi in December 2015, accessed on 10 February 2017 KPMG in India's analysis, 2017

14. India Amusement Parks – Opportunities Galore published by Anand Rathi in December 2015, accessed on 10 February 2017, KPMG in India's analysis, 2017

Overseas theme parks cater to domestic and international tourists due to well-developed infrastructure and last mile connectivity. The Indian theme park industry currently caters to the local population and would need infrastructure development initiatives to cater to the global audience, which shall require more investments in the sector. India is a price sensitive market and ticket prices are going to remain low in the future, therefore, to promote investments, government incentives shall be required in the form of tax holidays and subsidies.

Arun Chittilappily

Managing Director

Wonderla Holidays Private Limited



Snapshot of key Indian theme parks

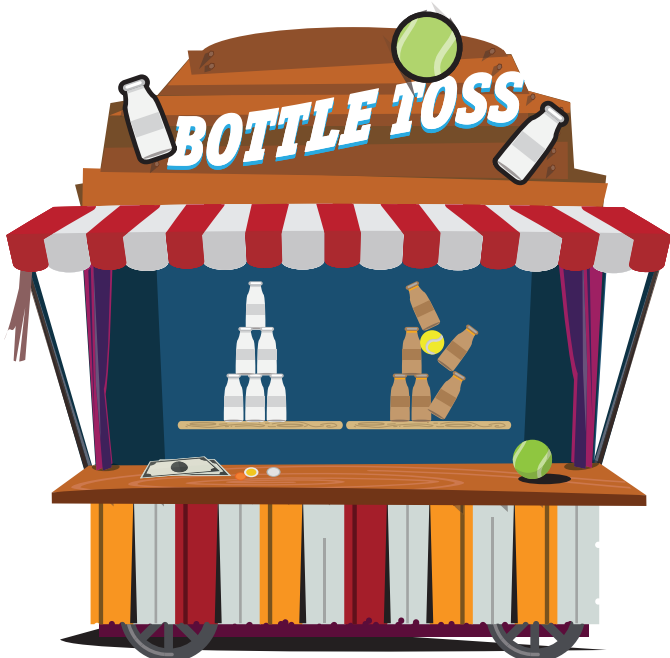
Parameter	Wonderla, Karnataka	Wonderla, Kerala	Adlabs Imagica, Maharashtra
Location	Bengaluru	Kochi	Mumbai
Area (in acres)	82	~93	138
Launch year	October, 2005	When in 2000	April, 2013
Theme	Thrill and adventure	Thrill and adventure	Thrill and adventure
Attendance (in FY2016)	1.18 million	1.05 million	1.55 million
Increase in attendance over 2015	-4.9%	-3.8%	46.2%
Key activities	61 land and water based rides, 'Recoil', India's first reverse looping roller coaster	39 land and 23 water based rides	25 rides at the theme park and 14 at the water park, India's largest roller coaster 'Nitro', snow park
Other activities	84 room luxury resort attached to the park with 4 banquet/conference halls, swimming pool, gym, etc 5 multi cuisine restaurant and 2 fast food outlets	5 restaurants offering different cuisines, 8 multi cuisine eateries	10 restaurants offering different cuisines. Special events and shows
Pricing	INR740 to INR1,840 (weekday), INR920 to INR2,300 (weekend)	INR750 to INR1,700 (weekday), INR850 to INR1,980 (weekend)	INR1,099 to INR2,299 (weekday), INR1,299 to INR2,499 (weekend)
Key success factors	First mover advantage, value-for-money entertainment options, development of in-house rides, safety and hygiene		In house innovation by creating its own characters, marketing theme park as national holiday destination

Source: Wonderla and Adlabs Imagica websites accessed on 10 February 2017, KPMG in India's analysis, 2017



Theme parks in India are realising importance of aspects such as innovation, training, safety, and hygiene, however, theme parks in India have been slow in catching up with their global counterparts in terms of offerings. Thrill and adventure still remain one of the most prominent themes in the Indian theme parks which mostly includes roller coaster rides and water parks. Offerings around themes such as sports, environment and nature, fiction and fantasy are at a very nascent stage, with Smaash and Kingdom of Dreams targeting sports and fiction and fantasy segments respectively, however, India is yet to witness an offering at par with Ferrari World, Abu Dhabi or Sea World, Florida.

Theme parks in the World		Theme parks in India	
Thrill and adventure	Sports	Thrill and adventure	Sports
Fun and learning	Environment and nature	Fun and learning	Environment and nature
Lifestyle and film	Fiction and fantasy	Lifestyle and film	Fiction and fantasy



New concepts being adopted by the Indian theme park industry

The theme parks in India have deduced that the key to success lies in constant innovation and modification of their offering to attract more visitors and appeal to a wider spectrum of audience. Kingdom of Dreams, India's first live entertainment and theatre destination, has launched new shows such as 'Abhimanyu', a dance spectacle showcasing a majestic mix of ancient and contemporary dance forms.¹⁵ Smaash, which started operations in 2012, is mainly targeted towards sports enthusiast by offering simulated sports games, particularly cricket and football, paint ball and drag racing and other sports related activities. Adventure Island in Delhi introduced live stunts and shows combining music, acrobatics and dance to provide a holistic experience to all the family members, and not just children. Wonderla has introduced tag watches at its parks which allows the visitors to pay for merchandise and F&B using these watches instead of cash.¹⁶

These initiatives has helped theme parks to increase the number of visitors and improve their operational efficiency. The introduction of live stunts and shows helped Adventure Island to increase its footfall by 30 per cent¹⁴ while the use of tag watches has helped Wonderla gather more F&B revenues.¹⁷ Kingdom of Dreams and Smaash have tried to bridge the gap in theme offerings by entering in the sports and fiction and fantasy segment respectively, the limited scale and geographical reach of these destinations has left a large audience untapped, however, over the last three to four years the sector has witnessed emergence of new concepts and going forward, the gaps in the sector with respect to themes focussed on sports, environment and nature, fiction and fantasy are expected to be met.



15. India Today Website, <http://indiatoday.intoday.in/story/kingdom-of-dreams-is-back-with-new-musical/1/528636.html>, accessed on 10 February 2017
16. Business Today Website, <http://www.businesstoday.in/magazine/features/amusement-theme-parks-attracting-visitors-despite-hurdles/story/202286.html>, accessed on 10 February 2017

17. Economic Times Website, <http://economictimes.indiatimes.com/opinion/interviews/amusement-park-industry-has-huge-scope-for-growth-in-india-arun-chittilappilly-wonderla-holidays/articleshow/52650887.cms>, accessed on 10 February 2017



Case study - Kingdom of Dreams, a distinct entertainment proposition around fiction and fantasy

Parameter	Kingdom of Dreams		
Location	Leisure Valley, Gurgaon		
Area (in acres)	6		
Launch year	July 2010		
Theme	Live entertainment theme around fiction and fantasy		
Target market	Domestic and international, business and leisure travellers		
Project components	Culture Gali	Nautanki Mahal	Showshaa Theatre
Characteristics	Air conditioned food and retail boulevard showcasing India's culture, architecture, crafts and traditions Interaction with street performers, live artisans, magicians and folk dancers.	Venue for Bollywood style musicals and theatre. Indian culture combined with Bollywood style entertainment and storytelling	State of the art MICE venue Smaller theatre with comedy shows, shows on ancient epics such as Ram Lila and Krishna Lila
Area/capacity	90,000 sq.ft.	Above 800 seats auditorium	250 seat cover amphitheater
Sub-components	Bar & lounge : 2 F&B: Restaurants offering cuisines from 14 states	NA	NA
Ticket pricing	Entry to Culture Gully INR500 (weekdays), INR750 (weekends/holidays)	INR600 – 3,500 on (weekdays), INR1,000 – 5,000 on weekends (based on seating area)	Charges on event basis
Concept success	Live entertainment options, multiple F&B options combined with themes focussed on Indian art and culture makes Kingdom of Dreams a successful case example in live entertainment avenues focussed around fiction and fantasy in the Indian theme park industry.		

Key growth drivers for the Indian theme park industry

Rising per capita income

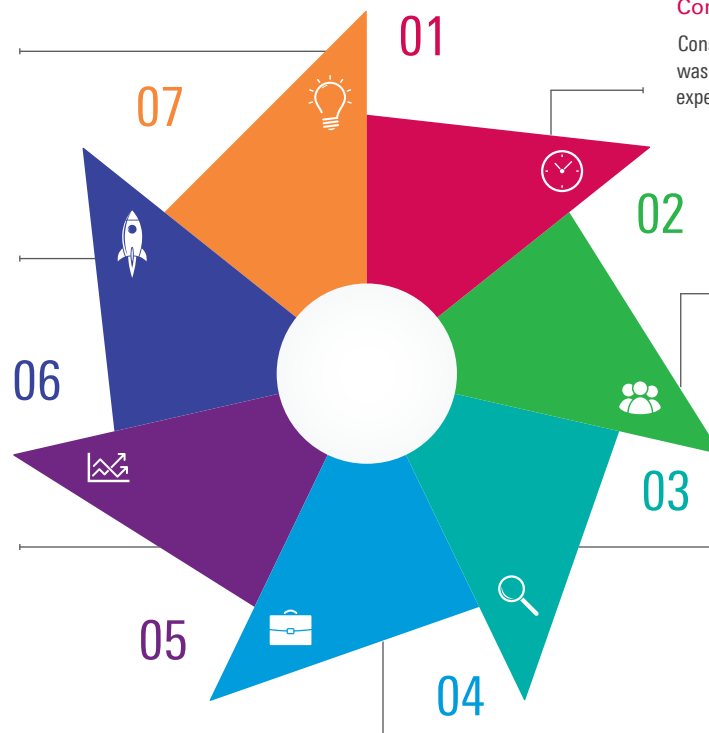
India's per capita GDP (at constant prices) is estimated to cross INR1 lakh in 2016-17 from INR93,293 in 2015-16

Rising urbanisation

India's urbanisation rate is expected to cross 60% in the next 3 decades from the levels of 31.1% in 2011. This shall be helpful in increasing the catchment of theme parks in India

Emerging new themes

Smaash, Kingdom of Dreams are examples of new emerging themes in the Indian theme park industry such as sports and fiction and fantasy



Consumer spending on leisure

Consumer spending on leisure activities was INR2 trillion in 2011 which is expected to reach INR6.3 trillion by 2025

In house innovation

Established players such as Wonderla are developing in house rides to suit their customer segment

Adoption of international standards

Theme parks in India are more focused on providing international safety standards and ensuring hygiene

Technology adoption

Adoption of augmented reality, virtual reality by some of the operational parks and upcoming parks shall be an impetus for the sector

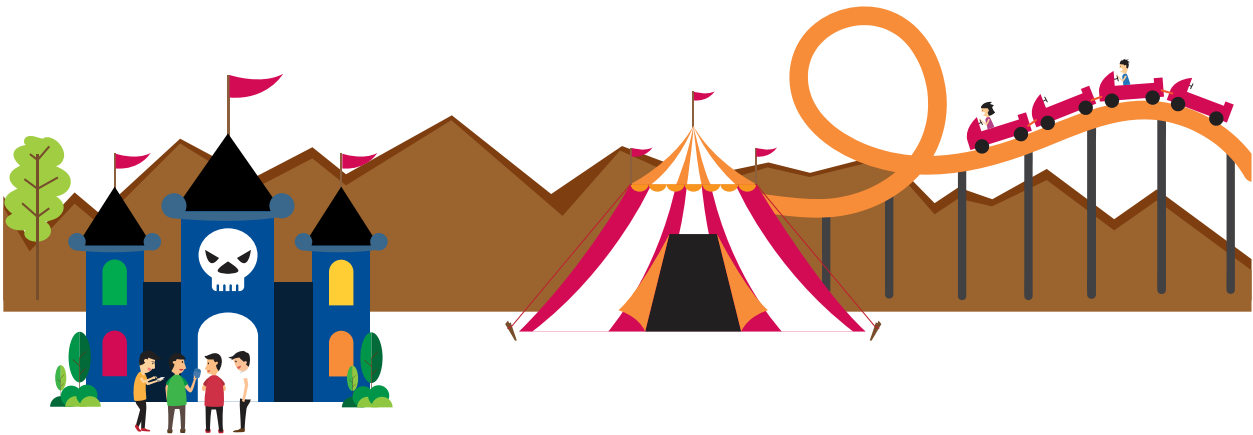
Source: Business Standard Article, http://www.business-standard.com/article/economy-policy/india-s-per-capita-income-to-cross-rs-1-lakh-in-fy17-117010601000_1.html, accessed on 6 March 2017, Times of India Article, <http://timesofindia.indiatimes.com/business/india-business/Indias-urbanization-likely-to-be-60-in-3-decades-Panagariya/articleshow/52008570.cms>, accessed on 6 March 2017, India Consumption Story, Kotak Research 2012, accessed on 6 March 2017, KPMG in India's analysis, 2017



Key challenges

Industry discussions indicate that there are various challenges in the Indian theme/amusement park sector. Challenges faced by the sector have been highlighted in the figure below

Sector challenges



Government Incentives

Government incentives in the form of tax holidays, subsidies, waiver from entertainment tax are not available

Manpower availability

India lacks availability of center of excellence and training for human resource development in the sector

Land acquisition

Title issues and availability of contiguous land parcels in proximity to the city are major deterrent

Sector classification

Currently the sector has no infrastructure classification which makes financing cost expensive

Others

Smart City proposals do not include theme parks as development component, national tourism campaigns do not market theme parks globally

Infrastructure status to the sector, inclusion of live entertainment avenues as a sub-segment in the Media and Entertainment industry, promotion of theme parks in tourism marketing campaigns such as 'Incredible India' and 'Athiti Devo Bhavah' and inclusion of theme/amusement parks in smart city plans across India shall provide an impetus to the sector for it to grow manifold.

