



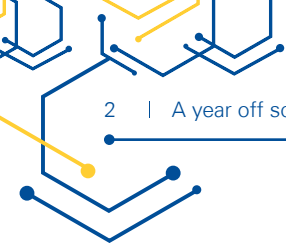
A year off script

Time for resilience

KPMG in India's Media and
Entertainment report 2020

September 2020

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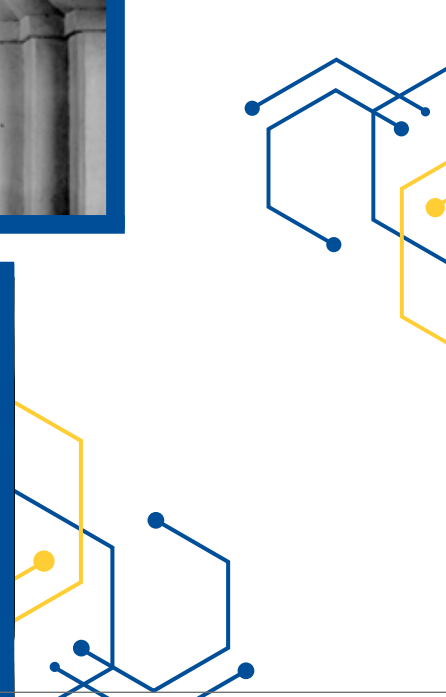
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Foreword

The year 2020 seems all set to provide an answer to the popular refrain: how bad can it be? It began with most large economies including India already experiencing a tangible slowdown in economic activity and segued disastrously into the outbreak of a global pandemic in March. Despite an early lockdown, which was also one of the most stringent, India has surpassed six million coronavirus cases as of September¹. It is now ranked second globally. The economy has been dealt a severe blow with GDP for the April-June quarter of FY21 falling by 23.9 per cent².

In these uncertain times, it is both complex and challenging to translate, evaluate and project the implications of such far-reaching change. The media and entertainment (M&E) sector for example covers a wide range of segments – from digital to print – with some emerging more resilient through this crisis than others. Broadly, outdoor entertainment formats and traditional media have been badly impacted as people stayed indoors and advertising spends dried up. Digital advertising, OTT and gaming fared much better, with massive spikes in digital consumption during the lockdown across geographies and socio-economic classes.

The low-touch economy that has burgeoned post-COVID-19 will encourage every business to invest in credible digital fulfilment models as consumers migrate faster online. Brands will follow. Advertising spend on digital media is set to overtake TV by FY21, with digital likely to be one of the only M&E segments to continue to grow in double digits in the coming year.

While spends on M&E have historically been income inelastic, consumption might feel the effects of people turning more frugal over the next few months.

There could be a dichotomy in experiences of India and Bharat here, as the latter seems to be showing signs of a quicker recovery compared to urban centres with encouraging growth in fertiliser sales and demand for tractors and two-wheelers. A more optimistic scenario for the M&E sector is that consumers simply rebalance – rather than reduce – expenditure away from outdoor options such as the theatres, concerts and plays to indoor ones like OTT and gaming.

In the short term however, the pain is likely to be pervasive. Impacted by a slowing economy, the M&E sector grew by 7 per cent in FY20 – almost half its previous year's number – to INR1,751 bn. The decline in advertising revenues was even more pronounced as growth fell to 3 per cent in FY20 from 14 per cent in FY19. The experience of COVID-19 will unquestionably exacerbate these trends, and the M&E sector is expected to contract by 20 per cent over the coming year, with digital and gaming projected to be the only segments to grow. By FY22, the sector should regain its growth trajectory and achieve a similar scale to today; an implied loss of around two years of growth due to COVID-19.

We however remain hopeful for the prospects of the M&E sector, albeit with a deeper integration of digital technologies across the value chain. The trajectory of India's digital revolution has been accelerated considerably by virtue of this experience and the country is now poised to reach a billion users by 2028 rather than the earlier projected 2030. A more diverse, informed and sophisticated digital demography therefore could prove to be the elusive light at the end of this tunnel.



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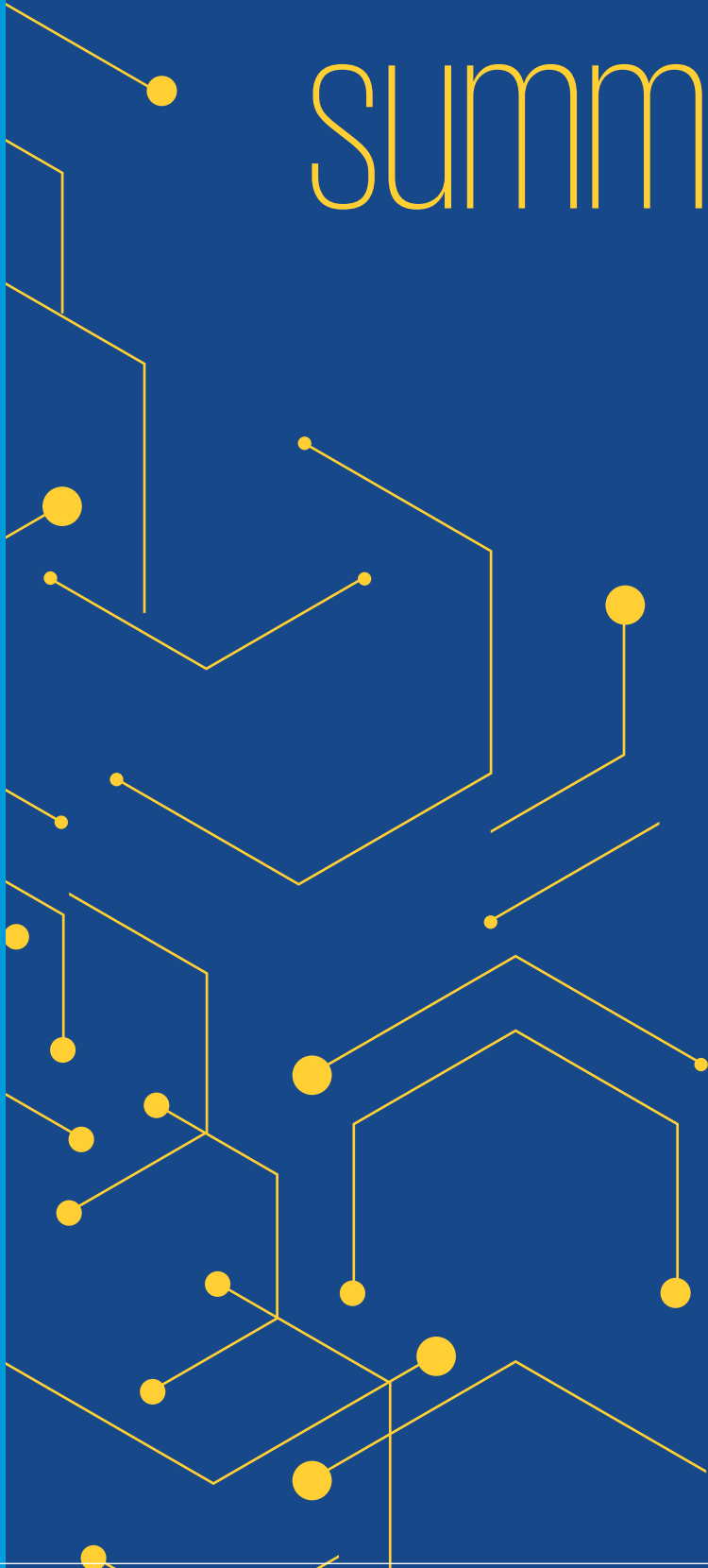
Girish Menon
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1. As of September 28, 2020

2. Ministry of Statistics and Programme Implementation (MoSPI)



Executive summary



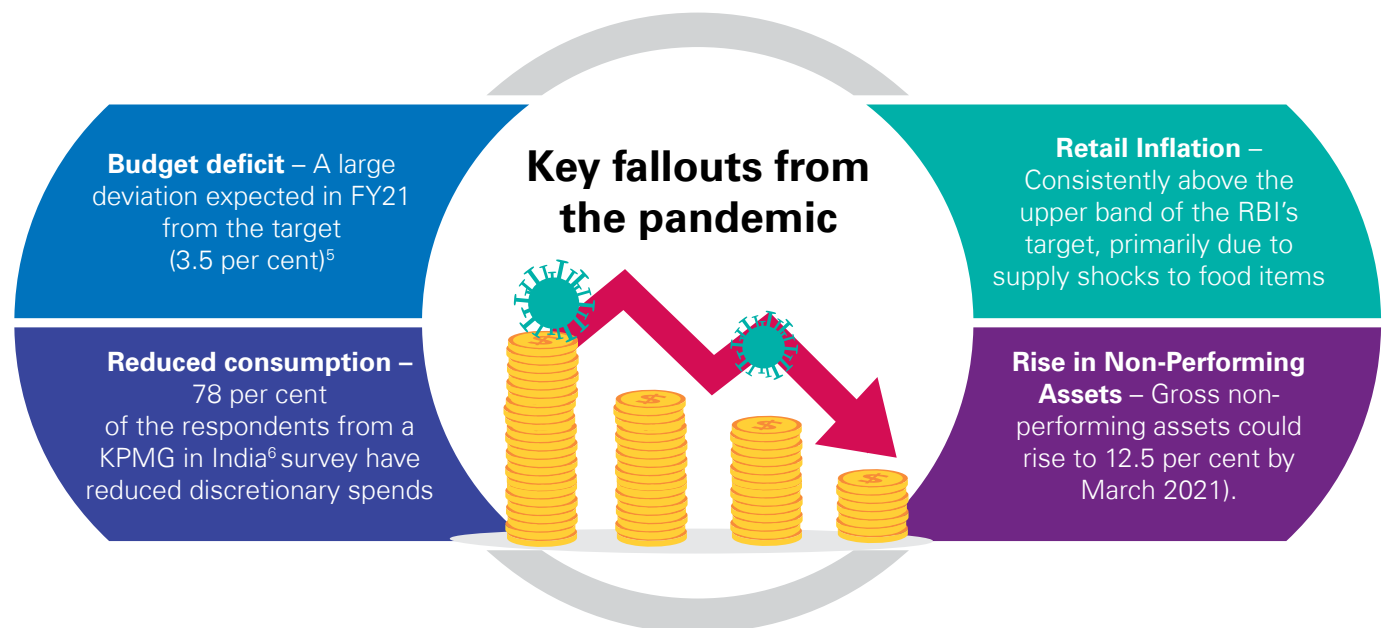
A year off-script: Time for resilience

The global economic activity has been facing a steady downturn since the second half of 2018 with rising trade barriers and increasing geopolitical tensions denting growth. The global economy is expected to contract by 4.9 per cent in 2020 despite the easing of monetary and fiscal policies across the world¹. In line with the global economy, India's real GDP growth rate has declined from 6.1 per cent in 2018 to 4.2 per cent in 2019.²

The tepid economic growth combined with slowdown in domestic consumption had a material adverse impact on the Indian media and entertainment (M&E) sector, which grew at slower rate of 7.4 per cent in FY20, to reach a size of INR1.75 trillion, at a CAGR of 10.3 per cent over

FY16-20.³ While the slowdown negatively impacted print and to an extent, TV advertising, digital and gaming segments continued to grow at a rapid pace and positively contributed to the performance of the sector.

March 2020 also saw the country start to see the impact of COVID-19 and head into a long phase of lockdown. This has had an ongoing adverse impact on the economy across sectors with supply chains, manufacturing, consumption, income levels all getting impacted. The country witnessed a steep decline of 23.9 per cent in GDP in Q1FY21 as consumer spending and investments contracted due to COVID-19.⁴



The M&E sector has also been significantly impacted, particularly with all forms of outdoor entertainment coming to a standstill, a significant slowdown in advertising spend and content supply chains breaking down. As a result, the M&E sector is expected to contract by a significant 20 percentage points in FY21 with major segments like TV, Films and Print all seeing major declines. On the other hand, extended lockdown

is accelerating digital consumption and segments such as Digital and Gaming are seeing rapidly growing user penetration and engagement levels. The M&E sector is expected to bounce back in FY22 with a growth of 33.1 per cent over FY21 to reach a size of INR1.86 trillion, at a CAGR of 3.2 per cent over FY20-22⁷, with gaming and digital being the fastest growing segments.

1. World Economic Outlook, International Monetary Fund, June 2020, accessed on September 14, 2020
 2. World Economic Outlook, International Monetary Fund, June 2020, accessed on September 14, 2020
 3. KPMG in India analysis, 2020, based on primary and secondary research
 4. National Statistical Office, accessed on September 14, 2020

5. India's fiscal deficit breaches full year target, Bloombergquint, August 2020, accessed on September 14, 2020
 6. Time to open my wallet or not? KPMG in India, July 2020
 7. KPMG in India analysis, 2020, based on primary and secondary research



Media and Entertainment sector – historical performance

Segment Size – Overall Revenues (INR billion)	FY16	FY17	FY18	FY19	FY20	FY20 Growth	CAGR (FY16-20)
Digital and OTT	65	86	121	173	218	26%	35%
TV	552	596	652	714	778	9%	9%
Print	288	308	319	333	306	-8%	2%
Films	137	145	159	183	183	0%	8%
Animation, VFX and post- production	53	62	74	88	101	15%	18%
Gaming	28	32	44	62	90	45%	34%
Out of home	26	29	32	34	31	-9%	5%
Radio	23	24	26	28	25	-11%	2%
Music	11	13	14	17	19	15%	14%
Total	1,183	1,295	1,440	1,631	1,751	7%	10%

Source: KPMG in India analysis, 2020, based on primary and secondary research

Segment size – Advertising revenues (INR billion)	FY16	FY17	FY18	FY19	FY20	FY20 Growth	CAGR (FY16-20)
Digital and OTT	65	86	116	160	199	24%	32%
TV	184	203	224	251	262	4%	9%
Print	192	204	211	221	198	-10%	1%
Films (In-Cinema Ad)	7	8	10	11	11	-7%	12%
Out of Home	26	29	32	34	31	-9%	5%
Radio	23	24	26	28	25	-13%	2%
Total	497	554	619	705	726	3%	10%

Source: KPMG in India analysis, 2020, based on primary and secondary research

- The Indian M&E sector grew at a rate of 7 per cent in FY20 to reach a size of INR1.75 trillion, a CAGR of 10 per cent over FY16-20. At the same time, owing to the slowing economy and the impact of COVID-19 at the fag end of the year, the advertising revenue growth was estimated at 3 per cent in FY20, with the advertising revenues reaching a size of INR 726 billion by FY20
- The growth in overall revenues was driven by Digital and OTT video, which registered a growth of 26 per cent in FY20, albeit lower than our earlier estimates. Gaming was the fastest growing segment with a rapid increase in consumption translating partially into monetisation, although from a lower revenue base
- Television continued to be the largest segment both in terms of overall and advertisement revenues and had a reasonable year with a 9 per cent growth in overall revenues in FY20. This was majorly driven by the growth in subscription revenues post implementation of NTO 1.0 and Q1 FY20 seeing strong traction in advertisement revenues
- The films segment was flat, while Print, OOH and Radio saw a decline in overall revenue in FY20.