Anumod Sharma

Managing Director

Kingdom of Dreams, Great Indian Nautanki Company Private Limited



Indian amusement park industry compared to China: Key measures and way forward

The amusement park industry in India has been under-represented till date given the size of the country with so many large cities. Kingdom of Dreams, Adlabs Imagica, WonderLa are few exceptions of international standards, however, there is a long way to go to take the industry to the level that of China. In India it is important to maintain operational efficiencies as average per person ticket price is INR1,000 compared to an average of INR3,000 in developed countries and ticket sales contribute about 75 per cent to amusement park revenues.

Despite a growing middle-class with rising disposable incomes, international players such as Walt Disney and Universal Studios have no plan to enter India in the near future. On the other hand Disney is developing its largest amusement park ever in Shanghai with an investment of USD5 billion dollars. Unreliable infrastructure, difficulties in maintaining customer standards, land acquisition, government dealings, lack of skilled labour and domain expertise in amusement parks are some of the prime reasons cited by international players for not entering India. Amusement parks in India generally offer different types of rides to its visitors and cater majorly to local population of the city with an average footfall between two to three million per annum, the industry still has to develop at standards where it can match the annual footfall at international amusement parks of seven to eight million per annum.

China's amusement park industry has been home grown with push from the government as they saw it as an opportunity to promote their cities. Theme park groups have been successful by catering to tier-II and III cities with OCT Parks China, Fantawild Group and Haichang Group being among the top 10 theme parks group globally since 2013. About 180 million people visited Chinese theme parks in 2015 which is expected to double in the next five years. Growth in footfalls, government support, investor friendly policies, fast-track land clearance, availability of skilled workforce are the prime reasons for international players entering China with foreign-planned mainland parks including Disneyland Shanghai, DreamWorks Center Shanghai, Universal Studios Beijing and Six Flags Tianjin.

India's story is also growing on similar lines as of China with multiple home grown players such as Kingdom of Dreams, India's first theme park focussed on Indian art and culture offering varied entertainment options, Wonderla & Adlabs Imagica offering amusement parks which adhere to international standards amongst others. However, the supply in market is far less than the market can accommodate. Cities such as Mumbai, Pune, Kolkata and Bengaluru have seen

development of successful amusement parks while Hyderabad and Chennai have emerged on the wish list of major theme park operators who have already acquired land in these cities. North Indian cities such as National Capital Territory of Delhi, Lucknow, Jaipur, Ludhiana, have no major international standard theme park in the pipeline, despite having a high disposable income population.

Going forward, the focus should be on more local market penetration, especially in North India which has a population with high disposable incomes, and target to develop a successful network of international standard amusement parks across the country. Development of live entertainment venues such as Kingdom of Dreams and their better integration with Incredible India Campaign would help to attract more foreign and domestic tourists.

India also needs to focus on development of centre of performing arts, such as the iconic Opera House of Sydney or Moulin Rouge in Paris, which have a significant contribution in promoting tourism and building cultural and economic value in the cities they are located in. Development of live entertainment avenues as a sub-segment in the Media and Entertainment industry along with support from the government would be a positive step in this direction.

Anumod Sharma

Managing Director

Kingdom of Dreams,
Great Indian Nautanki Company Private Limited



All views and opinions expressed herein are those of the author and do not necessarily represent the views of KPMG in India



Way forward

Developing theme parks is capital intensive and the success of the park largely depends upon the location. With rising land prices, investment required towards varied rides and ancillary components, the expertise and experience in the management of the park is essential ensuring no substantial cost over runs. The Indian theme park industry has not only realised the importance of entertainment by developing international standard theme parks but are also regularly investing in infrastructure upgrade, new rides and attractions to sustain footfall growth.

There are many investments proposed in the Indian theme park sector both on Public Private Partnership (PPP) basis and by private players in India. The proposed investments are towards developing large parks in India in the next four to five years, the list of proposed investments in the sector have been listed below¹⁸:

Proposed investment in theme/amusement park sector

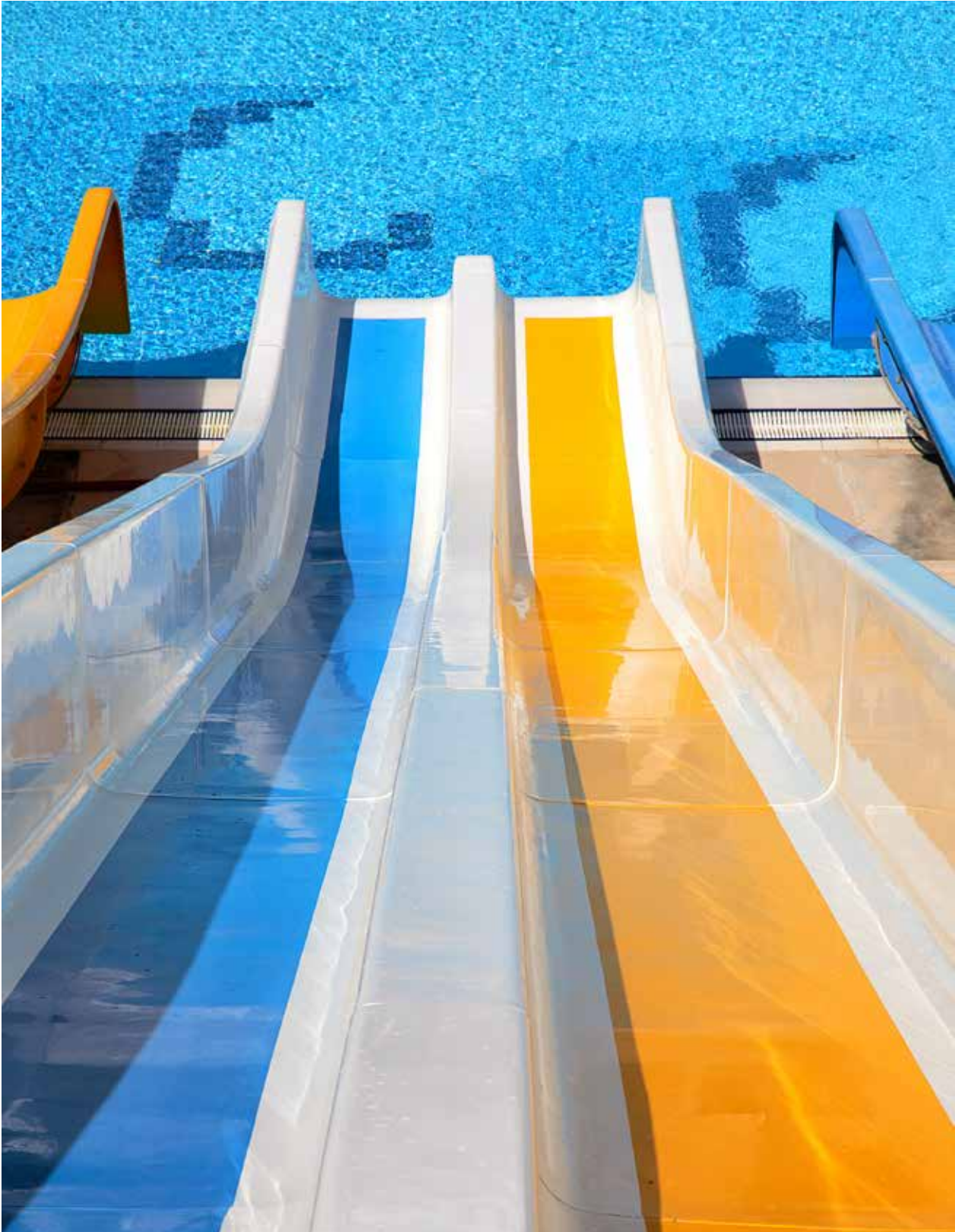
Project	Location	Theme/attraction	Size (acres)	Proposed investment (INR billion)
Surat Theme Park	Surat	Theme park	3,200	100
Om City	Hyderabad	Replicas of 108 famous temples of the country	2,000	30
Theme Park	Agra	Mega theme park with 7 themes	1,000	100
Sea World	Singudurgh (Maharashtra)	Coastal amusement park	350	5
Theme Park	Nagpur	Theme park concepts such as Jurassic Park, Terminator, Spiderman amongst others	300	15
Jaipur Mega Tourism City	Jaipur	Recreation cum amusement park	300	25
Space World Theme Park	Lavasa	India's first edutainment theme park (under construction)	65	4
Naya Raipur Amusement Park	Naya Raipur	Recreation cum amusement park	40	0.23
Krishna Lila Theme Park	Bengaluru	Based on Vedic heroes	28	3.5
Wonderla	Chennai	Amusement and water park	NA	3
Total				285.7

Source: India Amusement Parks – Opportunities Galore published by Anand Rathi on December 2015, accessed on 10 February 2017; Wonderla Holidays Initiating Coverage published by ICICI direct.com on 22 December 2015, accessed on 11 February 2017; Indian express website, <http://indianexpress.com/article/cities/mumbai/coastal-amusement-park-in-sindhudurg-7-yrs-on-state-starts-land-acquisition-for-sea-world-2935651/>, accessed on 11 February 2017, KPMG in India's analysis, 2017

18. India Amusement Parks – Opportunities Galore published by Anand Rathi on December 2015, accessed on 10 February 2017; Wonderla Holidays Initiating Coverage published by ICICI direct.com on 22 December 2015, accessed on 11 February 2017; Indian express website, <http://indianexpress.com/article/cities/mumbai/coastal-amusement-park-in-sindhudurg-7-yrs-on-state-starts-land-acquisition-for-sea-world-2935651/>, accessed on 11 February 2017, KPMG in India's analysis, 2017



Media for the masses: The promise unfolds
Theme Parks - On a roller coaster





Deal volume and value in 2016



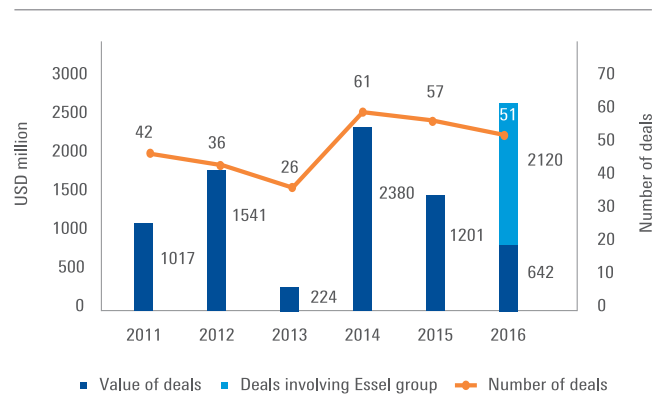


A to Z of deals in media & entertainment

The number of transactions in the M&E industry decreased from 57 transactions in 2015 to 51 transactions in 2016. The overall deal value increased from USD1,201 million in 2015 to USD2,762 million in 2016. The deal value in 2016 was higher than the deal value in 2015 because of a number of transactions executed by Essel Group which itself amounted to USD2,120 million¹.

Essel Group consolidated its position in the television distribution and broadcasting business by announcing a merger between Dish TV and Videocon d2h, and acquisitions of various regional Multiple System Operators (MSO's). It exited the sports broadcasting business by selling Ten Sports Network to Sony Pictures Network Private Limited in a bid to realign its strategy and focus on the general entertainment channel category by acquisitions of Reliance ADA Group owned channels. Further, it also entered the radio business by acquisition of an operational radio station 'Big 92.7 FM' of Reliance Broadcast Network Limited.¹

Chart 1: Trend of investments in M&E (volume and value)¹



Note:

1. Chart 1 includes deals that have been announced and not yet closed. The deal count only considered for deals where deal values were available in the public domain.
2. Exchange rate of 1 USD = INR 67.95 (Source: rbi.com, accessed on 10 February 2017, <https://www.rbi.org.in/scripts/ReferenceRateArchive.aspx>) has been used to convert the deal value for the year 2016 from INR to USD.

01. All figures and information on deals contained in this chapter have been sourced from Merger Market and Capital IQ, www.mergermarket.com, www.capitaliq.com, accessed on 10 February 2017, unless otherwise specifically mentioned.



Strategic investment in the M&E industry continued on the basis of a few significant themes, such as portfolio diversification and consolidation. Notable strategic transactions for 2016¹ are:

Table 1:

Date	Target	Target Sector	Acquirer	Deal Value (INR million)	Transaction theme
November 2016	Videocon d2h Limited*	Television	Dish TV India Limited	99,036	Consolidation
August 2016	Ten Sports Network*	Television	Sony Pictures Networks India Private Limited	25,839	Consolidation
November 2016	Reliance Broadcast Network Limited*	Radio	Zee Media Corporation Limited	15,800	Portfolio Diversification
January 2016	SITI Cable Network Limited	Television	Digital Satellite Media & Broadband Private Ltd; Arrow Media & Broadband Private Limited; Direct Media & Cable Private Limited	5300	Consolidation
July 2016	IndusInd Media & Communications Limited	Television	Hinduja Ventures Limited	2,709	Consolidation
December 2016	Fractal Ink Design Studio Private Limited	Digital	Dentsu Aegis Network Limited	2,500	Consolidation

*Following deals have been announced, but not yet closed.

Private equity investment in 2016 were primarily focussed on digital and technology assets and television distribution. The marquee private equity transactions that happened in 2016¹ are:

Table 2:

Date	Target	Target Sector	Fund	"Deal Value (INR million)"
July 2016	Bigtree Entertainment Private Limited	Films	Stripes Group; Accel Partners; SAIF Partners; Network18 Media & Investments Limited	5,500
February 2016	Videocon d2h Limited	Television	WestBridge Capital Partners LLC	2,450
December 2016	Amagi Media Labs Private Limited	Digital	Mayfield Fund; Nadathur Estates Private Limited; PremjiInvest; Emerald Media	2,370
April 2016	Hungama Digital Media Entertainment Private Limited	Digital	Xiaomi Inc.; Bessemer Venture Partners; Intel Capital	1,700
February 2016	Balaji Telefilms Limited	Digital	Vanderbilt University Office of Investments; Atyant Capital Management; GHI HSP, Ltd.; GHI LTP Ltd; GHI ERP Limited	1,501
September 2016	DEN Networks Limited	Television	Goldman Sachs Group, Merchant Banking Division	1,424

01. All figures and information on deals contained in this chapter have been sourced from Merger Market and Capital IQ, www.mergermarket.com, www.capitaliq.com, accessed on 10 February 2017, unless otherwise specifically mentioned.

Chart 2: Categorisation of deals in M&E in 2016 by volume and sector¹

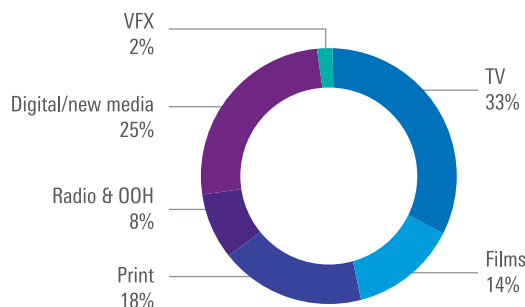
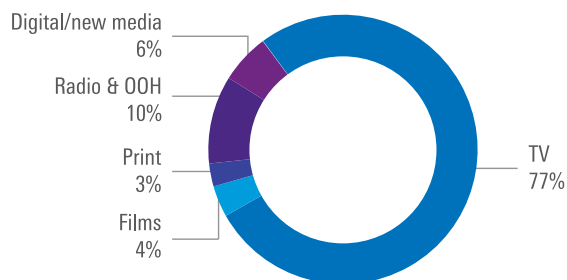


Chart 3: Categorisation of deals in M&E in 2016 by value and sector¹



Note: Chart 2 and 3 includes deals which have been announced, but not yet closed. The above graphs only include deals where deal values were available.

Chart 4: Categorisation of deals in M&E in 2016 by volume and type of investment¹

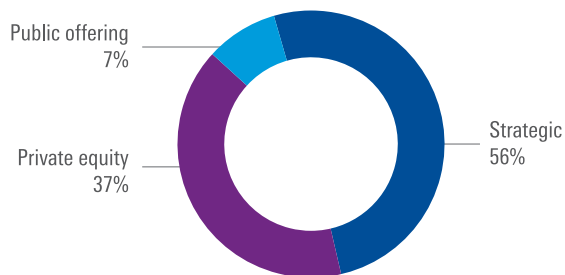
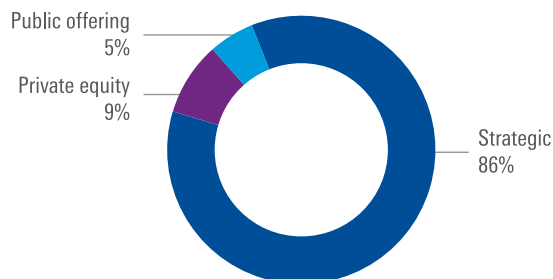


Chart 5: Categorisation of deals in M&E in 2016 by value and type of investment¹



Note: Chart 4 and 5 includes deals which have been announced, but not yet closed. The above graphs also include deals for which deal value was not available.



01. All figures and information on deals contained in this chapter have been sourced from Merger Market and Capital IQ, www.mergermarket.com, www.capitaliq.com, accessed on 10 February 2017, unless otherwise specifically mentioned.



Television

Television, the largest segment in the M&E industry in terms of deal value and volume¹, saw a rise in deal activity in 2016. Television constituted 77¹ per cent of the total deal value in 2016.

Television distribution

The Information and Broadcasting Ministry has decided to extend the cut-off date for Phase IV digitisation to 31 March 2017, while the remaining subscribers in Phase III areas received time till 31 January 2017 to switch over to the digital mode of transmission². The ministry said that it is taking this decision in the wake of the pending court cases and unsatisfactory progress of installation of set-top boxes (STBs) in Phase IV areas². With digitisation finally on the verge of completion in India, bigger players are trying to consolidate their position in the business and gain market share. Key transactions in the television distribution business highlighted this trend.

- India's largest DTH players, Dish TV and Videocon d2h announced merger of operations to form a single-largest pay TV operator with 276³ million net subscribers in November 2016. Post the proposed transaction, the merged entity will be renamed Dish TV Videocon Limited. Shareholders of Dish TV will have 55.4³ per cent stake in the merged entity while the balance 44.6³ per cent will be held by shareholders of Videocon d2h. The new entity would account for approximately 45⁴ per cent of the DTH market and approximately 16⁴ per cent of the overall industry. The deal value is expected to be around INR99,036 million.⁵ Both players aim to enhance synergies as a result of this merger. The deal is subject to regulatory approvals and expected to close in the second half of calendar year 2017.
- With the last phase of digitisation kicking in, MSOs need to invest in STBs, upgrading digital head-ends, other back-end infrastructure for the implementation of impending digitisation in Phase III and IV. Many local MSOs facing challenges around high capital expenditure requirements to meet the digitisation targets have exited or collaborated with bigger players to fund these activities. Siti Cable Network Limited raised funding by issue of securities to promoter companies valued at INR5,300⁶ million through warrants and optionally fully convertible debentures

(OFCDs) in January 2016. This funding was used to acquire regional MSOs namely Variety Entertainment Private Limited, SITI Jony Digital Cable Network Private Limited, Scod 18 Networking Private Limited, Sai Star Digital Media Private Limited, Krishna Teja Digital Entertainment Private Limited and Bargachh Digital Communication Network Private Limited.⁵

- Hinduja Ventures Limited increased its stake in IndusInd Media & Communications Limited from 56.09 per cent to 61.91 per cent in July 2016 in a deal valuing INR2,709 million.⁵ Subsequently, it announced sale of 1.35 per cent stake in October 2016.⁵

Companies in this space are on the look-out for sources to fund their growth capex and build competence to face competition from bigger players. For example, GTPL Hathway Limited announced a public offer of equity shares of INR3,000⁷ million in November 2016. The company plans to use the issue proceeds to repay debt and other general corporate purposes. DEN Networks Limited, another leading cable television distribution company announced private equity funding from Goldman Sachs Group amounting to INR1,424 million in September 2016.⁵

Television broadcast

The television broadcast segment witnessed two major deals in 2016 which involved Zee Entertainment Enterprises Limited in a bid to consolidate its position in the industry and focus on general entertainment channels to drive growth.

- Zee Entertainment Enterprises Limited with an aim to strategically reshuffle its portfolio and focus on the general entertainment channels, divested its 100 per cent stake in Ten Sports Network to Sony Pictures Networks India Private Limited (Sony) for INR25,839 million.⁵ On the other hand, Sony plans to consolidate and complement its existing portfolio of sports content with this acquisition. Sony, currently, holds the IPL telecast rights which is due for renewal in 2017. Sports business remains a low margin or loss business, given high cost of acquisition of sporting rights. With the sale of Ten Sports by Zee, Star and Sony are the only players in the possession of large sports content in India. The Competition Commission

01. All figures and information on deals contained in this chapter have been sourced from Merger Market and Capital IQ, www.mergermarket.com, www.capitaliq.com, accessed on 10 February 2017, unless otherwise specifically mentioned.

02. "Cut-Off Date For Phase IV Of Cable TV Digitisation Extended", NDTV.com, 23 December 2016, <http://www.ndtv.com/india-news/cut-off-date-for-phase-iv-of-cable-tv-digitisation-extended-1641105>, accessed on 10 February 2017

03. "Videocon D2H to Merge with Dish TV creating a leading cable & satellite distribution platform in India", bseindia.com (corporate announcements) dated 11 November 2016, http://corporates.bseindia.com/xml-data/corpfiling/AttachHis/88576D9A_22A6_4F33_BDB1_3E2D28F97C9B_160207.pdf, accessed on 10 February 2017.

04. "Dish TV, Videocon d2h merger creates leader", <http://www.business-standard.com>, 12 November 2016, http://www.business-standard.com/article/companies/dish-tv-videocon-d2h-to-merge-11611101475_1.html, accessed on 10 February 2017.

05. Merger Market and Capital IQ, www.mergermarket.com, www.capitaliq.com, accessed on 10 February 2017.

06. "SITI CABLE GETS FRESH EQUITY / OFCD INFUSION OF INR 530 CRORE @ RS. 35 BY PROMOTERS", bseindia.com, (corporate announcements) dated 20 February 2016, <http://www.bseindia.com/corporates/ann.aspx?curpg=101&annflag=1&dt=&dur=A&dto=&cat=&scrip=532795&anntype=C>, accessed on 10 February 2017

07. "Hathway Cable unit GTPL Hathway files papers for Rs300 crore IPO", [livemint.com](http://www.livemint.com), 3 January 2017, <http://www.livemint.com/Money/ruAsPZsAuHdNiBRuvTjiL/Hathway-Cable-unit-GTPLHathway-files-papers-for-Rs300-crore.html> accessed on 10 February 2017

of India (CCI) has approved this deal in January 2017⁸ and the deal is expected to close later in 2017.

What remains to be seen is, who would win the IPL telecast rights in 2017? Post the Ten sports deal, although, Star and Sony are the only existing players left with sports content rights in India, 2017 may witness separate bidding for IPL digital rights considering that new digital players who have significant financial power, such as Reliance Jio, Facebook and, recently launched Amazon Prime Video may wish for exclusive sports content on their respective digital mediums. This may lead to aggressive bidding for exclusive digital rights in the upcoming IPL bidding season.

- Further, Zee Entertainment is consolidating its position in the general entertainment channels space by the acquisition of the TV broadcasting business of Reliance ADA Group that comprised of two operational general entertainment channels -BIG Magic, BIG Ganga and four other TV licenses, for approximately INR2,984 million.⁹

The merger between Broadcast Research Audience Council ('BARC') and TAM Media Research Pvt Ltd ('TAM')¹⁰ completed in February 2016 and the formation of a new entity Meterology Data Private Limited, is expected to lead to better utilisation of both the agencies which can help better measurement of rural television viewership in India, which in turn could aid growth in advertising revenue for broadcasters.