Underlying drivers for FY20 performance

Digital and OTT video



Robust growth in digital infrastructure and content supply allowed the digital segment to post a 26 per cent growth in FY20 despite a slowing economy, with digital and OTT advertising growing by 24 per cent. Digital subscription continued to grow strongly at 47 per cent in FY20 on the back of growing user acceptance though there was some resistance due to the combined factors of OTT video players increasing their package prices and the income effects of a slowing economy.

Television



The television segment witnessed a growth of 9 per cent in FY20 on the back of higher subscription revenues triggered by the implementation of NTO 1.0, which resulted in transparency across the value chain and higher ARPUs due to implementation of a minimum NCF. However, advertising growth in FY20 was tepid, with a sluggish economy and impact of COVID-19 at the fag end of the year, apart from Q1 FY20 (boosted by cricket and the elections).

Print



FY20 remained an unfavourable year for Print with a decline of 8%, primarily due to advertisement spend slowdown particularly impacting the English segment, which also noted a decline in circulation due to stagnation in key metro markets. Hindi and regional segments noted a lower decline due to diversified local and national customers and greater reach in Tier II and smaller towns.

Films and Outdoor entertainment



In FY20, the Indian box office saw a marginal decline in performance, with the box office collection of Hindi films remaining stable while regional cinema underperformed as compared to previous years. The digital revenues grew as OTT platforms are paying premium prices for digital rights of movies, to build their content library

The OOH segment in FY20 witnessed a decline, due to realignment of spends by advertisers during elections and cricket world cup, away from OOH and compounded by a slowing economy.

Animation and VFX



The rapid growth of OTT platforms, increased focus on animated Intellectual Property (IP) content and larger investments in VFX by studios has provided animation and VFX studios greater opportunities in both the domestic and international markets. The changes in YouTube advertising policies around kids' content during FY20, though, has had an adverse impact on the animation IP production segment.

Gaming



The online gaming segment registered an impressive 45 per cent growth in revenues in FY20 with the user base surpassing 365 million by March 2020, with Real Money Games (RMG) – both card-based and fantasy seeing strong traction. Casual gaming also saw strong consumption uptake in FY20 with in-app monetisation also starting to see momentum.

Radio



Overall slowdown and lower central government advertisement spends led to a decline in FY20 revenues, while absence of a robust listenership measurement system continued to challenge players' ability to grow their advertiser base.

Music

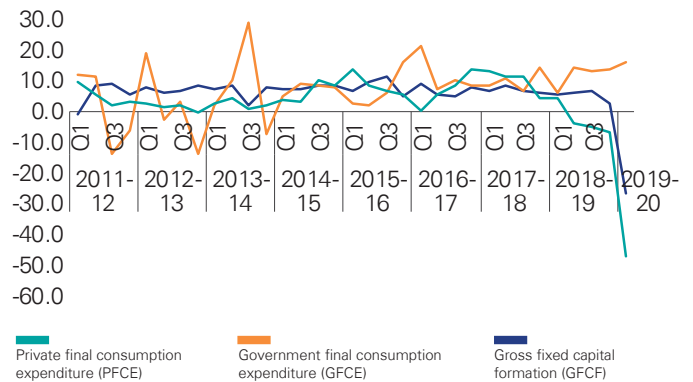
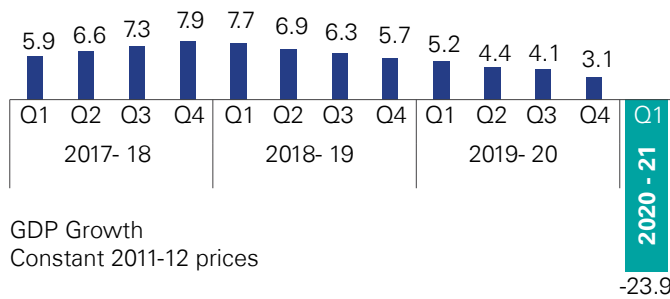


Digital platforms have continued to contribute the largest share to the music ecosystem in FY20, with public performance being the second largest contributor to the segment revenues.



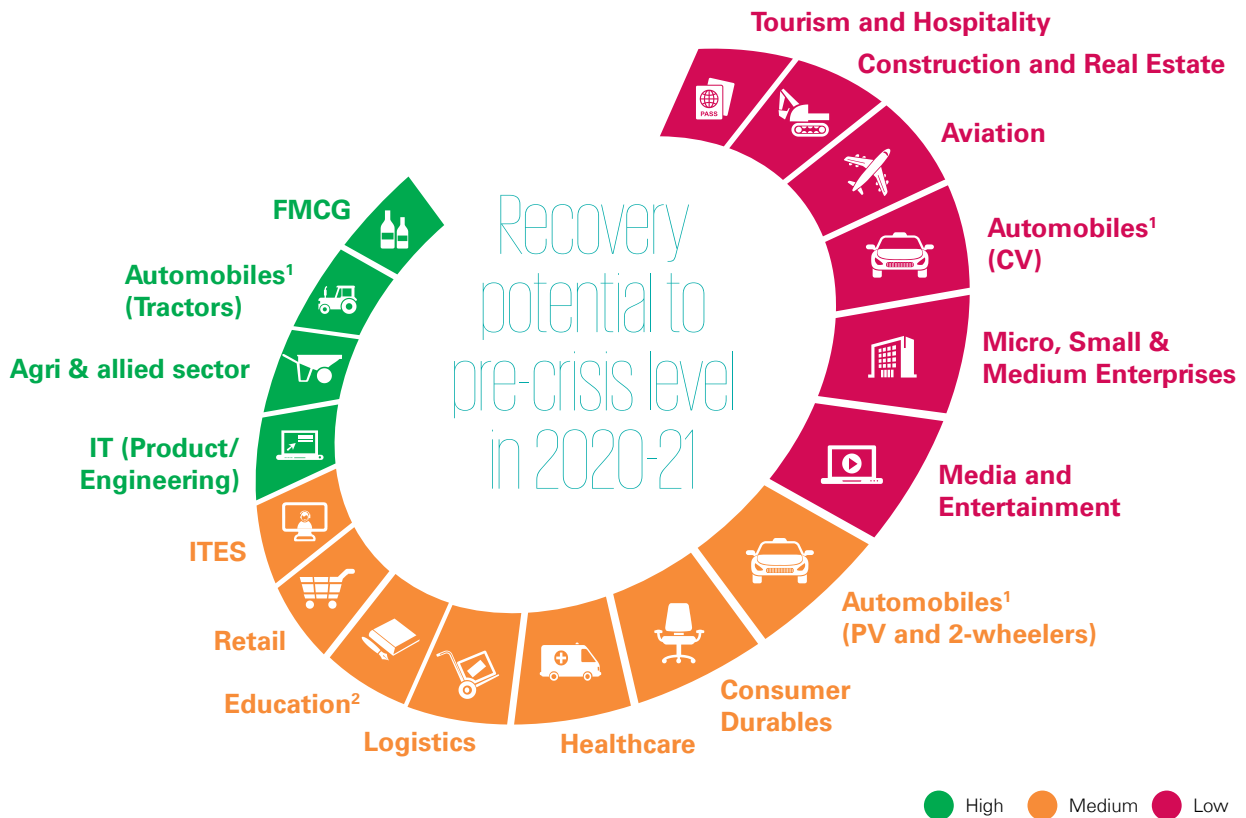
The COVID-19 disruption

The process of the gradual reopening of the Indian economy has begun, but the shock of COVID-19 on businesses has been severe. Internal supply chain disruptions, labour shortage and weak demand are all posing major challenges to attempts at recovery. On an annual basis, GDP growth is expected to contract by 5-10 per cent in FY21 as consumption expenditure and investment nosedive.



Source: Database on Indian Economy, Reserve Bank of India, accessed on 01 September 2020

All sectors have been affected by the coronavirus outbreak and its associated lockdowns to varying degrees. In fact, even within a sector, there are differences in the scale and extent of challenges faced. The M&E sector for example is a case in point where its individual segments have fared very differently to one another.









1. Low for commercial vehicle, medium for passenger vehicle and two-wheeler, high for tractors

2. Medium in next 3-6 months and then it should grow from there to strength. K-12: Secondary schools are back, but with limitations; Colleges: Should be back in the second-half/ early next year; Skills development: Parts of ecosystem functioning and rest of campus expected to pick-up early H1 next year

M&E in the COVID-19 era

The M&E sector faced significant disruption with the ongoing lockdown forcing all forms of outdoor entertainment, particularly cinemas and events to shut down and content supply chains to dry up. Additionally, advertising spends also declined as all major advertisement spend sectors were witnessing their own business continuity challenges.

With lockdowns easing, the content supply appears to be restarting, albeit with baby steps. Cinemas and events, however, continue to be shut and face significant uncertainty regarding return to normalcy in the near term. Advertisement spends appear to be recovering and with a strong festive quarter expected in Q3FY21, there is likely to be a quicker recovery in marketing budgets once we start moving towards normalcy. The overall reduction in advertising expenditure therefore may turn out to be lower than the contraction in economic activity.

Segment Impact	Near Term	Long Term
Digital and OTT video 	<ul style="list-style-type: none"> Reallocation of advertising spends away from outdoor M&E and traditional media (print, radio) towards digital Increasing propensity to consume OTT video content, especially from Tier 3 and below cities likely to emerge. 	<ul style="list-style-type: none"> Low-touch economy will necessitate digital fulfilment for almost every business, with a greater propensity to transact online Rural India and smaller towns show an increasing propensity and affinity for the internet.
Television 	<ul style="list-style-type: none"> Significant spike in viewership Significant decline in ad revenues and a lower decline in subscription revenues seen in FY21 Content cost renegotiations between broadcasters and producers. 	<ul style="list-style-type: none"> TV Viewership likely to come back to pre-COVID levels Long term fundamentals of TV remain robust, with ad and subscription revenues expected to recover in FY22 Content cost rationalisation could be undone partially in the long run.
Print 	<ul style="list-style-type: none"> Lockdown resulted in an extreme slowdown in ad spends and curtailed circulation in Q1FY20 Decline in revenue led to cost cutting measures, some of which are likely to be sustainable. 	<ul style="list-style-type: none"> Reduction in dependency on ad spends and monetising quality content Long term savings through changes in legacy cost structures and streamlining editorial processes.
Films and OOH 	<ul style="list-style-type: none"> No theatrical distribution due to continued closure of cinema halls, however there was a spurt in direct to OTT releases Filming to see a short-term change, with challenges around higher production costs. 	<ul style="list-style-type: none"> Cinema 2.0 – Conceptualisation of new projects for the long term Realignment of theatrical windows with emphasis on mid to large projects OTT releases to be economics driven – primarily smaller budget projects
Animation and VFX 	<ul style="list-style-type: none"> Disruption of animation and VFX operations due to transition to work from home Shutdown of small animation and VFX studios likely in the short term Reduced pipeline of VFX work on account of films, due to stalled shoots and projects. 	<ul style="list-style-type: none"> Leaner cost structures in animation and VFX studios to emerge Animation studios likely to focus on own IP for segments like Gaming, Edtech etc. Increased volume of VFX on account of completion of pending projects and shift in outsourcing from China.
Gaming 	<ul style="list-style-type: none"> A major silver lining, with a spurt in consumption (except fantasy sports), and partly subscription led monetisation Gaming value chain relatively less disrupted, with companies transitioning to work from home 	<ul style="list-style-type: none"> Increase in monetisation through in-app purchases could play out over the long run Evolution of gaming as a means of virtual social interaction.

 Negative  Positive

Media and Entertainment sector – projected performance

Segment Size – Overall Revenues (INR billion)	FY20	FY21P	FY22P	FY21 Growth/ Decline	FY22 growth over FY21
Digital and OTT	218	254	338	17%	33%
TV	778	708	769	-9%	9%
Print	306	188	296	-38%	57%
Films	183	61	182	-67%	196%
Animation, VFX and post-production	101	49	77	-51%	56%
Gaming	90	99	143	10%	45%
Out of home	31	16	28	-49%	77%
Radio	25	12	17	-50%	40%
Music	19	14	17	-25%	16%
Total	1,751	1,402	1,866	-20%	33%

Source: KPMG in India analysis, 2020, based on primary and secondary research

Segment size – Advertising revenues (INR billion)	FY20	FY21P	FY22P	FY21 Growth/ Decline	FY22 growth over FY21
Digital and OTT	199	223	292	12%	31%
TV	262	217	258	-17%	19%
Print	198	107	186	-46%	73%
Films	11	4	7	-65%	100%
Out of Home	31	16	28	-49%	77%
Radio	25	12	17	-50%	40%
Total	726	579	789	-20%	36%

Source: KPMG in India analysis, 2020, based on primary and secondary research

Underlying drivers for sector projections

- The M&E sector in India is projected to see a significant decline of 20 per cent in total revenues in FY21, with deep cuts in Print and Films, followed by Television, on account of COVID-19 disruption
- The digital consumption segments i.e. Digital (including OTT video) and Online gaming are expected to be silver linings, with digital consumption across the board having seen a significant upswing owing to people working from home. While advertising revenues on digital have been impacted from last year's hypercharged growth, the subscription revenues have seen an upswing and could end up at an accelerated new normal once the pandemic subsides.
- Digital media advertising revenues are projected to overtake TV advertising revenues for the first time in FY21 and will establish new leaderboard rankings.
- Assuming the pandemic is under some form of control by the end of FY21 and businesses learn to operate in the new normal, FY22 will likely be a bounce-back year for the sector, with a 33 per cent growth projected over FY21.
- Digital and gaming are projected to continue their strong growth in FY22 as well, with the habit formation around consumption translating into greater monetisation
- Underlying core themes will continue to play their part with Television subscription revenues being constrained due to implementation of NTO 2.0, while Print (particularly English) facing readership and advertisement spend pressures

Priorities post COVID-19 – organisational survey

KPMG in India carried out a CXO level survey with an aim to understand near and medium-term priorities of organisations on account of COVID-19, and how they believe technology can help them achieve their objectives.

Functions impacted - While nearly 80 per cent of CXOs felt that finance, IT and HR functions in organisations had a marginal impact, nearly 32 per cent of CXOs felt that the operations function faced several challenges, primarily on account of the shift in the mode of operations to work from home.

Immediate priorities for businesses - Ensuring the safety of workforce and transition back to on-site roles was the number one priority across the respondents surveyed, followed by the establishment of governance structures to restart businesses.

Immediate Priority of businesses to commence operations



Note: Lower score equates to higher priority

Priorities over next one year - Most the CXOs expected to prioritize improving business continuity planning and other internal controls within their organisations, followed by enhancing digital integration.