Content producers

- Balaji Telefilms Limited, a pioneer and a leading content producer on TV, announced a private placement of INR1,501 million. The proceeds of the issue is likely to be used for the launch of the next growth driver for the company, ALT Digital Media Entertainment Limited, the group's foray into the B2C digital content business segment. ALT Digital Media is expected to create its own content for mobile, computers, tablet and other digital consumptions.⁹
- Zee Media Corporation acquired 49 per cent stake in Today Merchandise Private Limited, engaged in developing infrastructure for launch of a television shopping channel and an e-commerce website for INR398 million.⁹



08. "CCI clears Sony Pictures deal to buy TEN Sports", moneycontrol.com, 18 January 2017, http://www.moneycontrol.com/news/business/cci-clears-sony-pictures-deal-to-buy-ten-sports_8296741.html accessed on 10 February 2017

09. Merger Market and Capital IQ, www.mergermarket.com, www.capitaliq.com, accessed on 10 February 2017.

10. "Joint venture between BARC and TAM India all set to kick-off operations", businessstandard.com, 9 February 2016, http://www.business-standard.com/article/companies/joint-venture-between-barc-and-tam-india-all-set-to-kick-off-operations-116020900942_1.html accessed on 10 February 2017



Radio

Last year saw larger players in the radio segment expanding into non-metro cities and towns through acquisitions of smaller players in the industry. This year the second batch of Phase III FM radio e-auctions opened to a lukewarm response. The government received a total of 15¹² applications for 266¹² FM channels, with a majority of large FM radio operators refraining from participation. In the first batch of auction (phase III) in September 2015, 28¹² companies had applied to participate in the auction of 135¹² FM channels across 69 cities.¹² Radio broadcasting companies attributed their absence to high reserve prices of the frequencies and the lock-in period that prevents them from reducing shareholding to below 51¹³ per cent for three years after the stations start to operate. The lead time for a radio operator effectively means a period of four or four-and-a-half years after paying licence fees. It is easier for players to buy existing radio channels than to acquire new licences from the government. The following deals took place in this segment.

- Foraying in the radio sector, Zee Media Corporation Limited announced the acquisition of 49 per cent stake in the radio business of Reliance Broadcast Network Limited, which operates radio channels in India under the brand name of 'Big 92.7 FM'. The reported deal value is estimated to be INR15,800 million.¹¹ Zee also acquired UAE's radio station, Hum 106.2 FM. With these deals, Zee announced its entry in the radio business, in line with its vision to become an all-round media and entertainment company.¹⁴
- Music Broadcast Limited (a Jagran Prakashan company) acquired multiple regional radio channels in 2015. This year, it announced an initial public offer of INR4,000¹⁵ million planned to be used for redemption of debentures and other general corporate purposes.

Print

The print segment continues to sustain itself in spite of the competition from digitalisation. In India, print is expected to remain relevant as it continues to cater to a different set of audience. Having said that, in the last couple of years more and more print businesses have branched out to digital mediums such as mobile and web-based applications.

Print and digital mediums of consumption are expected to co-exist and cater to the complex demographics, languages, age and tastes of Indian readers. Deal activity in the print media segment saw deals to the tune of INR 5,185¹¹ million.

- Navneet Education Limited announced acquisition of the Indian school curriculum based business of Encyclopaedia Britannica (India) Private Limited for INR900 million to consolidate its position in the curriculum based books business. Navneet Education Limited also announced a buyback of 1.95 per cent of its share capital amounting to INR582 million.¹¹
- S. Chand & Company Private Limited announced an initial public offer of INR3,000¹⁶ million in December 2016. The company plans to use the amount for repayment of debt and general corporate purposes. The company also plans to use the proceeds to fund acquisition of Chhaya Prakashani Private Limited, a company engaged in publishing curriculum based text books.¹¹
- Amazon Group acquired the publishing business from Westland Limited for INR398 million in October 2016.¹¹ With this deal, Amazon plans to expand its reach in the digital and physical books space. Amazon already has 'Kindle' for delivery of reading content digitally.



11. Merger Market and Capital IQ, www.mergermarket.com, www.capitaliq.com, accessed on 10 February 2017.

12. "Phase-3 FM auction evokes little interest", [livemint.com](http://www.livemint.com), 17 Aug 2016, <http://www.livemint.com/Consumer/YXKjHL1B5PTT2Q7VnlpHM/Phase3-FM-auction-evokes-little-interest.html> accessed on 10 February 2017

13. "Why Zee's radio buy makes sense", [livemint.com](http://www.livemint.com), 1 December 2016, <http://www.livemint.com/Opinion/noAkKIsEPU71Ad8Nc3yyO/Why-Zees-radio-buy-makes-sense.html>, accessed on 10 February 2017

14. "ZEE acquires UAE's oldest radio station Hum FM", economictimes.com, 29 September 2016, <http://economictimes.indiatimes.com/industry/media/entertainment/zee-acquires-uaes-oldest-radio-station-hum-fm/articleshow/54580938.cms>, accessed on 10 February 2017

15. "Jagran's music broadcast subsidiary to raise up to Rs 400 crore via IPO", indianexpress.com, 24 November 2016, <http://indianexpress.com/article/business/companies/jagrans-music-broadcast-subsidiary-to-raise-up-to-rs-400-crore-via-ipo-4393526/>, accessed on 10 February 2017

16. "Publishing house S Chand files documents for IPO: Everstone to partially exit", www.vccircle.com, 19 December 2016, <http://www.vccircle.com/news/media-entertainment/2016/12/19/publishing-house-s-chand-files-documents-ipo-everstone-partially>, accessed on 10 February 2017

Films

The film exhibition business continued the ongoing trend of consolidation albeit at a slower rate as the number of screens available for consolidation has reduced significantly. So far, consolidation has been the preferred mode of expansion for multiplex players as purchasing existing screens is considered easier and faster than constructing new screens due to various regulatory and practical hurdles. As a result of this consolidation in recent years, the top four players namely PVR, INOX, Carnival Cinemas and Cinepolis account for nearly 70 per cent¹⁸ of multiplex screens in India. The following deals took place in the films exhibition business in 2016.

- In June 2015, PVR had agreed to buy the cinema exhibition business from DLF Utilities 'DT Cinemas' for INR5,000 million.¹⁷ However, PVR had to revise the terms of its deal after the Competition Commission of India raised objections in May 2016, citing PVR's monopoly in certain areas in the northern region. PVR had to leave out two properties in Delhi. The value of the deal was lowered to INR4,330 million¹⁹ and PVR ended up buying 32 screens and eight properties of DT Cinemas in the National Capital Region and Chandigarh.
- DLF Utilities completed its exit from the film exhibition business on sale of their remaining two properties to Cinepolis India Private Limited for INR637 million.¹⁷

Online movie ticketing has been witnessing a steady growth with demonetisation acting as a catalyst for further penetration.

Bigtree Entertainment Private Limited ('Bookmyshow.com'), an online ticketing company, announced that it has received INR5,500 million in its fourth round of funding by new investor, Stripes Group in July 2016.¹⁷ The transaction included participation from existing investors Network18 Media & Investments Limited, Accel Partners, and SAIF Partners. Bookmyshow.com currently earns 60²⁰ per cent of its revenue from the movie ticketing business. The funding is likely to be used by Bigtree to expand and consolidate its presence in the regional movie ticketing business and also to take on new entrants in the business such as Paytm.

The online movie ticketing business is expected to see an increase with India's increasing internet penetration, recent online payments push by the Government of India due to demonetisation and, availability of multiple modes of online payment options such as wallets, internet banking, credit/debit cards, etc.

OOH

There were no material transactions in the out of home segment in 2016. The OOH companies, however, in order to maintain their share of advertising spend, are expected to consolidate their assets in this space which can help improve their bargaining power with the advertisers and thereby also improve their occupancy rates.

Sports

There has been an increase in franchise based sporting leagues in the country. Some prominent leagues being Indian Super League, Hockey India League, Pro Kabaddi League, Premier Badminton League, etc. Business houses and high net worth individuals are interested in acquiring teams in such leagues, also investing in sports apart from cricket. Some of the key transactions in sports were:

- Jaydev Mody, chairman of Delta Corp, the company that owns and operates casinos in Goa, acquired 65 per cent stake in Goan Football Club Private Limited.¹⁷
- Telegu superstar Chiranjeevi led group of investors acquired a majority stake in the Kerala Blasters FC from Sachin Tendulkar in June 2016. Kerala Blasters FC competes in the franchise based football league-Indian Super league promoted by IMG Reliance.¹⁷
- Sanjay Govil, an Indian-American business executive and chairman of U.S. based IT services company, Infinite Computer Solutions, acquired Delhi Acers. Delhi Acers is a badminton team franchise which competes in the Premier Badminton League.¹⁷

With growing interest in sports-based leagues including cricket, we may expect a lot more activity in this space in the coming years.



17. Merger Market and Capital IQ, www.mergermarket.com, www.capitaliq.com, accessed on 10 February 2017.

18. "Multiplex screens set to rise over 3,000 by 2019: Report", www.timesofindia.indiatimes.com, 27 September 2016, <http://timesofindia.indiatimes.com/city/delhi/Multiplex-screens-set-to-rise-over-3000-by-2019-Report/articleshow/54547871.cms>, accessed on 10 February 2017

19. "DLF sells 7 cinema screens to Cinepolis India for Rs 64 crore", [Businessline.com](http://www.businessline.com), 2 September 2016, <http://www.thehindubusinessline.com/news/real-estate/dlf-sells-7-cinema-screens-to-cinepolis-india-for-rs-64-crore/article9066267.ece>, accessed on 10 February 2017

20. "Bookmyshow's parent company Bigtree Entertainment raises over Rs 550 crore", economictimes.indiatimes.com, 5 July 2016, <http://economictimes.indiatimes.com/small-biz/money/bookmyshows-parent-company-bigtree-entertainment-raises-over-rs-550-crore/articleshow/53058255.cms>, accessed on 10 February 2017



Digital and new media

Digital and new media continues to be the fastest growing segment in the Indian M&E industry.

Digital content

With increasing penetration of active wireless internet users, spread of smartphones, high-speed internet services, multi-model online payment options and effective digital content measurement tools, the companies in this space have been rapidly increasing their reach and are further expected to grow the fastest over the next five years amongst all other media. This clearly indicates growing acceptability of digital media among advertisers, and higher share of advertisement spends. An increasing trend of brand integration is being seen in the digital content platform, where the brand is part of the content/story which reaches the target audience even more effectively. A number of international digital content companies offering video on demand services announced entry in India, beginning with Netflix early in the year to Amazon Prime Video later in the year. Amazon Prime Video's entry in the digital content space is intended to boost and market its core online marketplace business.

The digital content space may see a significant rise in activity going forward, as more domestic and international companies try to reach audiences through digital mediums thereby striving to gain a pie from the digital boom. These companies have launched mobile applications and other web-based mediums to monetise their content effectively. For example, Star has Hotstar, Colors has Voot, and Sony has SonyLiv.com. Balaji Telefilms also plans to foray into the digital space with the launch of its B2C digital content business and has already raised funds for the same.²¹

There were some private equity deals in the digital content space this year.

- In April 2016, Hungama Digital Media Entertainment Private Limited, that offers content across genres and languages in the form of music tracks, movies, music and videos on demand received INR1,700 million in funding led by new investor Xiaomi Inc. The transaction also saw participation from existing investors, Bessemer Venture Partners, Intel Capital, and individual investor Rakesh Jhunjhunwala.²¹
- Contagious Online Media Network Private Limited, an online video streaming company (popular series 'the viral fever', 'tvf') announced that it has received INR656 million in an equity round of funding from new investor Tiger Global Management LLC in February 2016. The investor acquired 25 per cent stake in the company.²¹
- Pocket Aces Private Limited which produces fictional programmes for young audiences received INR200

million in a round of funding led by Sequoia Capital India, in December 2016. The transaction also saw participation from new investor Aarin Capital, 3ONE4 Capital Partners, Axilor Ventures, North Base Media Ltd, Kunal Shah and Sandeep Tandon.²¹

- Baadl Technologies Private Limited, which operates a video streaming service announced INR81 million seed funding from seven new angel investors in December 2016.²¹

The Hungama-Xiaomi deal represents a bigger trend wherein large corporates, including telecommunications, technology and device manufacturing companies strive to offer an integrated services ecosystem involving content, device and platform for enhanced customer experience by providing localised internet services and content on its smartphones in the country.