Business priorities over the next 1 year



Note: Lower score equates to higher priority

Increased focus on digital - Nearly 95 per cent of the respondents anticipated a much greater focus on digital initiatives in their organisation in the near future, with the rest already being present in a digital first environment.

Benefits of tech across functions - Nearly 70 per cent of the respondents felt that the greatest benefit of technology could be felt in the content creation and post-production functions in their respective organisations

Priorities driving digital initiatives - 'Customer focus' and 'Revenue growth' were the top priorities which the CXOs' digital initiatives are likely to drive, with cost minimisation and workforce mobilisation having the lowest priority.

Organisational priorities driving digital first initiatives



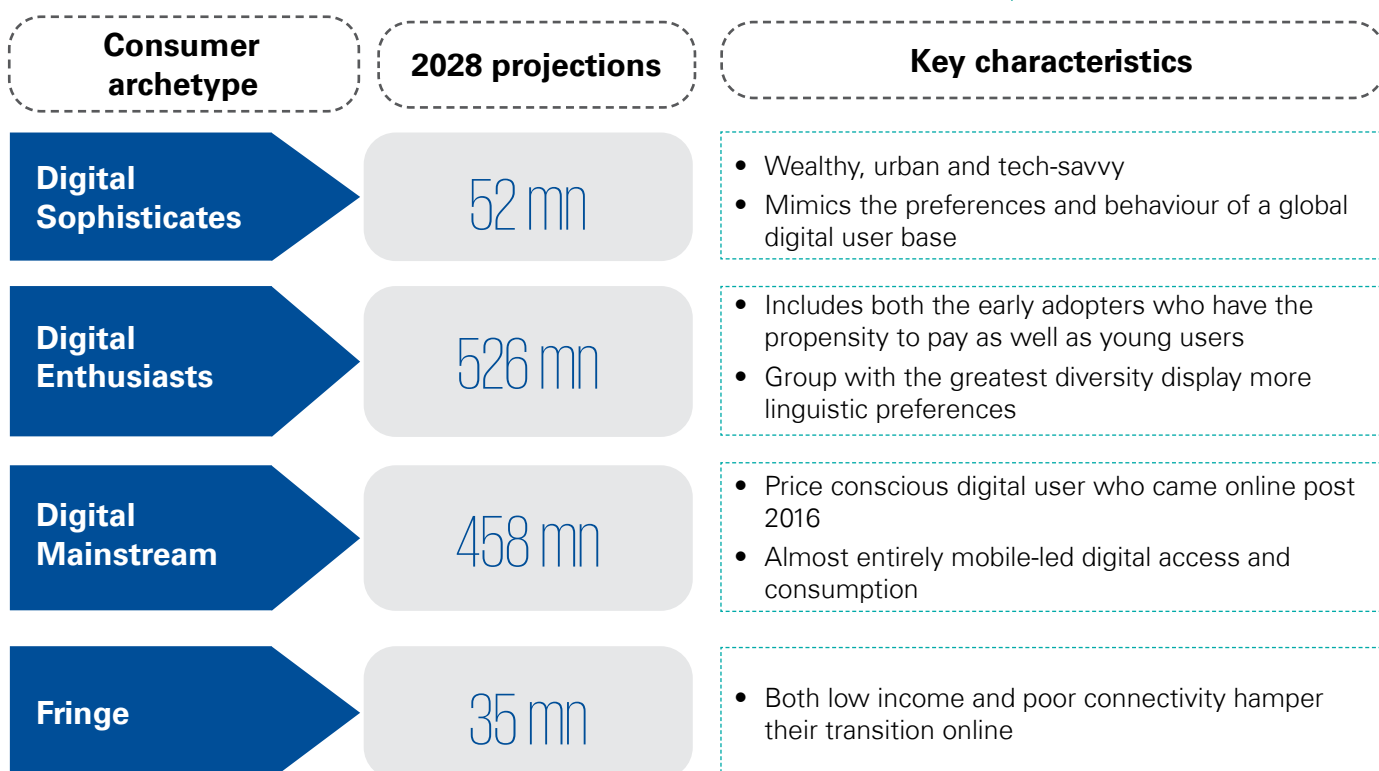
Note: Lower score equates to higher priority

Recovery timelines - Nearly 34 per cent of respondents felt that their respective segment would recover in 9-12 months and 24 per cent respondents were confident of new opportunities arising during the recovery phase

India's digital demography – on an accelerated path

The spread of the COVID-19 pandemic and the ensuing lockdowns imposed to contain the spread of the virus have accelerated the adoption of digital services among a wider base of users in the country. We have accordingly revised our hypothesis of the digital demography to account for this behavioral shift.

India is likely to be home to a billion digital users by 2028 compared to our earlier projection of 2030, with a faster upward progression of users in each of the cohorts



While the trajectory, composition and overarching themes of India's digital demography are consistent even in a post-pandemic reality, we outline a few of the structural shifts that have occurred in digital consumer behaviour over the last few months:

- Indoor over outdoor in the near to medium term:** Digital technology likely to remain deeply embedded in our everyday lives, at least until a safe, reliable and affordable vaccine for COVID-19 is found as social distancing norms are likely to remain in force till then
- Bharat could lead in defining digital behaviour:** Rural demand has shown unexpected resilience within weeks of the lifting COVID-19 lockdown alongside an already deepening engagement with the internet for the rural digital consumer. We foresee a 'new homogeneity' between the various segments and the emergence of a vibrant digital consuming and transacting class from smaller town India
- Less friction in digital payments adoption:** The higher level of trust and confidence in going online

post the experience of the pandemic is already apparent as more Indians choose cash-less methods of payment. Digital payments are likely to benefit from a whole new range of businesses that will now offer digital fulfilment options.

As a result, age, income and location will become even less of a barrier to digital adoption and India as a nation is likely see an accelerated transition from passive, video viewers to legitimate digital mainstream consumers.

Organisations need to take cognizance of this increased demand from a potentially larger demographic and ensure that their content offerings and supply chains are agile enough to meet the same. Companies would also need to imbibe a digital first thinking across the way they work; whether it be their internal processes or the way they interact with and analyse customer behavior. Finally, to acquire and retain the value conscious Indian consumer, it is likely that digital ecosystems, which offer multiple use cases under one umbrella, and seek to provide a seamless experience, would emerge as the frontrunners to capitalise on our digital billion.

M&E sector in India - key overarching themes

Gaming – a vital cog in the digital ecosystem play

- The rapid growth of gaming has meant that 'Direct to Consumer' platforms across the digital value chain are starting to look at gaming as a critical use case which would drive greater consumption, optimize customer acquisition costs (CAC) and help user retention in the long term
- From OTT video platforms such as Zee5, MX Player, Sony Liv; to e-commerce platforms like Flipkart, Amazon; to digital payments players such as Paytm; digital businesses across the board are looking to harness the engagement opportunities that gaming provides for their ecosystems
- Apart from user acquisition and retention, cross product monetisation on the platform, a better understanding of consumer behavior, targeted advertising and rich data for customer analytics are some of the benefits that gaming as a use-case provides digital platforms.

NTO 2.0 – another layer of disruption

- NTO 1.0 was aimed at creating transparency, encouraging consumer choice and facilitating systematic growth within the broadcasting and cable services sector. However, following consumer push back due to increased complexity in channel selection and increased prices, TRAI issued a set of amendments in the form of NTO 2.0. These changes focused on increasing consumer choice, promoting a la carte selection, but also capped prices of channels and restricted the number of bouquets available. Given the potential adverse impact on economics of broadcasters and distributors, there has been resistance from the TV segment stakeholders
- Expected impact of NTO 2.0 on key stakeholders:
 - **Broadcasters:** Subscription revenue slow down due to channel price caps for inclusion in bouquets and capping of bouquet discounts to 33%
 - **Distributors:** Negative impact due to cap on NCF to INR 160 per month for more than 200 channels and lower NCF for subscribers with more than one TV connection at home
 - **End consumers:** Upside due to lower subscription prices driven by bouquet price capping, lower NCF and greater flexibility in selection of a la carte channels
- Has been legally challenged by the broadcasters and distributors; we have assumed that NTO 2.0 will likely be implemented during FY21 and is accordingly reflected in the TV segment projections.

Standout genres – news, kids and edutainment

- **News:** With deeper penetration beyond Tier I and Tier II cities, rise in literacy levels and favourable demographics, news consumption has witnessed a healthy growth in the past few years. A rapid expansion of mobile web access has paved the way for digital media growth in the recent years. The COVID-19 pandemic gave a further impetus to news consumption albeit with a paradigm shift in the news consumption pattern. Constraints around the distribution of physical newspapers during the lockdown led to an immediate sway of eyeballs towards TV and digital
- **Kids:** The Kids genre witnessed a spike in viewership during the COVID-19-induced lockdown combined with the onset of summer vacations. With kids spending more time at home, viewing periods have extended through the day attracting increased attention from advertisers. OTT platforms have also recognized the power of Kids content to drive viewership and stickiness and is seeing increased investments. Gamification and Education are the new frontiers with the amalgamation of entertainment and learning within the larger kids content segment is also gaining attention.
- **Edutainment:** The emergence of ed-tech and a growing focus on engagement in learning across all learner groups combined with the ongoing lockdown, has unlocked the potential for technological interventions from traditional M&E players. The edutainment market targets both child and adult learners, with an emphasis on improving quality of education and learning outcomes for students. By providing edutainment options, media companies can widen their customer base, increase consumer lifetime value and increase user engagement.







The video content supply chain – disruption necessitates innovation

- Multiple aspects of the current content supply chain processes are manual and require in-person involvement, which leads to inefficiencies in terms of costs and lead times
- COVID-19 and the resultant nation-wide lockdown has disrupted the entire process of content creation, necessitating the intervention of technology to get the content to users' screens. This use of technology is being seen across the value chain, right from the adoption of remote collaboration tools and software for pre and post-production, to extensive use of cloud infrastructure, and the use of gaming engines to produce content virtually
- While technology adoption is going to present some challenges in terms of investments during the time of a pandemic like skill development and the shift to a digital-first mindset; change in terms of incorporating technology is inevitable. The same, when mature, may also lead to efficiencies across the supply chain in terms of costs savings on physical locations and offices, as well as potentially lower lead times.

Leveraging technology across M&E

Technology innovations are seeing greater integration across media businesses. The following emerging technologies are beginning to see greater traction and use cases across segments and have the potential to disrupt the status quo.

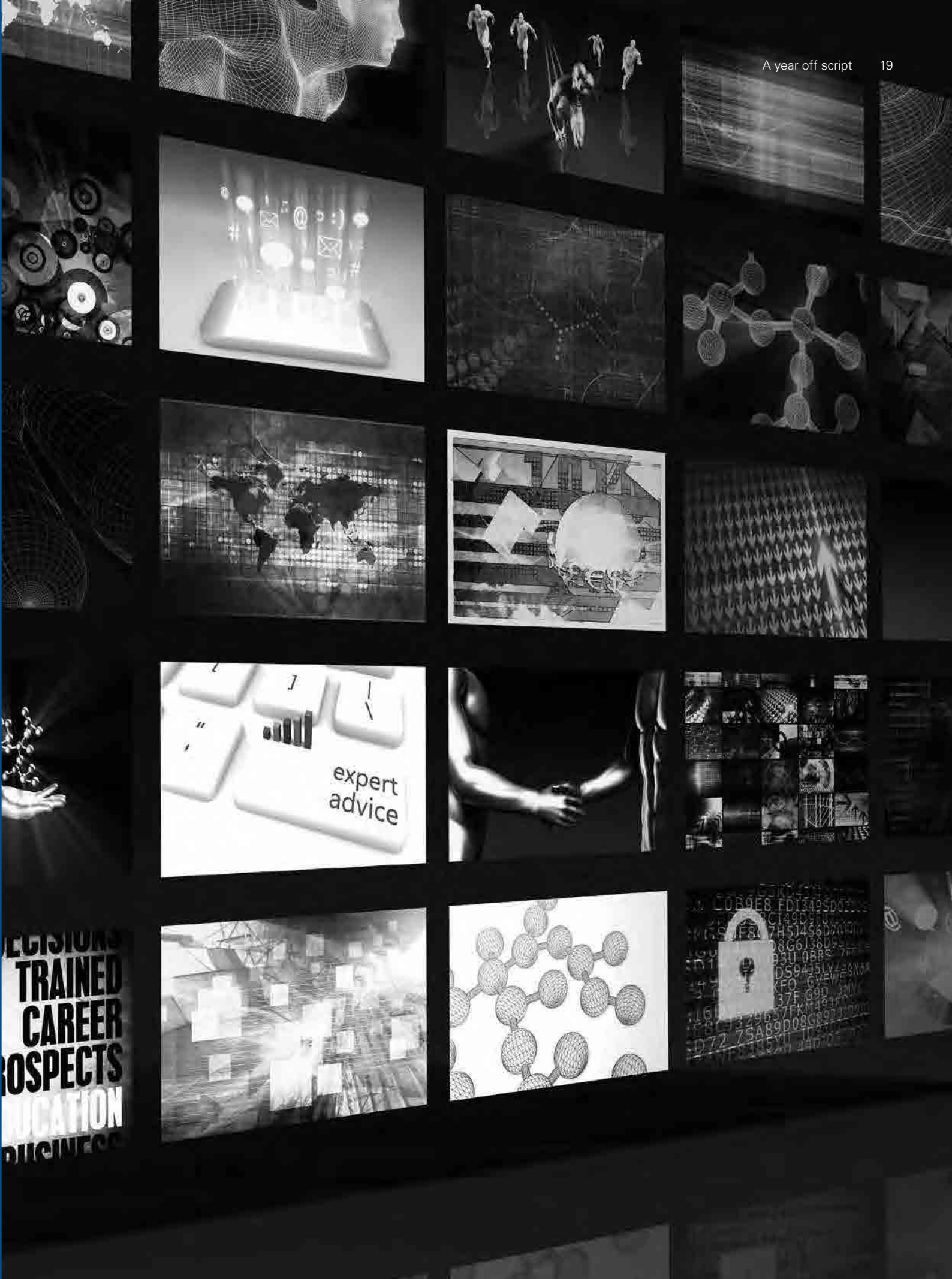
AR/VR	Virtual production	Artificial Intelligence	Blockchain
AR helps integrate digital experiences with real world experiences. VR is driving cloud gaming experience to newer levels and helps provide immersive live event experience	Virtual production improves storytelling, gives creativity fillip to the filmmakers and reduces post-production costs. The technology knowhow and availability of skilled personnel is currently low and is expected to increase with the increase in technology maturity	AI is helping in many segments of the sector – from personalised recommendations to creating content. With established standard control over data governance and privacy, AI could be the driving technology for user engagement in the media and entertainment sector	Blockchain can provide transparency and security in media and entertainment sector which could unlock new revenue streams like pay per use content consumption and strengthen the fight of the sector against piracy and illegal file sharing.
			

Conclusion

The impact of a slowing economy was already being felt in the Indian M&E sector in FY20, but the COVID-19 pandemic has had a severe negative impact on the economy, with most of the sectors contributing to revenues of the M&E sector witnessing a downturn. As a result, deep cuts in revenues are expected at an overall basis in the M&E sector in FY21.

However, the proverbial silver lining has been the acceleration of the Indian digital consumer base and the resultant consumption, which has hit new highs during the lockdown. This is likely to have long term implications on the balance of power between traditional and emerging/digital segments, as well as the emergence of a transaction led digital economy encompassing the masses in India.

While the numbers definitely show that the Indian M&E sector has gone off-script in terms of its growth trajectory, the time is ripe for reflection, recalibration and a subsequent revival.



DECISIONS
TRAINED
CAREER
PROSPECTS
EDUCATION
BUSINESS

A year off script

Time for resilience





Introduction

Until the COVID-19 pandemic struck, seldom has all of humanity united towards a common purpose. The crisis has been unprecedented, not just in its scale, but also in its directional influence and material impact on lives and livelihoods. Before we begin our analysis of its implications for media and entertainment (M&E), we must recognise that fundamentally, COVID-19 is a catastrophe. Attempts to examine a brighter side, or

search for silver linings from this experience, are not meant to undermine the tragic loss of lives over the past many months.

Our core theme of the report this year – the impact of COVID-19 on M&E – has been developed keeping in mind a broader macro-economic framework. The rationale for such an approach is the following:



The economic cost of the crisis will have a contagion effect on almost every major sector. While some sectors may emerge more resilient, investments by companies are likely to remain muted with a focus instead on cost savings.



On the demand side, even in cases when the income effects from the crisis have been manageable, there might be an enduring loss in confidence and underlying pessimism. This could delay recovery in discretionary spending by consumers.



The advertising expenditure of companies within sectors such as FMCG, auto, BFSI and e-commerce will be determined by their individual circumstances, as well as the macro supply-and demand-side factors.



M&E revenues in India are primarily ad-supported and any reduction in the marketing budgets of major spenders will have an adverse effect on the sector.

In this initial section, we provide an overview of important economic indicators that point to the current state of the Indian economy and its anticipated recovery. This analysis is supplemented by insights into changes in consumer behaviour and perceptions on account of COVID-19.

We also present findings from new research to understand the impact of changes in net revenue on advertising expenditure. Finally, we set up the remaining chapters of the report with a summary analysis of the impact on M&E segments and defining trends in the foreseeable future.



Weeks Full of Years: COVID-19 and the acceleration of change



Roopa Purushothaman

Chief Economist and Head of Policy Advocacy, Tata Sons

In just a few months, COVID-19 has brought decades' worth of change.

Massive digital acceleration. Of the top 100 global public companies that have grown larger in the first six months of 2020, over half - contributing 75 per cent of the overall increase in market capitalisation - power digital operations, transactions, and consumption. In months, online retail, food delivery, digital payments, virtual healthcare, virtual learning, online entertainment, and gaming have seen consumer adoption rates that were expected years later. Cloud technology providers, data centre players, video conferencing platforms, digital lending start-ups, and workplace automation companies have thrived as businesses have accelerated digital adoption to keep up during lockdowns. Telecom and internet service providers, along with communication platforms, saw spikes in traffic as we collectively sought to replicate the interactions of the physical world in the digital. Even those in traditionally offline businesses saw gains driven by an online pivot.

Health dominates best of the rest. Unsurprisingly, pharmaceutical, healthcare, and medical equipment companies have done well as the hunt for vaccines and therapeutics becomes the holy grail of the global economy. Sectors like consumer staples - food, beverages, and personal care - and select offline retailers have also done well in meeting desperate consumer demand during the lockdowns.

Safety and viability concerns for losers. On the other hand, sectors that depend on customers gathering at close quarters have seen their near-term prospects crater. Private Indian airports that carried more than half of passenger volume in 2019 are expecting a 40-60 per cent drop this financial year¹. People are hesitant to fly, and obstacles to international travel remain high. Cambodia, which derives a third of its GDP from tourism, introduced a USD3,000 'coronavirus deposit' and will demand proof of health insurance up to USD50,000. Likewise, restaurants, bars, shopping malls, hair salons, and gyms face an uncertain future - unsafe in the short-term and possibly unviable after, especially with social distancing mandates. The expectation of medium-term pain - sluggish global demand and recession-induced business bankruptcies - has also seen companies in energy and financial services struggle.

Multiple dimensions of change. The question is about how long the uncertainty will persist, and what the world will look like once the threat passes. It's clear that the pandemic has accelerated previous trends, such as greater digitalisation. But the pandemic has also brought other trends into question. Where ridesharing was growing in popularity, personal transport is more attractive now. And then there are areas, like leisure travel, which are likely to rebound from current troughs. In a recent survey², over 60 per cent agreed that they "can't wait to start traveling again."

1. "40-60% drop in air passenger traffic likely in FY21 amid Covid-19 crisis", Business Standard, April 09, 2020

2. COVID-19 consumer sentiment snapshot #10, May 14, 2020, BCG

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

New habits, New winners

Given how suddenly the pandemic has turned digital tools and spaces vital, it is unlikely that people will return fully to things as they were. In learning new ways, companies and people are establishing a new base for themselves. From here, new choices will be made. The same goes for habits.

For instance, high-density office spaces in crowded business districts were the centre of gravity of most workers' weekdays. High-end cafes and *chaiwalas* sprouted in response. Fewer people returning to work in offices means fewer customers. The commercial real estate market bears watching. Residential trends are also accelerating. Unsold inventories are rising as residential sales have seen a decline. Giving up office spaces on the back of uncertainty about the return of workforce and high upkeep costs has also been noted.

Formal wear and shoes will lose ground to casual and athleisure wear. The replication of an office at home will be a boon to laptop makers, home electronics brands, and internet service providers. Radio will lose out to streaming apps or others providing information on local events.

Online options that have allowed people to preserve their habits have been the most immediate beneficiaries: digital media to substitute the daily newspaper, online food delivery to make up for eating at a restaurant, and online classes to replicate the gym workout at home. But there are also more nuanced developments. The emergence of ready-to-eat foods, for instance, which some consumers prefer for safety reasons. COVID-19 brought home the need for self-sufficiency and cooking at home could become this period's legacy. New businesses can cater to these new habits.

Structural changes guaranteed

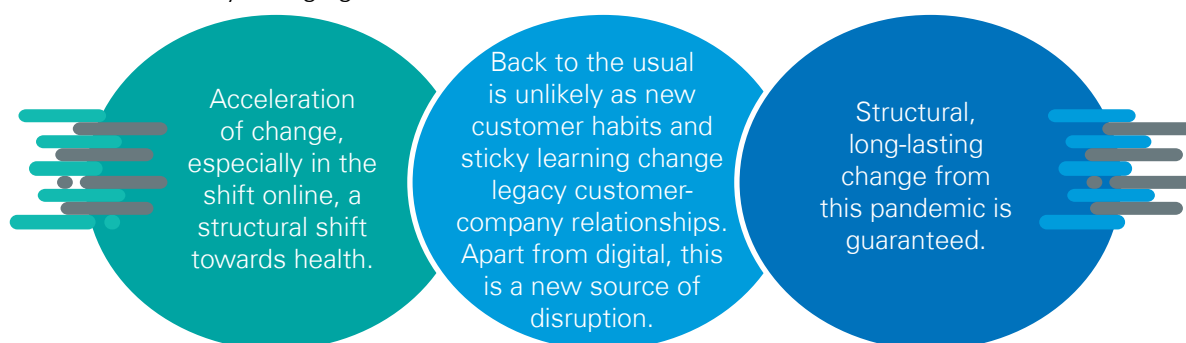
New sources of disruption, beyond digital. Across industries, as legacy customer-company relationships are broken and re-formed by changing habits and

circumstances, there will be a shifting of industry dynamics.

Consider travel. Business travellers accustomed to flitting across continents many times a month will reduce the number of trips they undertake and depend more heavily on video calls. Leisure travel, on the other hand, may not see as much of a dent. But the profits of much of the travel industry depend on business travellers' continuing patronage. That foundation will need to shift. The post-COVID-19 'safety-first' mindset might also - at least in the short-term - make travel much more local.

Sticky learning will shift priorities. The realities of 'sticky learning' mean that conventional customer acquisition strategies will look markedly different. Companies pursued the customer base easiest to capture, even if the value created and the ability for the company to monetise that value was limited. The idea was that having a user base would create opportunity in the distant future, regardless of the immediate costs. Now with many having made the transition, it makes sense to pursue the user base where firms' ability to create and capture value is highest. This makes high-income, slow adopters a superior target. To take the example of fintech, it would suggest that deposit platforms (older investors) rather than loan platforms (younger dis-savers) may be the new leading edge.

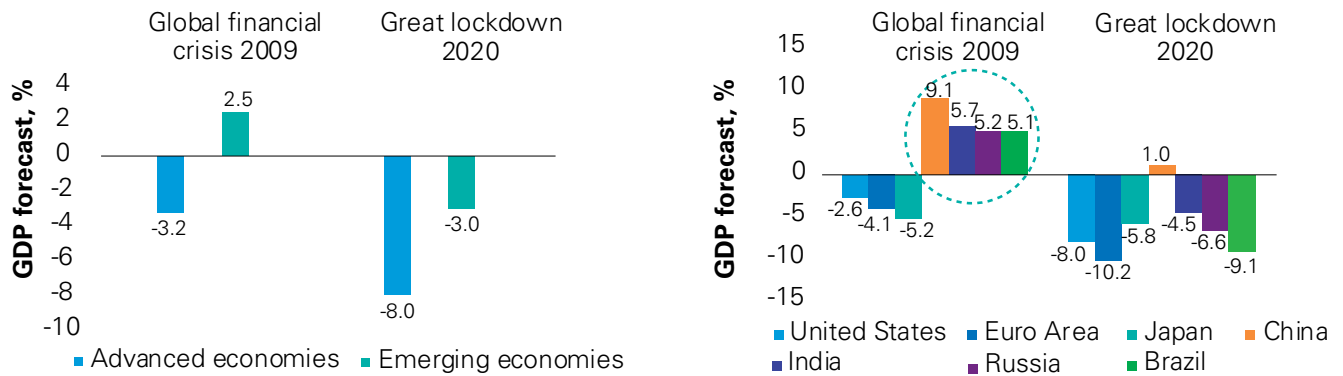
Pandemics can effect radical and long-lasting change. The 1918 Spanish flu changed everything from how cities were planned to the design of bathrooms. COVID-19 has changed the experience of being customers, employees, and citizens. We have already witnessed massive behaviour change at a scale and speed never seen before, from social distancing to the shifting of everything online, and to the home. As we collectively 'hack' new ways to thrive, we can expect to see enduring change, at scale, for some time to come.



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One to remember: COVID-19 and the macro-economy

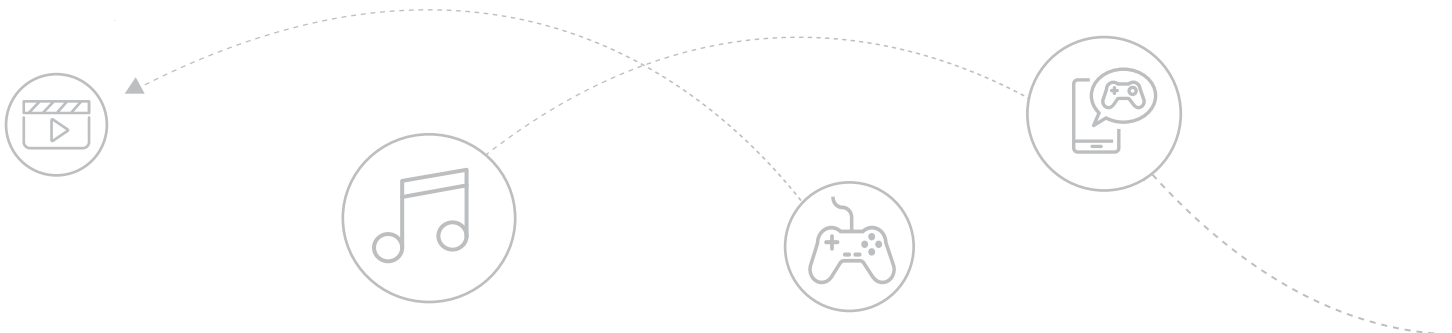
Continued growth opportunities in emerging markets during the financial crisis of 2008 managed to prop up the global economy. In comparison, the devastating ubiquity of the coronavirus means the global economy faces a deeper contraction (-4.9 per cent) in CY20³.



Source: World Economic Outlook (June 2020), International Monetary Fund, 24 June 2020, accessed on 30 August 2020

Both the U.S. and Europe unveiled massive fiscal stimulus plans, and interest rates were lowered to near zero or kept in the negative territory in many advanced economies. Given that fiscal resources have been

further stretched due to the COVID-19 response, fiscal restraint could emerge as a dominant theme once we get past the pandemic.



3. The World Economic Outlook, International Monetary Fund

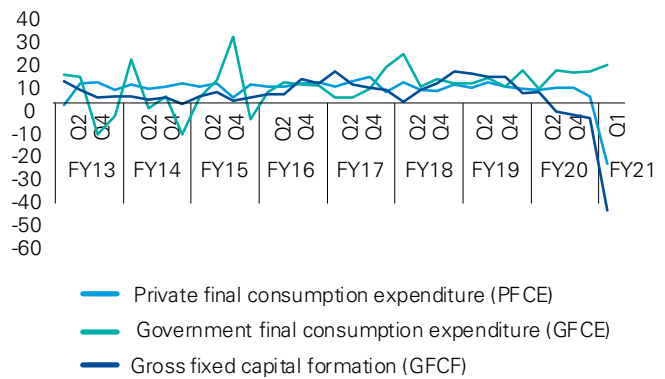
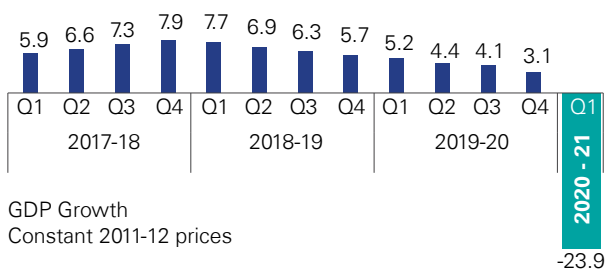
Indian economy severely impacted by COVID-19

The Indian economy was decelerating even before the outbreak of COVID-19, which led to one of the strictest lockdowns. The process of the gradual reopening of the economy has begun, but businesses have not been able to reach full capacities due to internal supply chain

disruptions, labour shortage and weak demand. India's GDP growth rate could show signs of improvement in H2 CY20, but the headwinds posed by the above factors cannot be underestimated.