Digital advertising

Strategic investments

Following are some marquee strategic transactions in the digital marketing space led by Dentsu which is trying to consolidate its presence in India:

- Dentsu Aegis Network Limited, a U.K.-based company and a subsidiary of Dentsu Inc., engaged in providing branding, media, and marketing services, has acquired Fractal Ink Design Studio Private Limited, an India-based experiential design studio, for an estimated consideration of INR2,500 million.²¹
- The parent, Dentsu Inc., acquired Happy Creative Services India Private Limited, an India-based marketing agency, for an estimated consideration of INR2,000 million.²¹

Private equity investments

A trend which is expected to continue for the next five years, many private equity funds continued investing in digital advertising companies in India.

- Amagi Media Labs Private Limited, which provides cloud-based content delivery and monetisation platforms to TV networks globally, received INR2,370 million of funding from and the existing investor Mayfield and Premji Invest, in December 2016.²¹
- NFX Digital Private Limited, which provides digital advertising solutions to various brands, announced that it has received INR66 million in a round of funding led by Vikas Kuthiala, in July 2016. The transaction included participation from members of Indian Angel Network.²¹

21. Merger Market and Capital IQ, www.mergermarket.com, www.capitaliq.com, accessed on 10 February 2017.

Outlook

Year 2016, the buzzword seemed to be consolidation.

The trend of consolidation is expected to continue in the television distribution and broadcasting businesses as national broadcasters look for growth opportunities by acquisition of regional and general entertainment channels.

In the coming years, we expect a lot of action in the radio space considering that the lock-in for old licences are at the verge of expiry and smaller players may look out to sell. The trend of consolidation is likely to continue here as well.

There may be further consolidation in the film exhibition business, although at a slower rate and scale. The online movie ticketing business may see enhanced activity with increasing internet penetration and new players entering the space.

Print segment may see improvisation as they try and create their own digital space in order to remain relevant.

We expect consolidation in the OOH space which may help improve bargaining power of the players with the advertisers.

This year did not see much deal activity in sports, but deals and private placements in franchise-based leagues in sports other than cricket is expected to grow as it is still untapped in India. Theme parks and amusement parks look promising with the ever increasing consumer base and more knowledge and access to such non-traditional sectors of entertainment.

Large growth and disruption is expected in the digital content space with the shift in consumption patterns from the traditional print and television to various digital mediums. Accordingly, the digital content space may see a significant rise in activity going forward, as more domestic and international companies try to reach audiences through these mediums thereby striving to gain a pie from the digital boom.

Date	Target	Type of Deal	Acquirer	Deal value (INR million)
Television				
November 2016	Videocon d2h Limited	Strategic	Dish TV India Limited	99,036
August 2016	Ten Sports Network	Strategic	Sony Pictures Networks India Private Limited	25,839
January 2016	SITI Cable Networks Limited	Strategic	Digital Satellite Media & Broadband Private Ltd; Arrow Media & Broadband Private Limited; Direct Media & Cable Private Limited	5,300
December 2016	GTPL Hathway Limited	Public Offering	-	3,000
July 2016	IndusInd Media & Communications Ltd.	Strategic	Hinduja Ventures Limited	2,709
February 2016	Videocon d2h Limited	Private Equity	WestBridge Capital Partners LLC	2,450
November 2016	Big Magic Limited	Strategic	Zee Entertainment Enterprises Limited	2,427
September 2016	DEN Networks Limited	Private Equity	Goldman Sachs Group, Merchant Banking Division	1,424
November 2016	Reliance Big Broadcasting Pvt. Ltd.	Strategic	Zee Entertainment Enterprises Limited	494
October 2016	IndusInd Media & Communications Ltd.	Strategic	-	466
March 2016	Star Den Media Services Private Limited	Strategic	Star India Private Limited	404
April 2016	Today Merchandise Private Limited	Strategic	Zee Media Corporation	398



Date	Target	Type of Deal	Acquirer	Deal value (INR million)
Digital				
December 2016	Fractal Ink Design Studio Pvt. Ltd	Strategic	Dentsu Aegis Network Limited	2,500
December 2016	Amagi Media Labs Pvt. Ltd	Private Equity	Mayfield Fund; Nadathur Estates Private Limited; PremjiInvest; Emerald Media	2,370
October 2016	Happy Creative Services India Pvt. Ltd.	Strategic	Dentsu Aegis Network Limited	2,000
April 2016	Hungama Digital Media Entertainment Pvt. Ltd.	Private Equity	Xiaomi Inc; Bessemer Venture Partners; Intel Capital;	1,700
February 2016	Balaji Telefilms Limited	Private Equity	Vanderbilt University Office of Investments; Atyant Capital Management; GHI HSP, Ltd.; GHI LTP Ltd; GHI ERP Limited	1,501
February 2016	Contagious Online Media Network Private Limited	Private Equity	Tiger Global Management LLC	656
December 2016	Pocket Aces Pvt. Ltd.	Private Equity	Sequoia Capital India; Aarin Capital; Axilor Ventures; North Base Media Ltd; 3ONE4 Capital Partners	200
December 2016	Baadl Technologies Pvt Ltd	Private Equity	-	81
Radio				
November 2016	Reliance Broadcast Network Limited, 92.7 Big FM	Strategic	Zee Media Corporation Limited	15,800
November 2016	Music Broadcast Limited	Public Offering	-	4,000
Films				
July 2016	Bigtree Entertainment Pvt. Ltd.	Private Equity	Stripes Group; Accel Partners; SAIF Partners; Network18 Media & Investments Limited	5,500
July 2016	DLF Utilities Limited, Cinema Theatres/Multiplexes	Strategic	Cinopolis India Private Limited	637
January 2016	Owlet Films Private Limited	Strategic	Quintillion Media Private Limited	541
Prints				
December 2016	S Chand And Company Limited	Public Offering	-	3,000
October 2016	Encyclopaedia Britannica (India) Pvt. Ltd.	Strategic	Navneet Education Limited	900
October 2016	Westland Limited	Strategic	Amazon	398
OOH				
November 2016	Tabverts Private Limited	Private Equity	Indus Ventures	34
March 2016	Proximit Media India Pvt. Ltd.	Private Equity	Zeva Capsol Private Limited	10

Date	Target	Type of Deal	Acquirer	Deal value (INR million)
Sports				
August 2016	Leh Leh 7 Entertainment Solutions Pvt Ltd	Private Equity	-	-
December 2016	Premier Sports International Pvt. Ltd.	Strategic	Sporting Group International Limited	-
July 2016	Goan Football Club Pvt. Ltd.	Strategic	-	-
June 2016	Kerala Blasters FC	Strategic	-	-
March 2016	Delhi Acers	Strategic	-	-
Live events				
September 2016	Seventh Plane Networks Pvt. Ltd.	Strategic	MCH Swiss Exhibition (Basel) Ltd.	-
Animation/VFX/Gaming				
November 2016	Millitoons Entertainment Limited	Private Equity	-	87
January 2016	Prime Focus Limited	Strategic	Marina IV (Singapore) Pte. Ltd.; Marina Horizon (Singapore) Pte. Ltd.	-

Source: Merger Market and Capital IQ, www.mergermarket.com, www.capitaliq.com, accessed on 10 February 2017, unless otherwise stated in this chapter.





Tax and regulatory

Key issues and developments





While the M&E industry is currently one of the fastest growing industries in India, industry players are facing various issues due to ambiguity in tax laws, conflicting rulings and retrospective amendments. New business models evolving in the highly dynamic industry have added fuel to the complexities in the tax world, which need speedy upgrades in regulations.

Some of the key expectations are elimination of dual levy of tax (service tax and Value Added Tax) on acquisition of copyright on content, clarity on applicability of provisions relating to withholding taxes (WHT) on various expenses (placement fees, satellite transponder payments, discount on set-top boxes, etc.), extending benefits of set-off and carry forward of tax losses/unabsorbed depreciation on mergers, etc.

Amidst the backdrop of demonetisation, the Finance Minister (FM) tabled the Union Budget 2017 on 1 February 2017, with a focus to 'transform, energise and clean India'. The FM reaffirmed the commitment to implement the Goods and Services Tax (GST) within the stipulated timeline and encouraged greater compliance and strict enforcement. With the introduction of thin capitalisation rules, provision for secondary adjustment on one hand and reduction in tax rates for certain corporates, MAT rationalisation on the other hand, the Union Budget 2017 is a mixed bag, striving hard to keep India on the growth path.

The government has, in the last couple of years, given positive signals in attempting to simplify tax laws and gain confidence of the taxpayers. However, the industry is hoping for additional clarifications on the contentious issues affecting it, especially with the GST regime being just around the corner, and the altering global tax scenario in light of the Base Erosion and Profit Shifting (BEPS) initiative of the Organisation for Economic Co-operation and Development (OECD).

In this chapter, we have discussed key tax and regulatory issues/recent developments relating to the M&E industry. The possible impact of GST on the M&E sector has separately been discussed in the report.

Film industry

Key tax issues

Deduction of expenses

The Income-tax Rules, 1962 (Rules 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 films are exploited or depending on the date of release of the film.

There are several ambiguities surrounding 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 discretionary or mandatory, whether it overrides all other provisions of the Income-tax Act, 1961 (IT Act) (for example, whether 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 that are not covered by Rule 9A/9B, etc. A government circular clarifying the above aspects could help dispel this uncertainty.



WHT on acquisition of copyright

Under the IT Act, payment to an Indian resident towards acquisition of copyright in content (for example, satellite rights, home video rights, music rights, etc.) attracts a 10 per cent WHT (under Section 194J). This WHT rate is excessive considering the profit margins prevalent in the industry and it has an adverse impact on taxpayers' cash flows. It could be worthwhile for the government to consider a lower WHT on such payments.

Judicial decisions

WHT on film negative printing

In the case of Yash Raj Films¹, the Mumbai Tribunal held that payments to Adlabs for taking out multiple prints of the final negative would qualify as 'work' under Section 194C and not as professional/technical services under Section 194J, as no specialised job is to be done, nor any professional/technical skill is required for rendering such services to the taxpayer. The Tribunal held that while negative processing requires professional skill as it involves specific tasks of editing, enhancement of quality of film, etc., taking out multiple prints of such final negative does not involve professional/technical skills. Thus, payments for taking out multiple prints attract WHT as per the provisions of Section 194C.

This is a welcome judgement, which should support the contention of the taxpayers that payment made for taking prints of the final negative of a film should be covered within the gamut of provisions of Section 194C. It also brings out a vital distinction in applicability of Section 194J vis-à-vis Section 194C.

WHT on professional payments made in kind

Red Chillies Entertainment Pvt Ltd² had gifted certain items to its business associates who had worked for a film. The Mumbai Tribunal held that the provisions of Section 194J could not apply where the professional or technical fees are paid in kind. While deciding the issue, relying on certain judicial precedents of the Supreme Court and High Courts³, the Tribunal categorically concluded that the term 'any sum' referred to in Section 194J would only mean cash amount of money, and since payments are made in kind there was no requirement to withhold tax.

The issue with respect to applicability of WHT provisions to payments made in kind has been a subject matter of judicial debate. Section 194B specifically provides that in case winnings are wholly in kind, or partly in cash and partly in kind, but the cash part is not sufficient to meet the WHT liability, then the payer shall, before remitting the winnings, ensure that the tax is paid in respect of the winnings. Thus, Section 194B clearly provides for payment of taxes in respect of winnings in cash as well as in kind. However, a similar provision does not exist under Section 194J.

Broadcasting industry

Key tax issues

WHT on various payments by TV channel companies

Television broadcasting companies make significant payments to software production houses towards production of TV programmes. They also pay placement/carriage fees to DTH operators, multi-system operators and cable operators towards placement/carriage of the channels. Broadcasters are of the view that such payments attract WHT under Section 194C of the IT Act at the rate of 2 per cent. However, the tax authorities contend that such payments are liable for WHT at 10 per cent on the premise that the payments are towards technical services/royalty. This has resulted in protracted litigation.

The issue relating to the applicability of provisions dealing with WHT on payments made by broadcasters or television channels to production houses for production of content or programmes has been clarified vide a circular⁴ issued by the Central Board of Direct Taxes (CBDT). It has been stated in the circular that where the content is produced as per the specifications provided by the broadcaster/telecaster and the copyright of the content/programme also gets transferred to the broadcaster/telecaster, such a contract is covered within the definition of 'work' which is liable for WHT under Section 194C of the IT Act. However, where a broadcaster/telecaster acquires only the broadcasting/telecasting rights of the content which is already produced by the production house, and there is no contract for carrying out any work, then such payments are not liable for WHT under Section 194C of the IT Act (but may be liable to other applicable WHT provisions).

01. DCIT(TDS) vs Yash Raj Films (P) Ltd. [2016] 73 taxmann.com 73 (Mumbai Trib.)

02. Red Chillies Entertainment Pvt. Ltd. vs ACIT – ITA No. 1577/Mum/2013

03. H.H. Sri Rama Verma vs CIT [1990] 187 ITR 308 (SC); CIT vs Hindustan Unilever Ltd. [2014] 361 ITR 1 (Karnataka HC); CIT vs Chief Accountants Officer, Bruhat Bangalore Mahagar Palike – ITA No. 94 of 2015.

04. CBDT Circular No. 04/2016, dated 29 February 2016

Further, the issue relating to WHT on placement charges is decided by the Tribunal in favour of the broadcaster/telecaster in various cases⁵ wherein it is held that the placement charges are liable for WHT under Section 194C and not Section 194J of the IT Act. However, the tax authorities have not accepted the same and are contesting the issue before higher authorities stating that carriage/ placement fees involve rendering of technical services and should be taxed as 'Fees for Technical Services'. A circular clarifying the issue could help reduce the protracted litigation.

Taxation of transponder charges

Broadcasting companies pay transponder charges to satellite companies for transmission of their TV signals. 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)⁶, the Delhi High Court 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 was amended vide the Finance Act, 2012 with retrospective effect, to bring within its ambit payments made for transmission of signals via a satellite.

Furthermore, the Delhi High Court in the case of New Skies Satellite BV and Shin Satellite Public Co. Ltd⁷ has held that even post the amendment in the definition of royalty under the IT Act, payments received by foreign satellite companies for lease of transponders are not taxable as royalty under the tax treaty. Following this decision, the Calcutta High Court in the case of ATN International Ltd⁸ and the Mumbai Tribunal in the case of Taj TV Ltd⁹ as well in the case of United Home Entertainment Limited¹⁰ have held that transponder payments are not taxable as royalty under the tax treaty.

Thus, non-resident taxpayers can continue to avail benefit under tax treaties entered into with India to contend that such payments are not in the nature of royalty/fees for technical services under the tax treaty and hence, not liable to tax in India. Further, the ratio of the Tribunal decisions¹¹, wherein connectivity charges paid to a non-resident are held as not for 'royalty' under the IT Act, could also apply to transponder payments.

Taxation of a 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 a FTC has a business connection in India. In case a 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 permanent establishment/operations carried out in India. The circumstances in which FTCs constitute a permanent establishment/business connection in India and the determination of income attributable to such permanent establishment/operations carried out in India, continue to be contentious issues between 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 in India constitutes its permanent establishment for various reasons.

The Bombay High Court, in the case of SET Satellite (Singapore) Pte. Ltd.¹², has held that where a FTC has an agency permanent establishment in India (i.e. permanent establishment on account of its agent), a payment of arm's length remuneration by the FTC to its Indian agent extinguishes its tax liability in the country. A similar view has been taken by the Delhi High Court in the case of BBC Worldwide Ltd.¹³, by the Bombay High Court in the case of B4U International Holdings Ltd¹⁴ and by the Mumbai Tribunal in the case of Taj TV Ltd¹⁵.

However, the Mumbai Tribunal in the case of NGC Network Asia LLC¹⁶ has held that an Indian company procuring advertisement in India for a foreign company constituted a dependent agent in India. Further, it also rejected the argument that payment of arm's length remuneration to an agent extinguishes any further tax liability in India by distinguishing the decision of the Supreme Court in the case of Morgan Stanley¹⁷ and that of the Bombay High Court in the case of SET Satellite Singapore¹⁸ on facts.

05. Zee Entertainment Enterprises Ltd [2015] 38 ITR(T) 636 (Mumbai Tribunal); UTV Entertainment Television Limited (ITA Nos. 2699,4204,4205,2700/ Mum/2012 dated 29 October 2014)
06. Asia Satellite Telecommunications Co. Ltd./ [2011] 197 Taxman 263 (Delhi HC)
07. DIT vs New Skies Satellite BV and Shin Satellite Public Co. Ltd [2016] 382 ITR 114 (Delhi HC)
08. DIT vs M/s. ATN International Ltd. [2016-TII-41-HC-KOL-INTL (Delhi HC)]
09. M/s. Taj TV Ltd. (ITA No. 4678/Mum/2007, 412/Mum/2008, 4176/Mum/2009, 5537/Mum/2008, 5536/Mum/2008 and 4706/Mum/2009)(Mumbai Tribunal)
10. United Home Entertainment Pvt Ltd (ITA Nos. 5171 to 5181/Mum/2013) (Mumbai Tribunal)
11. Geo Connect Ltd (ITA Nos. 1927/Del/2008 & 127/Del/2011) (Delhi Tribunal); Atos Information Technology HK Ltd (2017) (ITA Nos. 237 to 240/MUM/2016); Bharti Airtel Limited vs Income tax officer (TDS) [2016] (67 Taxmann.com 223) (Delhi Tribunal)

12. Set Satellite (Singapore) Pte. Ltd. vs DDIT(IT) [2008] 173 Taxman 475 (Bombay HC)
13. DIT vs BBC Worldwide Ltd. [2011] 203 Taxman 554 (Delhi HC)
14. DIT vs B4U International Holdings Ltd [2015] 57 taxman.com 146 (Bombay HC)
15. Taj TV Ltd. vs ADIT – ITA No. 9079/Mum/2010; 2065/Mum/2012; 456/Mum/2013 and ADIT vs Taj TV Ltd. – ITA No. 2073/Mum/2012 and 391/Mum/2013
16. NGC Network Asia LLC vs CIT [2015] 64 taxman.com 289 (Mumbai Tribunal)
17. DIT vs Morgan Stanley & Co [2007] 292 ITR 416 (SC)
18. Set Satellite (Singapore) Pte. Ltd vs DDIT [2008] 307 ITR 453 (Bombay HC)



Taxation of subscription revenues

Subscription revenues are generally collected by Indian distributors and are subsequently paid to FTCs. They 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 (which is taxable on a gross basis at a specified rate). FTCs take a position that the payment is in the nature of business income and is not taxable in India in the absence of any permanent establishment in India. However, the tax authorities hold a contrary view and contend that the subscription revenues are liable to tax as royalties.

DTH industry

Key tax issues

WHT 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 WHT on the discount given to distributors on 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 WHT at the rate of 10 per cent 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.

In the case of Ahmedabad Stamp Vendors Association¹⁹, wherein the stamp vendors bought stamp papers from the state government at a discounted price, the Supreme Court held that tax need not be withheld on the discount given to vendors since it is not in the nature of commission or brokerage. The DTH industry is of the view that the ratio of this decision should equally apply to discount given to distributors for sale of STBs/RCVs.

The Karnataka High Court in the case of Bharti Airtel Ltd.²⁰, held that the discount given to distributors on sale of SIM cards/RCVs does not generate income in the hands of the distributor since the distributors derive income only on subsequent sale of prepaid cards. However, the High Court held that if, in the books of accounts of the taxpayer, the discount is reflected separately, then the liability of deducting taxes under Section 194J of the IT Act arises on the taxpayer. Although the said decision is in the context of the telecom industry, the ratio of this decision may also apply to the DTH industry.

In this regard, it could benefit the industry if the government issues a suitable clarification (similar to the one issued in the case of TV channel companies²¹) that discount on sale of STBs/RCVs is not in the nature of commission/brokerage and not subject to WHT, so as to avoid unnecessary litigation across the DTH sector.

Music industry

Key tax issues

Deductibility of cost of music rights

Deductibility of acquisition cost of licence for music rights has been a controversial issue. The issue is whether such costs are entitled to depreciation (at the rate of 25 per cent on written down value basis), or are in the nature of revenue expenditure, deductible in the first year or are to be amortised over the period of a licence. The Delhi High Court in the case of Krishan Kumar²², the Mumbai Tribunal in the case of Tips Cassettes & Record²³ and the Calcutta Tribunal in the case of Gramophone Company of India²⁴ have held that the payment for acquiring music rights (both lump-sum and recurring) are in the nature of acquiring raw materials and hence, should be deductible as revenue expenditure. Given that it is a timing issue, it would be beneficial if the government can issue a circular/clarification confirming this position.

Digital media/Out of Home (OOH) industry

WHT on payment of advertisements on a portal

Payments made by Indian entities to a foreign company for uploading and displaying of banner advertisements on its portal has been an issue under litigation with the tax authorities alleging that they are for use of industrial, commercial or scientific equipment and thus constitute 'royalty'. There have been some favourable decisions²⁵ holding that payments for online advertisement on the portal of a foreign company should not be taxable as royalty under the IT Act and tax treaty. However, from June 2016, such payments would now be subject to provisions of equalisation levy and correspondingly, the receipts would be exempt under the IT Act if equalisation levy is chargeable.

19. CIT vs Ahmedabad Stamp Vendors Association [2012] 25 taxmann.com 201 (SC)

20. Bharti Airtel Ltd. vs DCIT [2014] 228 Taxman 219 (Karnataka HC)

21. CBDT Circular No. 5/2016 dated 29 February 2016

22. CIT vs Krishan Kumar [2015] 53 taxman.com 273 (Delhi HC)

23. Tips cassettes & Record Co. vs ACIT [2002] 82 ITD 641 (Mum. Tribunal)

24. Gramophone Co. of India Limited vs DCIT [1994] 48 ITD 145 (Calcutta Tribunal)

25. Yahoo India P. Ltd. vs DCIT [2011] 11 taxman.com 431 (Mum. Tribunal); Pinstorm Technologies Pvt. Ltd. vs ITO [2012] 24 taxman.com 345 (Mum. Tribunal); ITO vs Right Florists Pvt Ltd. [2013] 25 ITR(T) 639 (Kolkata Tribunal)

Radio industry

Key tax issues

Deductibility of licence fees

Radio broadcasters are required to pay licence fees (one time entry fee and recurring annual fees) to the government as per the licence terms. The issue that has arisen is whether such fees are in the nature of revenue expenditure to be claimed as deduction in the year in which they are incurred or are in the nature of capital expenditure, entitled to depreciation. Since the annual licence fee is payable for each year of operation, it could be allowed as revenue expenditure. Further, the one-time entry fee could be allowable as a deduction over the period of the licence. However, another view is that the payment for the one-time entry fee could be treated towards licence acquisition, specifically covered as an intangible asset, eligible for depreciation at the rate of 25 per cent. This has resulted in a dispute between taxpayers and the tax authorities. The government could issue a clarification and end the litigation on this aspect.

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, etc.). Taxation of sports associations, sportspersons and foreign teams participating in such sporting events (for example, taxability of broadcasting revenue earned by the sports associations, taxability of participation fee received by sportspersons, advertisement and sponsorship income earned by the participating teams, attribution of income in India, etc.) is a vexed issue.

The issue, whether payment for acquiring rights to telecast a live event is in the nature of royalty subject to tax in India, has been a subject matter of prolonged litigation. This has been dealt with by the Delhi High Court which held that since there is no copyright on live events, the payment for broadcast of live races is not in the nature of royalty.

With reference to taxability of foreign sports bodies, the Calcutta High Court in the case of PILCOM²⁶ has held that any amount including the guaranteed amount paid to a non-resident sports association in relation to any match played in India, is liable to WHT in India.

Separately, the Delhi High Court in the case of Formula One World Championship Limited²⁷ has held that the formula one circuit should constitute fixed place of business/permanent establishment in India under the India-U.K. DTAA, since the company has exclusive right of access and presence in a physically-defined and demarcated geographical area. Thus, the company is said to be carrying on the business in India.

Taxability of foreign teams, in the case of INDCOM²⁸, the Calcutta High Court has held that amount paid to a foreign team for participation in a match in India as prize money is taxable in India

Other developments/issues impacting the M&E industry

Equalisation levy

The provisions relating to equalisation levy were inserted by the Finance Act, 2016, in line with the recommendation of the OECD's BEPS project. With effect from 1 June 2016, payments to non-residents by Indian residents/Indian permanent establishments of non-residents in relation to online advertising and other notified services shall attract equalisation levy of 6 per cent if the aggregate payment to a party during the year exceeds INR100,000.

General Anti-Avoidance Rules (GAAR)

Finally, India is going ahead with the implementation of GAAR from the intended date of 1 April 2017. GAAR will be applicable to arrangements which are regarded as 'impermissible avoidance arrangements', which could result in, amongst others, re-characterisation of such arrangements, denial of tax benefits or treaty benefits, etc. Specific relief is provided for investments made before 1 April 2017.

Place of Effective Management (POEM)

The Finance Act, 2016, made a significant amendment to the definition of 'resident in India' in the context of companies. A company having a turnover or gross receipts exceeding INR500 million shall now be considered as 'resident', if its POEM (i.e. place where key management and commercial decisions necessary for conduct of business are in substance made) is in India. The government has also recently issued guiding principles for determining POEM.