GDP growth expected to contract by 5-10% in 2020-21

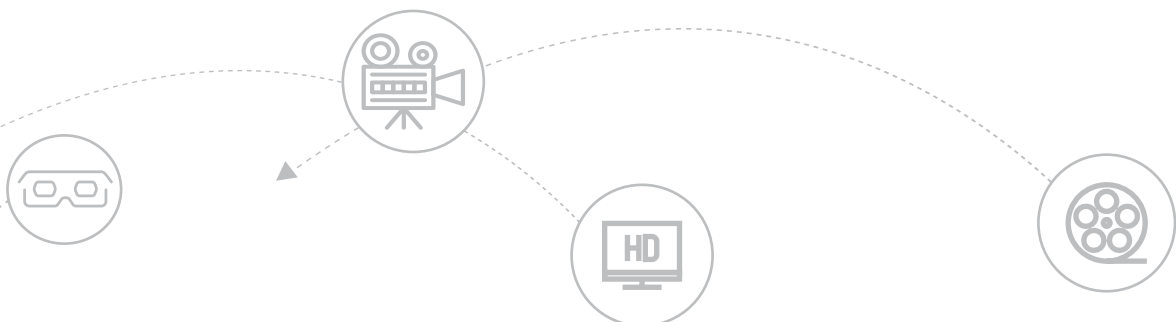
Given subdued consumption and investment, government expenditure is expected to provide some support



Source: Database on Indian Economy, Reserve Bank of India, accessed on 01 September 2020

Source: Database on Indian Economy, Reserve Bank of India, accessed on 01 September 2020

Domestic firms were grappling with low capacity utilisation (68.6 per cent⁴ in Q3 FY20) even before the crisis and subdued demand could lead to further deterioration in capacity utilisation. Weak credit off-take by the private sector adds to the challenges.

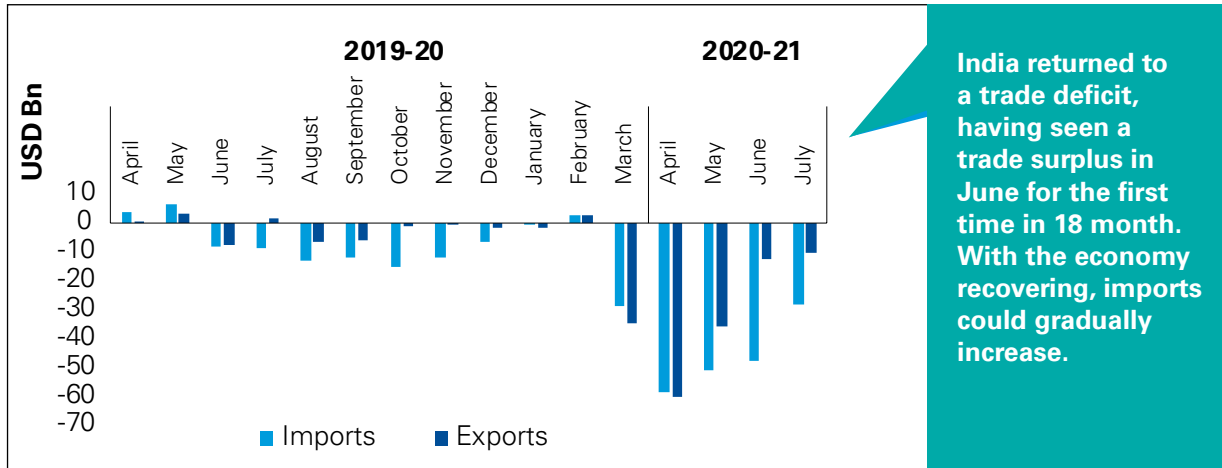


4. OBICUS survey on the manufacturing sector, Reserve Bank of India, 03 April 2020, accessed on 31 August 2020



Manufacturing and Foreign Trade

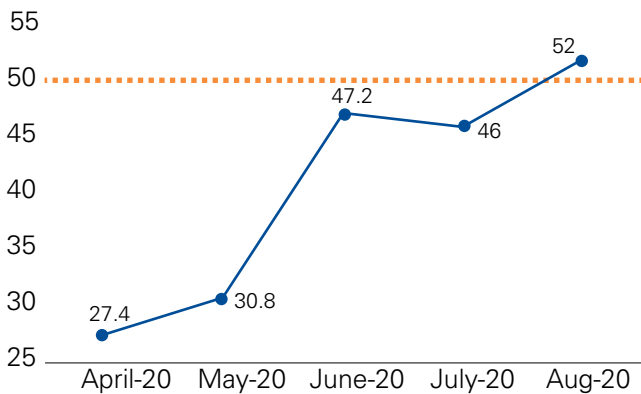
India's foreign trade is showing signs of improvement and domestic demand has gradually been picking up but is yet to reach the pre-crisis level.



India returned to a trade deficit, having seen a trade surplus in June for the first time in 18 month. With the economy recovering, imports could gradually increase.

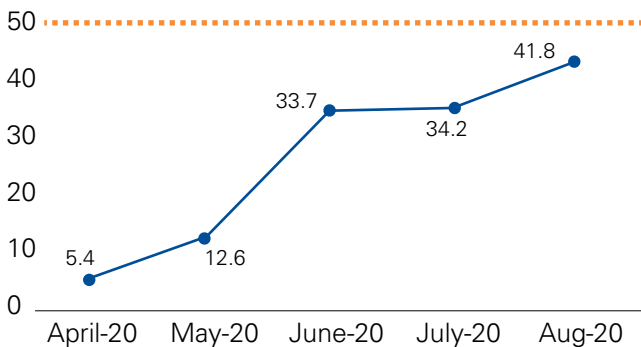
Source: Database on Indian Economy, Reserve Bank of India, accessed on 01 September 2020

Manufacturing Purchasing Managers' Index (PMI)



Source: IHS Markit India Manufacturing PMI, 01 September 2020, accessed on 06 September 2020 Note: PMI above 50 means expansion

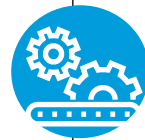
Services Business Activity Index



Source: IHS Markit India Services PMI, 03 September 2020, accessed on 06 September 2020 Note: PMI above 50 means expansion



- Manufacturing activity, underpinned by an improvement in demand following the reopening of businesses, expanded for first time in five months in August 2020.



- Services PMI (Purchasing Managers' Index) remained in the negative territory as of August 2020, as some of the crucial segments of the service sector are not allowed to resume operations yet. Muted demand conditions only add to headwinds.



- A reasonable improvement in business activities is contingent on a consistent plateauing of infection rates

Employment

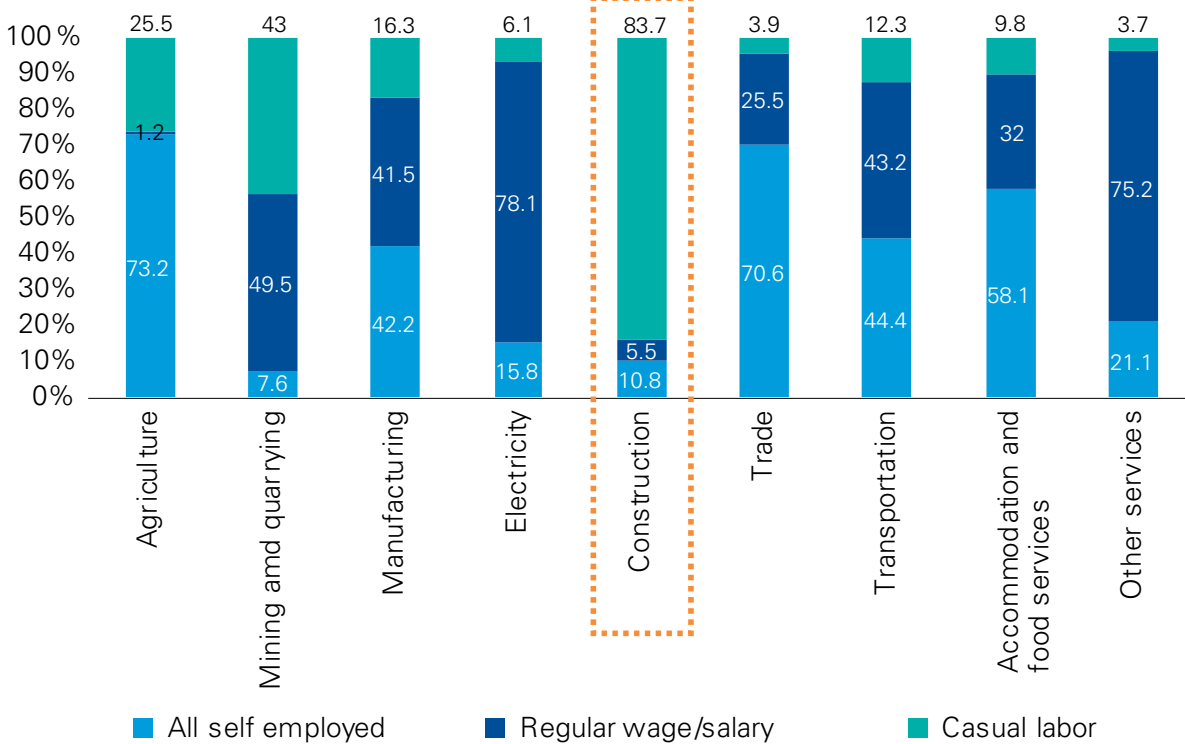
The construction sector employs a large number of casual workers, who have been significantly impacted during the lockdown.



- The rural unemployment rate started increasing in August 2020, following the end of the crop sowing season in July.



- Urban unemployment has been affected by micro lockdowns imposed by states and was at 9.83 per cent⁵ in August 2020 versus 9.37 per cent in the previous month.



Source: Periodic Labour Force (PLF) Survey (2017-18), Ministry of Statistics and Programme Implementation, May 2019, accessed on 30 August 2020. Note: Usually working persons in usual status (ps+ss) was taken for this chart

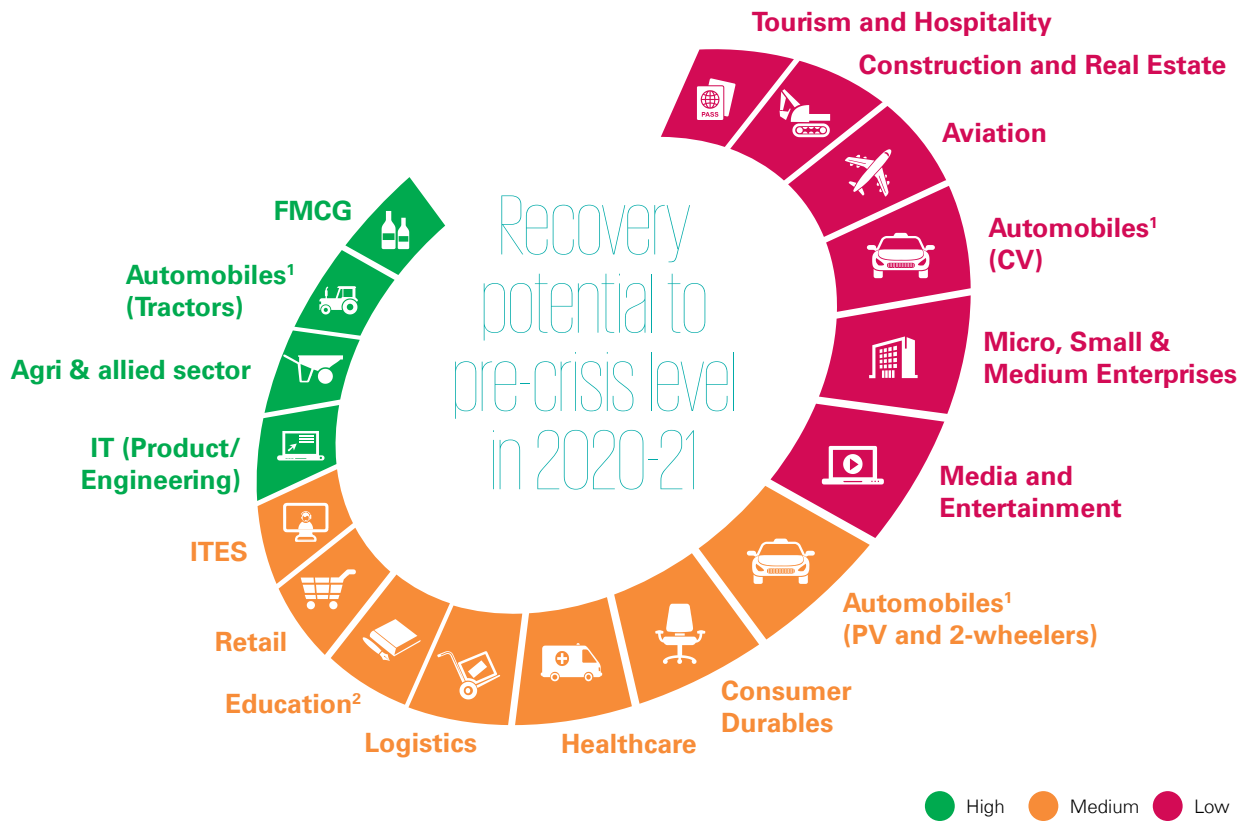
5. Unemployment rate in India, Centre for Monitoring Indian Economy, accessed on 09 September 2020



Sectoral impact

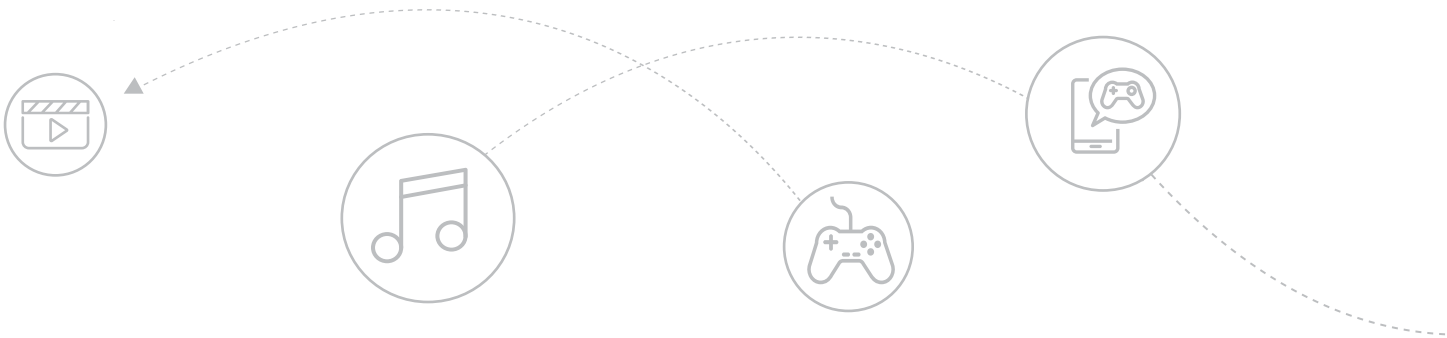
Sectors have been affected by the coronavirus outbreak and its associated lockdowns to varying degrees. In fact, even within a segment, there are differences in the scale and extent of challenges faced. For example,

while existing online education players have received an impetus from students staying home, schools and universities have had to make a harder transition. Each sector's prospects for recovery will therefore shape the overall post-COVID-19 economic trajectory of the country.



1. Low for commercial vehicle, medium for passenger vehicle and two-wheeler, high for tractors

2. Medium in next 3-6 months and then it should grow from there to strength. K-12: Secondary schools are back, but with limitations; Colleges: Should be back in the second-half/ early next year; Skills development: Parts of ecosystem functioning and rest of campus expected to pick-up early H1 next year

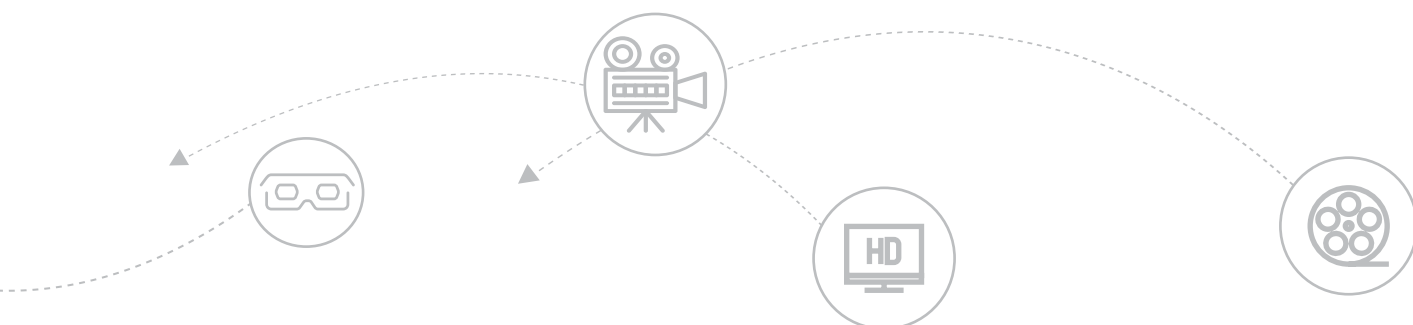


In summary, the following are some of the thematic trends that we are likely to see evolve over the medium and long term.

CN	BS	FD	RI	IR
<p>Consumers turned more cautious about spending in the post-COVID world. Interestingly, consumers in Tier II and III¹ cities are more upbeat about spending than their peers in tier I cities, which could persuade consumer-oriented firms to lay more importance to this changing spending pattern.</p>	<p>India's banking system is likely to see an increase in non-performing assets (gross non-performing assets could rise to 12.5 per cent² by March 2021), which could make banks more prudent.</p>	<p>The budget deficit could see a large deviation from the target (3.5%) set for the current financial year. Once the crisis comes under control, the focus will be on deploying fiscal resources for long-term asset creation.</p>	<p>India's retail inflation consistently stayed above the upper band of the RBI's target, primarily due to supply shocks to food items. Price pressures are expected to ease by the end of 2020, which could give room for further monetary policy support.</p>	<p>Globally, interest rates are expected to remain low for long. If interest rates were to remain low in India as well, other assets such as equities and bonds could emerge as an important instrument for savings.</p>

Source: CN – Consumption, BS – Banking system; FD – Fiscal deficit; RI – Retail inflation; IR – Interest rate

1. Time to open my wallet or not?, KPMG in India, July 2020, accessed on 09 September 2020
2. Financial Stability Report, Reserve Bank of India, 24 July 2020, accessed on 09 September 2020



Wary but wishful: Consumer sentiment post pandemic

Despite some positive trends in employment numbers in June with the unlocking of the economy, there is still uncertainty on recovery prospects. Latest figures suggest July has seen more job losses, and this time in the usually resilient salaried class⁶.

Both incomes and consumer sentiment have taken a hit. The big question has always been the potential long-term impact of such an unprecedented shock on the perceptions and priorities of the Indian consumer.

For example, will they remain cautious and risk averse or more willing to indulge given the extended periods of isolation? How have their spending habits changed? Is there a difference in outlook between consumers in rural and urban India?

Similar questions were put to over 2,000 respondents as part of a survey undertaken by KPMG in India⁷ recently and these were some of the findings.



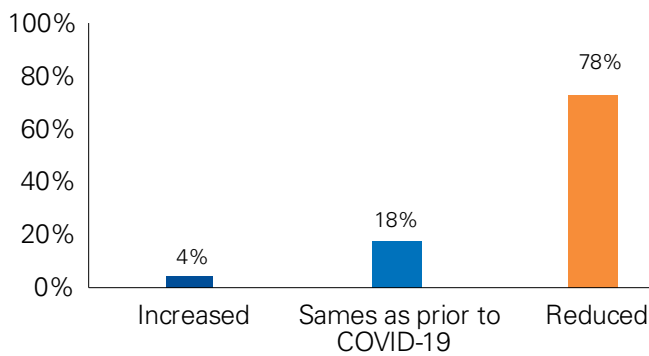
6. "Five million salaried people lost jobs in July; their ballooning numbers a source of worry: CMIE", The Economic Times, 19 August 2020

7. Time to open my wallet or not?, KPMG in India, July 2020

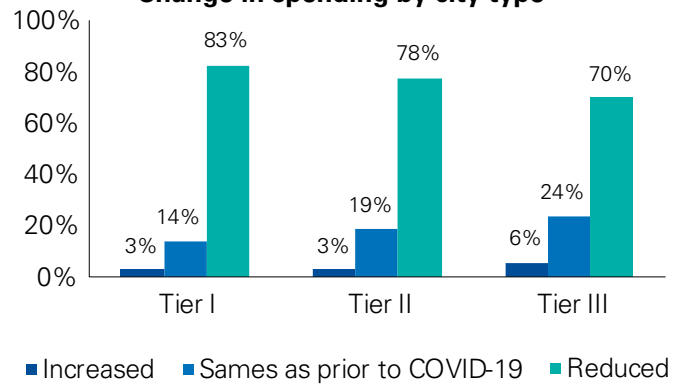
Changes in consumer behaviour

- Wait and watch approach:** Majority of respondents have reduced discretionary spending compared to pre-pandemic levels.
- Cities bearing the brunt:** Risk aversion is pronounced in the larger cities owing to the relatively higher concentration of the virus in these pockets.
- Youth more optimistic:** The overall sense of pessimism is positively correlated with age with the youth more willing to believe there are better times ahead.
- Hope springs eternal:** The silver lining is that the perceived duration of this adverse impact on routines and spending is not expected to last long.

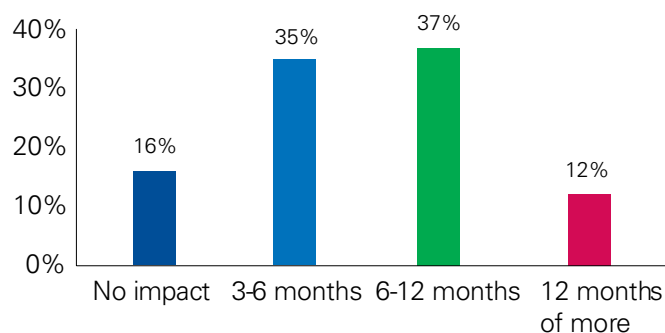
Change in spending levels



Change in spending by city type



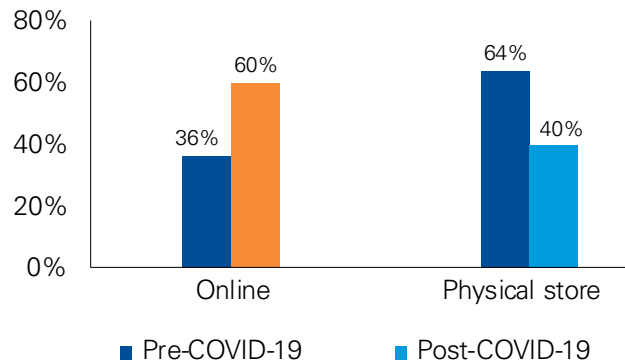
Duration of impact of change in spending levels



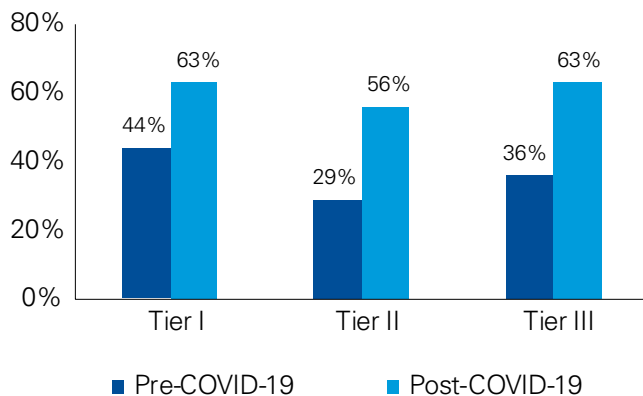
Digital adoption is amplified

- More homogeneity in behaviour:** Online becomes the undisputed preferred buying mode across age groups. Digital has made the most headway in areas it lagged pre-COVID-19 – amongst an older demographic and in smaller towns
- Cash no longer king:** Further, while the survey revealed that majority of respondents prefer contactless modes (85 per cent) over cash, it is Tier II and III towns that lead in the adoption of such digital payment like online wallets/UPI

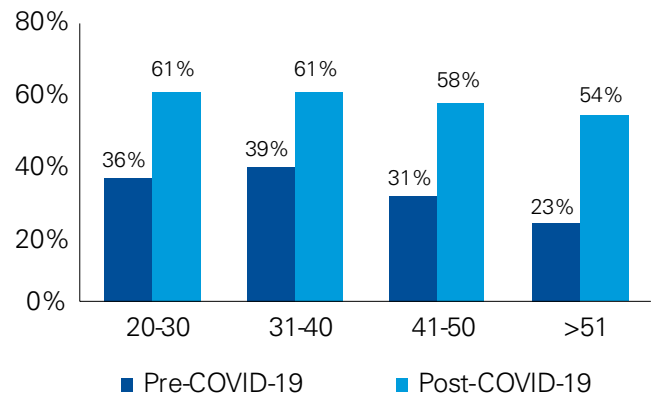
Preferred buying mode



Stated preference for online buying by city type



Stated preference for online buying by age group



The implication for businesses is clear: consumers are likely to remain digital-first shoppers and prioritise no-contact purchase experiences even over the medium to long term, which necessitates an omni-channel approach to sales fulfilment. The low-touch economy⁸ will not only warrant a re-evaluation of the online versus brick-and-mortar balance but also in the associated

areas of supply chain optimisation, specialised delivery solutions and more. Companies and consumers will both be working together to forage a new path, which will be a much more collaborative and iterative approach than earlier towards a shared, uncertain but hopefully promising future.

8. The new low touch economy: How to navigate the world after Covid-19, Board of Innovation

The ripple effect: Economic downturns, ad-spend and the M&E sector

The media and entertainment (M&E) sector in India relies heavily on the marketing spends of companies across a cross-section of industries from FMCG, auto, BFSI to e-commerce.

As of last year, the share of advertising revenues to total segment revenues was as high as 92 per cent in Digital and 66 per cent in Print⁹.

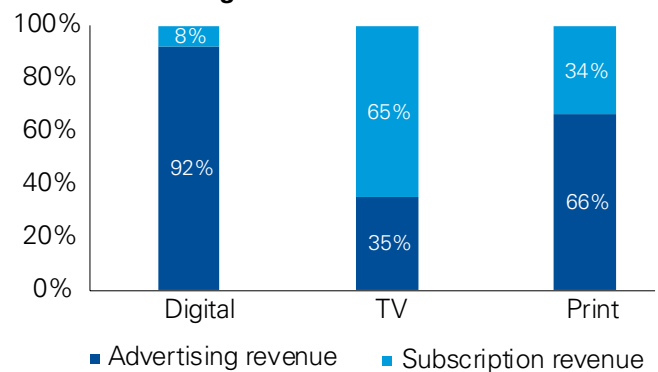


TV has the benefit of a large cable and satellite (C&S) subscriber base but receives the largest share of advertising revenues within M&E in absolute terms.

Any attempt to assess the fallout of the crisis on M&E would then have to begin with an examination of the possible impact of a GDP contraction on ad-spends.



Share of advertising revenue in segment revenue in FY19



Ad-spend and GDP: A look at what the US market reveals

Despite being one of the fastest growing advertising markets (14 per cent in 2019¹⁰), India is still a relatively small market compared to other, more mature geographies¹¹ when it comes to advertising spend. Further, even by the standards of some of its neighbours in Asia Pacific¹², the share of advertising as a percentage of GDP in India – albeit rising – is still low at 0.35 per cent¹³.

9. India's digital future: Mass of niches, KPMG in India, 2019

10. India's digital future: Mass of niches, KPMG in India, 2019

11. WARC 2019, KPMG in India analysis 2020

12. Statista

13. World Bank, KPMG in India analysis 2020



India is currently in the market making stage for media advertising – TV which is the largest segment of media still only has a 65-70 per cent reach¹⁴ – and has to evolve further before it can show similar trends to more mature markets such as the U.S.

Therefore, an analysis of correlation between GDP movements and ad-spends in India – to determine the potential impact of the former on the latter – is unlikely to be materially meaningful.

In the U.S., however, total advertising averaged 1.17 per cent of GDP over the period 1999 to 2014¹⁵ and has moved in unison with real GDP growth over more than four decades¹⁶. There exists a strong positive correlation between U.S. ad spend and real U.S. GDP growth, with around 75 per cent of the change in the former explained by changes in real U.S. GDP.

The impact is higher during times of economic downturn with ad spend having declined to a greater extent during recessions than the corresponding GDP fall. For example, in five of the last seven years during the period 1974-2009 when the US observed a decline in GDP, a one percentage point reduction has resulted on average in a 4.4 percentage point reduction in ad spend in the same period¹⁷.

Findings from a statistical analysis

KPMG in India's analysis of publicly available, reported data²⁰ on Net Revenue and Advertising and Promotion Expenditure for a select group of leading FMCG and automotive companies during the period FY11-FY20 reveals:

Strong, positive correlation between growth in net revenue and growth in ad-spend: At an aggregate level, the median correlation co-efficient for the group of companies was 0.74

However, causal relationship not as strong: The median measure of causality (R^2 , the statistical measure of fit that measures how much the variation of the dependent variable is explained by the independent variable) for the same set of companies was however lower at 0.55. This implies that changes in net revenue explains only 55 per cent of the changes in ad-spend over the time period under study

Intra-sector variations also evident: Changes in net revenue can explain almost 90 per cent of changes in ad-spend for Automotive Company A but has less of an influence within Automotive Company B. Similarly, while R^2 for FMCG Company A is 83 per cent, it is much lower at 19 per cent for FMCG Company B, which has one of the largest marketing budgets in the country. FMCG Company B therefore seems less likely to alter its advertising strategy based solely on movements in net revenue

Ad-spend and Net Revenue: A more relevant comparison in India?