26. PILCOM vs Commissioner of Income Tax [2011] 198 Taxman 555 (Cal.)

27. Formula One World Championship Limited vs CIT [W.P. (C) 10307/2016]

28. INDCOM vs Commissioner of income Tax(TDS) [2011] 11 taxmann.com 109 (Cal.)



Amendments in tax treaties

The Indian government has renegotiated treaties with the governments of Mauritius, Cyprus and Singapore amending, inter alia, the capital gains tax provisions. Taxation of capital gains arising from transfer of shares has changed from residence-based taxation to sourced-based taxation. Limitation of Benefit clauses have been introduced/modified in the Mauritius/Singapore tax treaties specifying the conditions necessary to be satisfied by the taxpayer to avail the treaty benefit. With this, the government has sought to plug the tax loopholes exploited by companies to avail tax benefits under these treaties vis-à-vis capital gains.

Indirect taxes

Film industry

Key tax issues

Service tax on fees of actors/technicians

Services by way of licensing of copyright in cinematographic films for theatrical exhibition is exempt from service tax. However, the producers of cinematographic films avail various input services (such as services of actors and technicians) which are liable to service tax. Accordingly, there is a substantial loss of CENVAT credit on inputs/input services attributable to revenue from theatrical exhibition. This results in a significant cost for film producers and could be avoided by exempting the input services of actors and technicians from levy of service tax.

Under the GST regime, state level entertainment tax will be subsumed. Therefore, the exemption on theatrical rights will not continue and the same will be subject to GST. Accordingly, there will not be a credit loss to the film producers, since the input as well as the output is likely to be subject to GST and credit of input GST will be available as a set off against the output GST.

DTH industry

Key tax issues

Dual levy of tax on DTH service

Several DTH players provide STBs to customers on an entrustment basis, without charging any consideration. While there should be no Value Added Tax (VAT) applicable on such transaction, VAT authorities contend that, installation and activation charges include the price

of STBs and seek to levy VAT on such transactions. This leads to double taxation on the same consideration (i.e. VAT and service tax), thereby causing significant strain on the industry.

Since installation and activation charges are service revenue and service tax is being levied thereon, the same could be kept outside the purview of VAT.

Under the GST regime, the DTH service will be subject to GST as 'services'. Further, the movement of STBs between the locations of the DTH service provider from one state to another, for installation at customers' premise will be subject to GST. Further, the credit of such GST paid on interstate transfer of STBs will be available against output GST liability on DTH services.

Taxability of RCVs

Currently, DTH players are paying service tax on the MRP of RCVs and the selling agents of RCVs are not required to pay any taxes or undertake any compliances. Under the GST regime, as the draft model law appears, DTH players will be required to pay GST on the price at which such vouchers are sold to the selling agents. Further, subject to the threshold limits, the selling agents will be required to pay GST on the price at which such RCVs are sold to the end customers and take credit of the GST paid by DTH players. The selling agents will also be liable to undertake the related compliances, if the threshold limit is crossed.

Judicial decisions

Levy of VAT on STBs

The Tripura High Court in case of Bharti Telemedia Ltd²⁹ held that STBs provided as part of DTH services are subject to VAT. The High Court has observed that:

- The company has not sold STBs but has transferred the right to use STBs to the customers
- Nothing is given free of cost and the cost of STB is included in activation charges and/or monthly subscription
- The STBs are in total control of the customer, they are installed in their house, customers can use the STB whenever they want, they can view whichever channel they want or may or may not use the STB at all. The company does not even have the power of entering the premises of the customer

29. Bharti Telemedia Ltd vs The State of Tripura [2015] 79 VST 561 (Tripura HC)

- If a STB is spoiled after the warranty period, the customer will have to pay for its repair or replacement, which amounts to transfer of right to use goods.

In case of the DTH industry, the intention is to provide and receive such services (i.e. view the channels offered by the DTH service provider) and not to sell/purchase the STB. The STB is made available only for receipt of uninterrupted DTH services. The customers also do not have any control over the STBs; it always remains the property of the DTH service provider. The DTH service provider can stop the DTH services remotely by controlling the STB through the viewing card placed in a STB. Therefore, the customer has no control over the functioning of the STB and hence, it cannot be said that the DTH service provider grants right to use the STB to customers.

A number of DTH service providers receive notices from VAT authorities of various states demanding VAT on the STBs made available to customers. The above decision of the Tripura High Court levying VAT on the STBs made available to customers as a part of DTH services, may have further adverse impact on the DTH service providers.

Valuation of STBs for levy of CVD

The Mumbai Customs Excise and Service tax Appellate Tribunal (CESTAT) in the case of Bharti Telemedia Ltd³⁰ held that CVD on Retail Sale Price (RSP)/Maximum Retail Price (MRP) basis in terms of Section 4(A) of the Central Excise Act, 1944 cannot be levied on imported STBs.

The CESTAT observed that, for levy of CVD on basis of RSP/MRP, imported goods must be specified in the notification issued under Section 4A(1) of the Central Excise Act, 1944 and under the Legal Metrology Act, 2009, RSP should be required to be declared on the package.

In the given case, STBs were specified in the said notification, however, these were imported specially for serving DTH industries and not meant for retail sale. Accordingly, there was no requirement of declaring RSP on the STBs at any time. Thus, it was held by CESTAT that since one of the condition was not satisfied, CVD was not leviable on the basis of RSP/MRP.

The CESTAT observed that, the definition of 'sale' as per the CST Act, 1956 which includes deemed sale by way of transfer of right to use goods, cannot be relied upon when CVD is to be levied as basis of Legal Metrology Act

– 'Sale' as defined in the Legal Metrology Act should have taken place, which was not there in the present case. Accordingly, CVD is not leviable on the basis of RSP/MRP.

The CESTAT held that what is relevant for levy of CVD on RSP/MRP basis is the requirement of printing the RSP/MRP on the packages and not the nature of sale. In the present case, the importers are not selling STBs either to the dealer or to the customer. They are entrusted to the customers for providing the DTH service.

The DTH service providers usually import STBs which are required for the provision of DTH services to the customers. This decision of Mumbai CESTAT is likely to give respite to DTH service providers from frequent valuation related disputes at the time of import of STBs.

Digital media/Out of Home (OOH) industry

Service tax implication on sale of space or time slots for advertisements

The negative list entry pertaining to 'selling of space or time slots for advertisements' has now been restricted to include only print media, widening the service tax base to include sale of space for advertisements on internet websites, out-of-home media, on film screens in theatres, bill boards, conveyances, buildings, cell phones, Automated Teller Machines (ATMs), tickets, commercial publications, aerial advertising, etc., which was earlier outside the service tax bracket.

Radio industry

Key tax issues

Service tax on sale of advertisements

The negative list entry pertaining to 'selling of space or time slots for advertisements' has now been restricted to include only print media. Thus, the sale of space or timeslots on radio continues to remain liable to service tax in spite of the fact that radio is a cost-free and easy medium of mass communication even to the illiterate population unlike in the case of the print media. Therefore, the industry intends pursuing the aforesaid benefit of non-levy of service tax granted to print media but not to radio as an unfair treatment. The government may consider extending the benefit to the radio industry as well.

30. M/s Bharti Airtel Telemedia Ltd. vs Comm of Customs (Import Nhava Sheva (TS-486-CESTAT-2015 (Mum)-CUST)



Other developments/issues impacting the M&E industry

Service tax on licence fees paid to the Ministry of Information and Broadcasting (MIB)

All services provided by the government or local authority have been brought under the service tax net with effect from 1 April 2016. Further, the government has been defined to mean department of central government, state government and its departments, union territories and its departments.

In view of the above, it is likely that licence fees payable by broadcasters and DTH service providers to the Ministry of Information and Broadcasting will be subject to service tax under the reverse charge mechanism in the hands of broadcasters and DTH service providers. This may result into significant CENVAT credit accumulation for the broadcasters and DTH service providers.

Levy of service tax on Online Information Database Access or Retrieval Services (OIDAR services)

With effect from 1 December 2016 the government has brought about the following amendments:

- OIDAR services have been defined to include services such as, advertising on the internet; providing cloud services; provision of e-books, movie, music, software and other intangibles via telecommunication networks or internet; providing data or information, retrievable or otherwise, to any person, in an electronic form through a computer network; online supplies of digital content (movies, television shows, music, etc.); digital data storage; and online gaming.
- The place of provision of such services shifted from place of service provider to place of service receiver
- Exemption in respect of such services provided to the government, a local authority or an individual in relation to any purpose other than commerce, industry or any other business or profession, was withdrawn
- The service provider located in the non-taxable territory providing such services to the government, a local authority, a governmental authority or an individual located in taxable territory, in relation to any purpose other than commerce, industry or any other business or profession, will be liable to pay service tax in India
- In case of such service provided to persons other than mentioned above, the service tax will be payable under the reverse charge mechanism.

By virtue of the above amendments, the foreign entity located outside India providing OIDAR services to individuals located in India, will now be required to obtain registration, make service tax payments and adhere to service tax compliances in India.

VAT and service tax on copyright

Licensing of copyright in cinematographic film for theatrical exhibition is exempt from levy of service tax. Accordingly, licensing of copyright in cinematographic film (for other than theatrical exhibition) is liable to service tax. Various state governments have made copyright liable to VAT, treating them 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.

The issue of taxability of transaction of transfer of right to use intangibles has always been a matter of litigation. The decision of the Bombay High Court has re-raised the controversial issue of transfer of right to use intangibles. In light of this High Court judgement, the existing issue of dual taxation on transactions of transfer of right to use intangibles, with or without exclusive and unconditional transfer, is likely to re-open the debate regarding the meaning of transfer of the right to use goods. This is expected to further increase the existing litigation on the issue of dual taxation on licences in respect of intellectual property such as trademarks, copyrights, patents, etc. which are already subject to service tax.

Under the GST regime, transfer of IPRs would be treated as supply of service and would be subject to single levy of GST. However, whether permanent transfer of IPRs should be treated as goods or services still remains an open issue for which appropriate provisions are expected.

Transfer Pricing

The Indian Transfer Pricing (TP) regulations require a taxpayer to undertake international transactions with Associated Enterprises (AEs) on an arm's length basis. Further, the regulations mandate the use of one of the six prescribed methods as the Most Appropriate Method (MAM) for the determination of the arm's length price (ALP). From a compliance perspective, the regulations prescribe maintenance of mandatory documentation by taxpayers on an annual basis in relation to their international and Specified Domestic Transactions (SDTs) and also cast a compliance obligation on the taxpayers, which involves filing of an annual TP certificate (known as Accountant's Report) with the tax authorities disclosing details of such transactions in a prescribed format.

Recent developments

The transfer pricing landscape in India has constantly evolved over the years from the Finance Act, 2001 that introduced the TP regulations in India for the first time to the implementation of a three-tiered documentation requirements as contained in the Action Plan 13 of OECD's BEPS project by the Union Budget 2016.

BEPS refers to tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations resulting in little or no overall corporate tax being paid. In the post BEPS era, multinational enterprises (MNEs) would be called upon to review and realign their structures to ensure consistency between allocation of income and value creating activity. Consequently, the implementation of Action Plan 13 of OECD's BEPS project regarding Country-by-Country (CbyC) reporting from financial year 2016-17 is seen as a game changer, and would not only increase the documentation burden, but may also invite additional attention by tax authorities.

The TP environment has further undergone a significant change over the past 12 months. The Union Budget 2017 has proposed some important amendments to the TP regulations like introduction of secondary adjustment provisions, introduction of thin capitalisation norms in line with the Action Plan 4 of OECD's BEPS project and changes in the domestic transfer pricing regulations to exclude the payments made to persons specified in Section 40A(2)(B) from the scope of Section 92BA of the Act (payments to director or relatives, payments made to related entities with direct ownership relationship, etc.).

The Advance Pricing Agreement (APA) provisions has proved to be a step in the right direction and the Indian government has consciously put the APAs on a fast track which has helped in boosting taxpayer confidence in the government's APA programme.

Additionally, the tax authorities have taken various measures to improve the TP landscape in India during the last year. The government with a view to reduce litigation has introduced certain far reaching measures in the recent past to move away from a quantitative basis for selection of cases for transfer pricing audit to a risk based system. In this regard, the CBDT has issued revised instructions prescribing certain additional mandatory criteria for reference of matters to TPOs. This is expected to reduce the cases under audit and thus reduce litigation.

Key transfer pricing issues for the M&E industry

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.

Comparability for distinct 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 the 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/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 analysed, it can be seen that they are distinct 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 provide a better understanding of the above.

- An Indian TV broadcasting 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 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.