Given the small share of ad-spend in total GDP in India, we set out to draw inferences of levels of advertising expenditure with a micro-level factor such as business income instead.

While some marketers would insist that “When times are good, you should advertise and when times are bad, you MUST advertise”¹⁸, in reality most companies would probably behave rather differently. In times of uncertainty, businesses look to curtail what they can control, which are typically variable and discretionary costs in their P&L. Marketing budgets are obvious targets.

In India, FMCG is the single largest industry vertical within advertising and accounts for nearly one-third of spends across formats¹⁹. E-commerce, auto and BFSI follow, though at a distance.

To better understand how media budgets could be revised in the coming months, we have attempted to examine the extent to which ad-spends are correlated with changes in net revenue and also how much of the change in the former is explained by the latter.

14. KPMG in India analysis 2020, based on primary and secondary research

15. Media Daily News, April 08, 2016

16. “Future of Advertising Spend”, LEK Consulting, September 2015

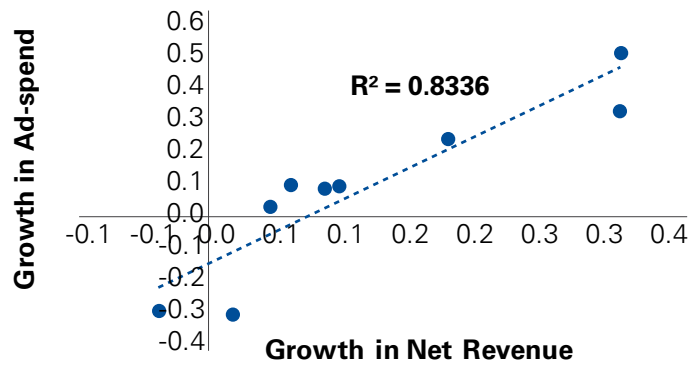
17. “Future of Advertising Spend”, LEK Consulting, September 2015

18. OCreative Design Studio LLC

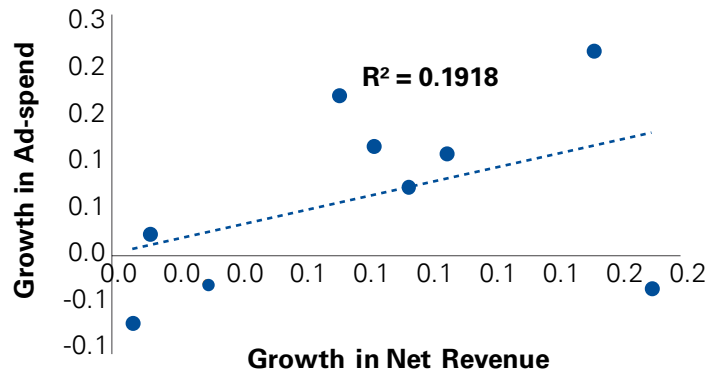
19. KPMG in India analysis, 2020 based on primary and secondary research

20. CapitalIQ, company websites

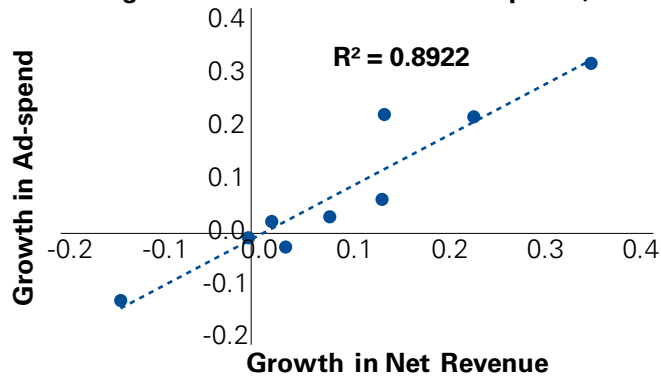
FMCG Company A
Historical growth of net revenue vs. ad-spend (FY12-FY20)



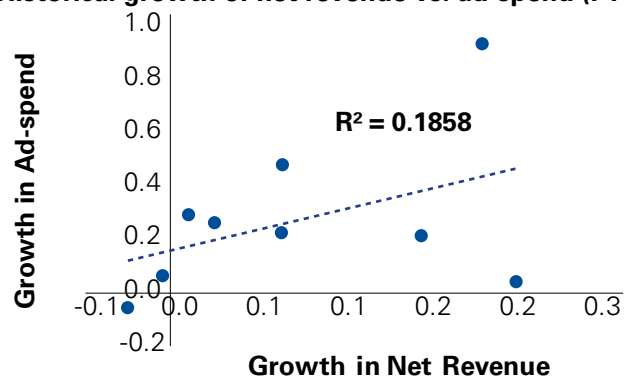
FMCG Company B
Historical growth of net revenue vs. ad-spend (FY12-FY20)



Automotive Company A
Historical growth of net revenue vs. ad-spend (FY12-FY20)



Automotive Company B
Historical growth of net revenue vs. ad-spend (FY12-FY20)



To advertise or not to advertise, that is the question

The implication is that for at least some companies in India, the adage quoted earlier might in fact be appropriate and relevant.

Advertising expenditure appears to be influenced by a multitude of factors, and not just revenue, which suggests that businesses could continue to spend even in a time of economic slowdown and uncertainty.



It is even being reported that in the case of a few brands, such as Amul, advertising spends doubled during the June quarter at a time when most were scaling back²¹.

There are a few reasons why this seemingly contrary view makes sense. In a study by McGraw-Hill Research, the advertising spends of 600 U.S. companies were studied during the period 1980 through 1985, which included the recession years of 1981-82. It was found that companies that were “aggressive recession advertisers” reported an increase in sales of 256 per cent over their peers who did not maintain ad-spend at prior levels²². The explanation lies in the ability of companies to improve their share of voice (SOV) in an unexpectedly “quieter” market. The higher SOV would consequently translate into higher share of market and profitability²³.

To summarise, the main implications from our study are the following:



Severity of ad-spend decline could vary across sectors and companies: While the experience of the pandemic is certain to result in an overall reduction of corporate revenue and profitability, the extent of decline on ad-spends may not be the same across all the contributing sectors.



Potentially instances of companies increasing ad-spend post the crisis: In fact, with evidence of a nuanced relationship between ad-spend and revenue among India’s top spenders, we could see more examples of companies and individual brands that recognise an opportunity in this crisis to improve recall and perception of stability through continued advertising

Optimistically, the overall reduction in advertising expenditure may turn out to be lower than the contraction in economic activity, which might also imply a quicker recovery in marketing budgets once we start moving towards normalcy

21. “Five strategy lessons that FMCG companies can imbibe from Amul”, Economic Times, August 05, 2020

22. OCreative Design Studio LLC

23. “Marketing during recession: Survival tactics”, Millward Brown PoV, May 2008

COVID-19 and its impact on M&E segments: A summary

Given the positive correlation between corporate performance and advertising expenditure, a fall in revenues and profitability on account of a depressed economy can be expected to reduce overall ad-spend. Revenues from advertising across all M&E segments therefore are likely to be adversely affected by COVID-19.

In the following table, we provide a summary analysis²⁴ of the relative impact of COVID-19 on the consumption and monetisation within major segments of M&E. For example, outdoor media (films, live events, out of home advertising) were amongst the hardest hit when it came to consumption levels whereas all segments related to digital (OTT, gaming) reported an increase in engagement, although monetisable opportunities were still low.

Segment	Impact on consumption	Impact on monetisation
Digital – Advertising	N/A	
Digital – OTT		
TV		
Print		
Films		
Gaming		
Outdoor		

Certain segments such as TV do accrue a significant share of revenues from subscription but even this has seen a decline, although less severe than advertising, since March 2020. There has been an increase in the number of paying digital subscribers for print but that might not be able to compensate for the fall in circulation of physical copies and consequent drop off in advertising revenue. OTT platforms saw many of its viewers shifting to a subscription model but here again, the AVOD (advertising video on demand) share in revenues is almost double that of SVOD (subscription video on demand) resulting in a net negative impact. A similar story plays out in gaming as well where subscription contributes a small part of average revenue per user (ARPU).

The M&E segments worst hit by COVID-19 and the subsequent lockdowns have been those that rely on consumers venturing outside their homes. These include films, live events and out of home advertising. For these businesses, both consumption of content and its monetisation were intrinsically linked. The emergence of a new distribution avenue for films in the direct-to-OTT model provided some respite to a few films waiting for a release when the pandemic struck.

A more detailed analysis of the performance of each segment in FY20 and the anticipated impact of COVID-19 is available in subsequent chapters in this report.

24. KPMG in India analysis 2020, based on primary and secondary research



COVID-19: Opportunities in a crisis



Tushar Vyas
President, GroupM South Asia

The COVID-19 pandemic has substantially altered our erstwhile way of living and the steps taken to control the devastating virus have disrupted pretty much every individual and business, regardless of their orientation. For companies, it resulted in challenges and changes across supply chain, consumer demand, manufacturing, etc. but at the same time has presented an opportunity to turn the tide in their favor in the marketplace by taking advantage of shifting consumer preferences.

Trends that have got us talking

Social distancing is the new norm today and it has changed the way we shop, work and socialise. As a result, new habits have emerged, some trends have reversed, while others have accelerated.



Reversal of past trends

1. From willing to experiment with new brands to gravitating to brands they can trust
2. From experiential living to frugal living



Acceleration of existing trends

1. From using traditional means of communication to adopting digital tools to stay connected
2. From using cash transaction to digital payments
3. From local "kirana stores" to e-grocers.
4. From free content to rise in premium subscriptions



New habits

1. From bingeing to conscious consumption and wellness
2. From being nonchalant on aspects related to hygiene to being conscious of personal care
3. From education in campuses to online classes

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

The trends in consumer behavior have been detrimental to some industries while benefiting others. Tourism and hospitality have been severely hit as people avoid travel. On the other hand, sales of used cars and two-wheelers show signs of growth, as commuters opt for personal mobility options. Companies in the digital domain such as social media, OTT, e-wallets, e-commerce, ed-tech are gaining the most as Indians get more comfortable and confident in going online.

How has media and entertainment fared?

The pandemic has altered media consumption habits and it has caused a tangible impact across media in terms of ad-spends. TV ad revenue was impacted because of the lockdown despite an increase in total viewership during the same time. Smartphone usage and overall digital consumption increased specifically in OTT, social media, gaming and e-commerce. News and entertainment are likely to remain the most visited content categories with increased engagement across age groups. With most of the revenue for newspapers and magazines coming from advertising, monetisation will continue to be a challenge for these businesses. Due to low spends from government and private industries, revenues in the radio segment suffered, but on the positive side, there was an uptick in listenership despite a drop in commute listeners. Revenue for the out of home segment has been severely impacted with people working from home, travel restrictions, closure of malls and multiplexes. The box office collections of films have also been affected and medium-term release pipelines may be derailed with shoot restrictions and a backlog of releases. Some movies will continue to opt for a release on OTT platforms.

Marketers could remain cautious and ad-spends, measured. Overall, digital and TV are likely to recover faster while print, radio, OHH and film may take longer to rebound. Print could see some benefit on the back of demand for authentic and credible news and a pick-up in circulation as lockdown measures are eased. Recovery will be faster on billboards and transit inventory compared to destination inventory like cinema where social distancing norms are harder to implement. Radio could take a while to rebound but revenues from streaming could compensate.

Digital is some distance ahead

The resilience of digital advertising is marginally transient and predominantly transformational. For sectors that need the sensory (touch and feel) experiences, the higher than normal shift to digital could see a reversal (example, auto and consumer durables advertising by local showrooms/ dealers). Other service-oriented sectors like education, insurance, etc., are likely to carry forward the digital momentum garnered in 2020.

The brand versus performance differentiation has been more pronounced due to the growth in digital media. Brand health related advertising has always been measured for performance too. This happens in the form of brand track, brand lift studies and have been in existence for decades for TV campaigns. With the growth of video consumption on digital this segment could witness growth in the coming few years. Attribution to both types of campaigns is key.

Brands, be brave

This is a phase of extreme uncertainty and disruption for brands. Ones that can understand the user preferences and her renewed agenda along with potential implications, are likely to survive and emerge stronger through the pandemic. The following three strategies could provide some direction in this respect: First, organisations should focus on building brand equity as much as they focus on performance. Consumers have shown a preference for embracing brands that they can trust rather than experimenting with new options during this period. Second, resilience at both the organisational and brand level can be built with greater adaptability and agility, which is a function of risk-taking abilities. Finally, brands should focus on analytics and leverage data driven marketing to segment audiences and measure brand and business outcomes.

This time could in fact present an opportunity to enhance a brand's reputation, as the market gets quieter and competitors cut back on their market presence. Therefore, the battle for the consumer's mindshare is likely to be less intense allowing for the more courageous and forward-looking brands to emerge stronger.

Discerning the themes at play

COVID-19 has been the great amplifier of our times. It has hastened trends in the making and exposed vulnerabilities we were avoiding. It has shaped consumer behaviour and upended longstanding socio-economic assumptions, especially on digital. Inefficiencies in operating models and supply chains that were earlier glossed over are now gaping holes that force a reset. All of these overarching themes feed into the changes we anticipate are forthcoming in the M&E sector. Many of them could shape the trajectory and fortunes of businesses in this space in the months and years to come.

Technology to become essential rather than optional

- In a throwback to a theme we covered in our report in 2018, the convergence between technology and media and entertainment seems set to accelerate even further after COVID-19.

- **Digital technologies in particular will be leveraged across the supply chain for process efficiencies and faster turnaround of capital**

- From a reduction of lead times in content creation, innovations in delivery models and the use of cloud and remote working capabilities in post-production and as well as mainstream corporate settings, technology will form the core of the operating model across M&E segments

Content and production planning methodologies will change

- Guidelines around social distancing, COVID-19 testing, domestic and international travel will challenge traditional production planning methods, especially for segments reliant on live shoots
- This could feed into the kind of narratives being developed as there is less of an incentive to mount projects on an expansive scale involving large teams. A slow return to the cinemas could also influence this decision

- **For talent, this could also mean a restriction in the number of concurrent projects they accept. Everyone associated with a particular project might decide to function as a 'quaranteam' to curtail exposure in the event of an outbreak**

- Production budgets will have to account for these additional safety measures and longer timelines, both of which will increase the overall cost of content creation in the short to medium term. However, this is likely to be offset by the renegotiation of production costs between the content producers and platforms/broadcasters

Structural shifts have occurred in consumer behaviour

- Until a reliable, affordable vaccine is found, social distancing norms will likely remain a part of our lives. Lockdowns might become a recurring feature and people will, albeit grudgingly, develop the ability to stay indoors for extended periods of time
- Digital media including gaming will continue to benefit from this self-isolation with users across socio-economic classes and age groups raising the levels of their online engagement. The digital billion trajectory could be accelerated and achieved before the earlier projected 2030 timeframe.
- Spends on M&E have historically been income inelastic as Indians have turned to the mobile, TV and the big screen as a means of escape. While the need for distraction and leisure is even greater in a post-COVID-19 reality, M&E consumption might feel the effects of consumers turning more frugal over the next few months

- **A more optimistic scenario however is that consumers simply rebalance - rather than reduce - expenditure away from outdoor options such as the theatres, concerts and plays to indoor ones like OTT and gaming**

Greater nuance in M&E consumption

- A number of dichotomies are likely to emerge in M&E consumption post COVID-19 resulting from the divergent individual experiences of the crisis.
- Urban centres in India have been the worst affected with a reported 87 per cent of the red zones concentrated in the top 13 states and accounting for 80 per cent of the country's GDP²⁵. Rural demand from Bharat, meanwhile, has shown unexpected resilience with sales of fertilisers, tractors and motorcycles all registering a growth within weeks of the unlock.
- The differences in the recovery paths of India versus Bharat will reveal itself in entertainment consumption and the choices made with respect to English/ Hindi/ regional content, at-home versus outdoor options, and digital versus traditional media.