Given the nature of transactions undertaken, it 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.

Difficulty in application of prescribed methods

The Indian TP regulations have prescribed six methods under the law (as prescribed by the CBDT) for the purpose of determination of the arm's length price, viz., (1) Comparable Uncontrolled Price (CUP) Method (2) Resale Price Method (RPM) (3) Cost Plus Method (CPM) (4) Profit Split Method (PSM) (5) Transactional Net Margin Method (TNMM) and (6) Other method (notified by the CBDT on 23 May 2012 vide a Notification and Rule 10AB inserted in the Income-tax Rules, 1962 (the Rules) thereafter).

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 (FY) 2011-12 onwards.

Given the distinctiveness of international transactions entered into between related parties in the M&E space, it is often felt that the benchmarking analysis may not always be possible within the purview of the five methods prescribed under the law.

With the introduction of the 'other method', 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' could be particularly helpful in cases where application of the other five specific methods is not possible due to difficulties in obtaining comparable data due to distinctiveness of transactions such as intangible transfers, etc.

Increased compliance burden on foreign M&E entities undertaking TP compliances in India

In a recent landmark decision of a foreign taxpayer³¹, the Special Bench of Kolkata Tribunal dealt with an emerging issue in India, namely 'base erosion', which otherwise has gained significant attention in the global international tax community.

In this case, the taxpayer (foreign entity) had offered interest free loans to its Indian subsidiary for commercially justified reasons. The TPO did not accept the lack of interest charge and made a TP adjustment in the hands of the taxpayer. The taxpayer argued that such adjustment ought not be made following the principles of 'base erosion' since any increase in the income of the foreign company (e.g. additional WHT at 10 per cent) will imply a corresponding higher claim of expenses by the Indian company (e.g. additional corporate tax deduction of 30 per cent) and hence, the overall effect of the adjustment will lead to a reduction of tax base for the country (of 30 per cent - 10 per cent = 20 per cent). The Kolkata Tribunal constituted a Special Bench to adjudicate on the taxpayer's appeal.

The Special Bench refused to accept the taxpayer's plea and held that establishing whether there is an erosion of the overall Indian tax base is not a relevant factor in determining whether TP provisions apply to a transaction. Therefore, the principle of 'base erosion' was not upheld.

The Special Bench has rejected the base erosion theory in principle which would not be restricted only to interest free loans, but also to wider classes of transactions. This ruling, if implemented by the tax authorities, can have wide spread ramifications for any foreign M&E entities complying with TP compliances in India. In the immediate short-term, the ruling may increase the compliance and litigation burden for taxpayers and the overall impact could be adverse.

The lower authorities may even use this decision to frame aggressive TP assessments in case of foreign M&E entities. It is possible that the TPO may make an ALP adjustment in the hands of the foreign M&E entities and the taxability or otherwise of the Indian entity may not be considered to be relevant based on what has been articulated by the Special Bench. Consequently, the foreign M&E entities who may be undertaking TP compliances in India taking support of the base erosion argument would need to reassess the arm's length justification reasons in light of this decision.

31. Instrumentarium Corporation Limited [TS-467-ITAT-2016(Kolkata)-TP]

Country-by-Country (CbyC) reporting

Introduction of CbyC norms in India has by far been one of the most important developments from a TP perspective. These provisions have been adopted by introducing an amendment to Section 92D and inserting a new Section 286 to the Act which has been made effective from Assessment Year (AY) 2017-18 i.e. FY 2016-17. These norms are based on recommendations issued by the OECD's BEPS Action Plan 13.

Action Plan 13 provides for a three-tier structure of TP documentation, namely – (a) master file (b) local documentation file, and (c) CbyC reporting. The CbyC reporting provisions apply to multinational groups having consolidated revenue, based on consolidated financial statements, exceeding the threshold of EUR750 million equivalent in local currency. This threshold in Indian currency would be equivalent to INR539.5 million. Consequently, in India, the CbyC provisions apply to all entities resident in India including permanent establishments.

While currently there are no set formats provided in BEPS Action Plan 13 with respect to the manner of presentation, or the exhaustive list of details to be mandatorily incorporated in the master file. It is expected that CBDT may come up with guidelines in this regard.

It is pertinent to note that a graded penalty structure has been provided in case of non-furnishing of report or necessary information in this regard, with the penalty ranging between INR15,000 to INR50,000 per day, depending upon the stage and recurrence of the default. Further, furnishing of inaccurate information, might attract a penalty of INR500,000.

While detailed rules are awaited, compliance with BEPS Action Plan 13 will have different ramifications for an Indian headquartered M&E group and an Indian arm of the foreign headquartered M&E group. An Indian headquartered M&E group satisfying the quantitative criteria, will have to comply with the master file and CbyC reporting whereas an Indian arm of the foreign headquartered M&E group, will only have to comply with the local file requirements.

Further, under certain circumstances, Indian subsidiaries/ permanent establishments of an M&E group headquartered out of India would be responsible to file the CbyC report in India which otherwise will be the responsibility of the foreign parent of the M&E group. Since globally this is the first year of implementation of BEPS Action Plan 13, it could pose certain challenges especially with regard to timing of compliance in India may differ from the other countries. One will have to wait for the CBDT guidelines in this regard.

Update on Advance Pricing Agreements (APAs)

The APA Scheme was introduced in the Income-tax Act in 2012 and the 'Rollback' provisions were introduced in 2014. The scheme endeavours to provide certainty to taxpayers by specifying the method and determining the prices of international transactions in advance thus avoiding future transfer pricing disputes.

Since its inception, the APA scheme has evinced a lot of interest from taxpayers and that has resulted in more than 700 applications (both unilateral and bilateral) being filed so far in about five years. CBDT has already signed 140 APAs (130 unilateral APAs and 10 bilateral APAs), which has been highly appreciated nationally as well as internationally.

Further, a CBDT press release dated 17 November 2016 stated that more than 100 cases under the Mutual Agreement Procedure (MAP) between India and the U.S. have been agreed to be resolved. Terms and conditions of the first ever bilateral APA involving India and the U.S. have also been agreed upon.

While hitherto, APAs that are signed pertained to mainstream industry transactions, the recent trend of APAs have been signed for complex and litigious transactions. This, especially the APAs signed for management cross charges and royalty, has helped boost the confidence of the taxpayer community in India's APA programme. Further, the Indian government has consciously put the APAs on a fast track which has helped boost the taxpayers' confidence in the government's APA programme.

The M&E players in India have significant intercompany transactions in the nature of royalty given their tie-ups with international M&E entities and nature of their operations. While the recent APA and MAP for brand royalty were not signed for an entity in the M&E industry, payment of brand royalty being a contentious TP issue in Indian TP audits, conclusion of an APA/MAP on the same is a welcome move and M&E players could benefit from the precedent set by the said APA.



FDI in the M&E sector

The current FDI limits relating to the M&E sector are as under:

Sr. no.	Segment	Existing limits/approval route
1	Teleport/DTH/HITS/mobile TV	
2	Cable TV networks Cable networks (MSOs) operating at national or state or district level and undertaking up gradation of networks towards digitalisation and addressability)	100% Up to 49% - automatic route Beyond 49% - government route
	Cable networks (Other MSOs not undertaking upgradation of networks towards digitisation with addressability and Local Cable Operators (LCOs))	
3	Downlinking of TV channels	100% automatic route
4	Uplinking of non-news and current affairs TV channels	
5	Uplinking of non-news and current affairs TV channels	49% government route
6	FM radio	

Source: Consolidated FDI policy (effective from 07 June 2016) as amended by Press Note No. 12 (2015 Series)

Key Union Budget 2017 proposals

Direct tax

- For corporates with a turnover up to INR500 million in Assessment Year (AY) 2016-17, tax rate reduced to 25 per cent for AY 2018-19.
- Minimum Alternate Tax (MAT) provisions amended to provide framework for computation of book profits for Ind AS compliant companies in the year of adoption and thereafter.
- Carry forward of MAT/Alternate Minimum Tax (AMT) credit extended from 10 years to 15 years.
- MAT/AMT credit eligibility reduced to the extent that such credit relates to the difference between foreign tax credit (FTC) allowed against MAT/AMT and FTC allowable against the tax computed under regular provisions of the IT Act.
- Base year for indexation for determining the cost of asset shifted from 1 April 1981 to 1 April 2001. Also, the cost of improvement shall include only capital expenses which are incurred after 1 April 2001.
- Section 10(38) to provide that long-term capital gains tax exemption will be granted only on transfer of equity shares acquired on or after 1 October 2004, which have been subject to securities transaction tax. This will be subject to certain exceptions to be notified by the government.
- No person shall be allowed to receive cash exceeding INR300,000 in respect of a transaction or from a person in a day.
- Threshold for disallowance of expenditure, paid otherwise than through banking channels, reduced from INR20,000 to INR10,000.
- Taxability of receipt of specified property from any person without/for inadequate consideration (as compared to Fair Market Value) extended to all the taxpayers.
- An eligible start-up will be entitled to tax holiday to the extent of 100 per cent of profit from eligible business for any three consecutive AYs out of seven years (as against five AYs provided currently) from its date of incorporation.

- The restriction of carry forward of losses in case of change in shareholding exceeding 49 per cent not applicable in case of eligible start-ups provided all the shareholders holding shares on the last day of the years in which such loss was incurred continue to hold shares even in the year in which such losses are proposed to be set-off.

Transfer pricing

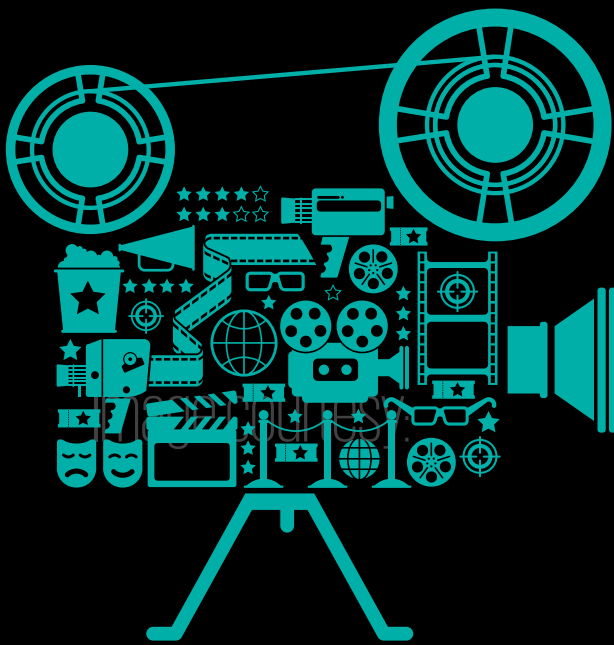
- The applicability of domestic transfer pricing is now restricted to entities with tax holiday units. The requirement of domestic transfer pricing compliance for non-tax holiday entities making payments to domestic related parties is done away with.
- Thin capitalisation rules introduced (in case payment of interest to AE exceeding INR10 million), whereby the payment of interest to an AE would be restricted to 30 per cent of its Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) with a view of alignment with recommendations of the OECD's BEPS Action Plan 4. The debt to be considered while computing the 30 per cent interest expense deduction limit shall include the debt directly issued by the AE and the debt issued by a third party, where the AE has provided an explicit or implicit guarantee or extended indirect funding. In cases where the whole interest expenditure cannot be claimed in the relevant AY, it shall be carried forward for eight years.
- Secondary adjustment postulates a situation of adjustment to income of a taxpayer which has been accepted by him/her under certain defined circumstances. It is proposed to provide that such an adjustment to the income (referred to as primary adjustment) of the taxpayer results in underlying excess cash with the foreign associated enterprise and the same should be repatriated into India (i.e. money should be brought into India) and accounted for as income in the books of accounts of the Indian taxpayer. Failure to do so beyond a specified period would render re-characterisation of such adjustment as an advance given by Indian taxpayer to its AE and interest shall be imputed thereon.

While the rules would be prescribed to define the period beyond which the adjustment would be characterised as an advance and rate of interest to be charged thereon, there remain certain ambiguities in the current draft of the law (e.g. whether interest charge would be one time or a year on year, etc.) it is expected that either the language of the proposed law would be amended to clarify the open issues or the CBDT may bring in clarifications in this regard.

Conclusion

The Indian M&E industry has started making its mark on the global map. Lucrative tax benefits and transparent tax policies could further help the industry to strengthen its foothold in the global market. Needless to say, the government is providing impetus to the M&E industry by putting efforts in digitalisation of the economy. However, divergent rulings and aggressive tax policies are hampering the confidence of investors and it is imperative to curb this situation by issuing clarifications on the vexed issues, and creating a more investor friendly approach.





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