Pressure on ad-spends

- There could be increased scrutiny on the efficiency of advertising campaigns and their return on investment. We could begin to see attribution models being extended beyond their traditional digital applications to TV and other media as accountability gets prioritised.
- Digital publishers are increasingly investing in developing their own proprietary advertising stack to offer a credible self-service engine to brands and allow them greater flexibility to optimise campaigns as per requirements. Developing an in-house ad-stack also ensures more control and transparency over the audience targeting capabilities of the publisher.

Focus on liquidity

- **There are multiple areas of the M&E supply chain where working capital is traditionally locked up.**

- Most content creators for example negotiate an upfront payment from studios and production houses, which constrains liquidity at this end of the supply chain.
- In their path to recovery, companies will attempt to free up working capital across the supply chain. Exploring alternate distribution channels for films for example is one way to achieve this. Co-production projects with actors might gain in popularity to avoid the upfront payments to talent
- As companies reprioritise their expenses, we can expect the expansion and investment plans of M&E companies to be delayed, which could affect the growth of the sector in the medium term.

These trends manifest with varying degrees of intensity across the major M&E segments, and while the extent of their impact might still be evolving, their significance is more certain. To that end, we have tried to capture the relevance and related consequences of these trends in more detail in each of the segment chapters that follow in this report.

25. A primer on the rural economy, Morgan Stanley Research, 12 August 2020



Priorities post COVID-19 - Organisational survey

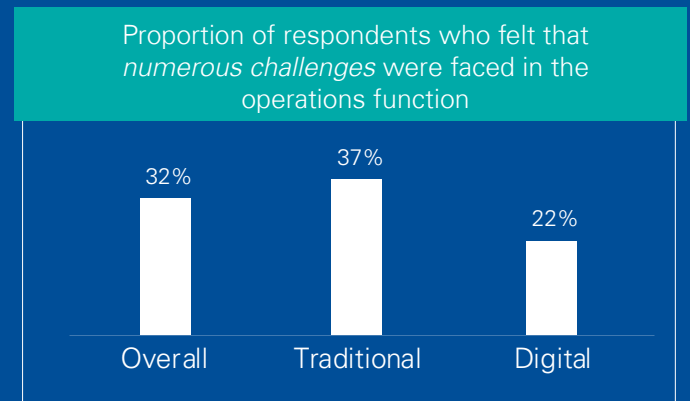
COVID-19 has upended the economy and negatively disrupted many segments in the M&E sector in India, and at the same time, accelerated consumption of in-home entertainment. Organisations have been facing disruptions to 'business as usual' and the pandemic has also brought to the fore the discussion around greater digital technology intervention across the sector.

As a part of our report this year, we have carried out a CXO level organisation survey, with an aim to understand near and medium-term priorities of organisations on account of COVID-19, and how they believe technology can help them achieve their objectives.

We have further categorised the responses by traditional (print, radio and TV) and digital (OTT, gaming and digital).

The key observations of the survey are outlined as below.

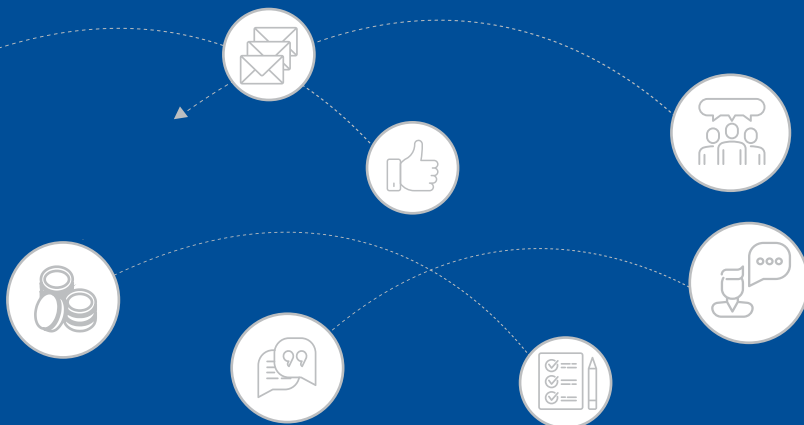
Digital media businesses appear to have been more resilient to the crisis compared to traditional ones



Source: KPMG in India analysis, 2020, based on a survey of CXOs across the M&E segments

People and governance emerge as the top two priorities

Ensuring the safety of workforce and transition back to on-site roles was the number one priority across the respondents surveyed, followed by the establishment of governance structures to restart the business.



Traditional segments with mature business models had cost reduction as a higher priority when compared to digital businesses, which are still in a growth phase.



Immediate priority of businesses to commence operations						
	Overall View		Traditional Segments		Digital Segments	
	Rank	Score	Rank	Score	Rank	Score
Ensure safety of workforce and their transition back to on site roles	1	1.6	1	1.9	1	1.2
Establish governance structure to restart of business	2	2.6	4	2.9	2	2.4
Manage short term cash flow requirements	3	2.7	3	2.4	3	2.8
Identify areas of immediate cost reduction	4	2.8	2	2.3	4	3.0

Source: KPMG in India analysis, 2020, based on a survey of CXOs across the M&E segments

Note: The respondents were requested to rank priorities in order of preference, with 1 being the most important and 4 being the least important. The average score thus calculated implies that lower the score, the higher the priority

Organisations focus on building reliable and credible BCP post crisis

Over the next one year, most of the CXOs expected to prioritise improving business continuity planning and other internal controls within their organisations, followed by enhancing digital integration.

Digital businesses that typically have ambitious growth plans had capital raise as a greater priority over the next one year when compared to traditional segments, where it was the lowest priority.



CXO priorities over the next one year						
	Overall View		Traditional Segments		Digital Segments	
	Rank	Score	Rank	Score	Rank	Score
Improving business continuity planning and other internal controls	1	1.9	1	1.9	1	1.8
Enhancing digital/IT integration across the value chain	2	2.4	2	2.1	4	3.1
Innovation in at-home distribution options for the segment	3	2.5	3	2.4	3	2.8
Raising capital	4	3.2	4	3.7	2	2.1

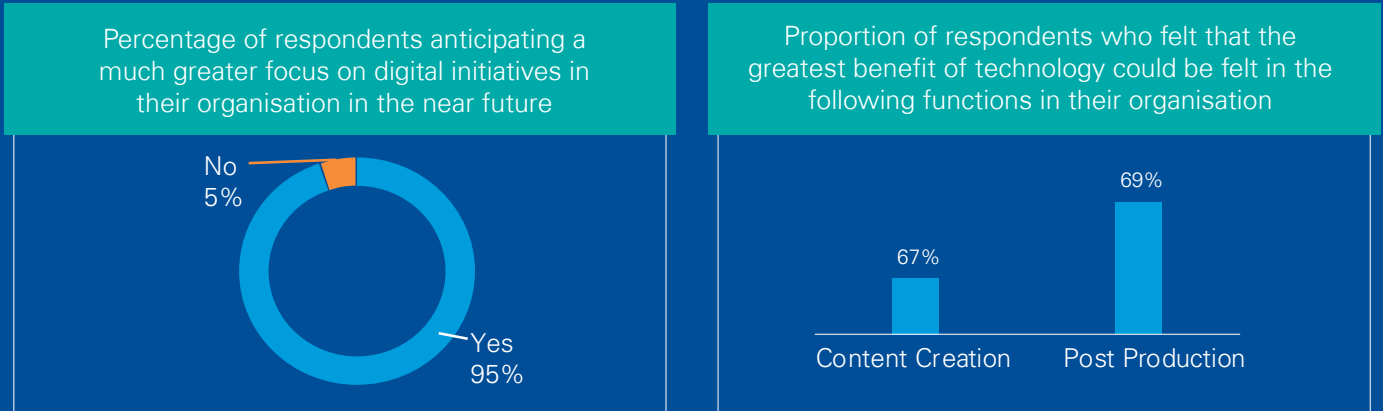
Source: KPMG in India analysis, 2020, based on a survey of CXOs across the M&E segments

Note: The respondents were requested to rank priorities in order of preference, with 1 being the most important and 4 being the least important. The average score thus calculated implies that lower the score, the higher the priority



Greater digital integration into business models and supply chains is inevitable

Interestingly, the respondents who answered 'No' on the increased focus on digital initiatives were primarily from OTT companies, which outlines the already 'digital-first' environment that many OTT video companies have adopted.



Source: KPMG in India analysis, 2020, based on a survey of CXOs across the M&E segments

Organisational priorities driving the digital first initiatives

'Customer focus' and 'Revenue growth' are the top priorities which the CXOs' digital initiatives are likely to be focused on.

Traditional segments appear more focused on digital initiatives around cost minimisation, while digital businesses had this as the lowest priority.



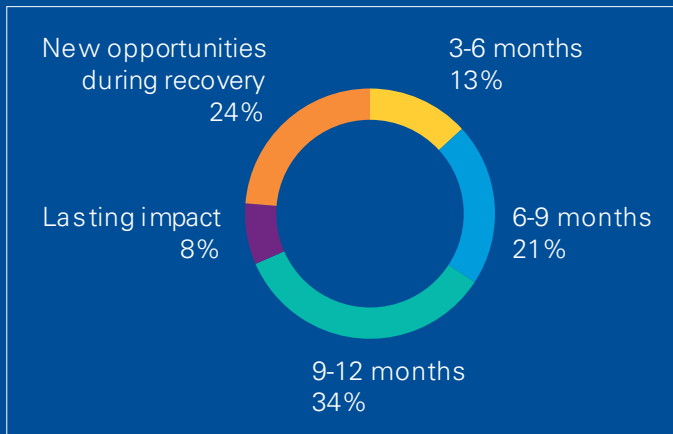
Organisational priorities driving digital first initiatives

	Overall View		Traditional Segments		Digital Segments	
	Rank	Score	Rank	Score	Rank	Score
Customer focus	1	2.5	1	2.4	1	2.4
Revenue growth	2	2.6	2	2.8	2	2.6
Competitive advantage or differentiation	3	3.3	5	3.4	4	3.7
Operational efficiencies	4	3.7	3	3.2	3	3.6
Ability to cross sell	5	4.0	6	3.7	6	4.3
Cost minimisation	6	4.2	4	3.4	7	4.9
Workforce mobilisation	7	4.2	7	4.6	5	3.8

Source: KPMG in India analysis, 2020, based on a survey of CXOs across the M&E segments

Note: The respondents were requested to rank priorities in order of preference, with 1 being the most important and 4 being the least important. The average score thus calculated implies that lower the score, the higher the priority

Recovery could take a year, but there are areas of promise as well



Source: KPMG in India analysis, 2020, based on a survey of CXOs across the M&E segments

While a majority of the respondents (34 per cent) felt that the recovery would take 9-12 months, 24 per cent respondents were confident of new opportunities arising during the recovery phase



Conclusion

A question of context: Operations and supply chain were the areas most affected owing to the pandemic. Further, given the stage of evolution that the traditional media businesses are in, with a mature operating structure and limited growth potential, they were more likely to look at cost reduction initiatives; whereas digital businesses, which are at a market making stage in India, are less likely to focus on cost reduction in the short term. This growth phase for digital businesses also meant that raising capital was an important immediate priority for them.

A stronger digital orientation though is the common ground: The responses of nearly all CXOs on increasing focus on digital initiatives in their organisations lend credence to our belief that technology is set to play an important role in almost all the segments of the M&E sector. While customer focus and revenue growth were the most important priorities driving digital initiatives as per the survey, traditional businesses also had cost minimisation as an important criterion, which was the least important for digital businesses.

Further, as outlined in the individual chapters, the pandemic has accelerated digital consumption across the board, with most of the digital business CXOs anticipating new opportunities to arise during the recovery phase.



Segments





1

Digital and OTT

A stand-out performance





Digital

A stand-out performance

Only few M&E segments were able to remain resilient through the course of an economic slowdown in FY20 and the global pandemic that broke out at the beginning of FY21. A strong digital business model has emerged as the common criteria across all such businesses. Therefore, despite unfavourable economic conditions in FY20, total digital revenues for FY20 were estimated at INR218 bn, a segment growth of 26 per cent as against FY19. A slowing economy in FY20 resulted in a lower than projected growth in digital advertising at 24 per cent. Digital subscription, the other component of revenues in the segment, grew at 47 per cent in FY20, albeit on a smaller base and lower than the anticipated 86 per cent.

The full impact of COVID-19 will be felt on Digital in FY21 with a muted 12 per cent growth projected for the year¹. However, owing to the universal acceleration of digital consumption across formats, this performance is likely to be significantly better than every other media segment.

Hence, digital advertising revenues are likely to surpass TV advertising revenues by FY21; a milestone that was earlier expected to only occur by FY23.



Segment performance – Historical performance

Digital revenues (in INR billion)	FY16	FY17	FY18	FY19	FY20	FY20 growth	CAGR (FY16-20)
Advertising	65	86	116	160	199	24%	32%
Subscription	-	-	4	12	19	47%	-
Total digital revenues	65	86	121	173	218	26%	35%

Source: KPMG in India analysis 2020, based on primary and secondary research

Segment performance – Future projections

Digital revenues (in INR billion)	FY20	FY21P	FY22P	Growth in FY21 over FY20	Growth in FY22 over FY21	CAGR (FY20-22)
Advertising	199	223	292	12%	31%	21%
Subscription	19	31	46	62%	49%	56%
Total digital revenues	218	254	338	17%	33%	25%

Source: KPMG in India analysis 2020, based on primary and secondary research

1. KPMG in India analysis 2020, based on primary and secondary research KPMG in India analysis, 2020 based on primary and secondary research

Growth drivers still firmly in place

India is a mobile-first digital economy and the effect of the coronavirus has impacted the world's second largest smartphone market drastically. There was a decline of 48 per cent in shipments during the period April-June 2020 (Q2CY20)² to 17 million. This decline has been attributed more to a lack of supply than demand. More than 96 per cent of smartphones sold in India are manufactured domestically³, and the shutdown in production with the lockdowns disrupted supplies.

Average mobile data consumption across the world

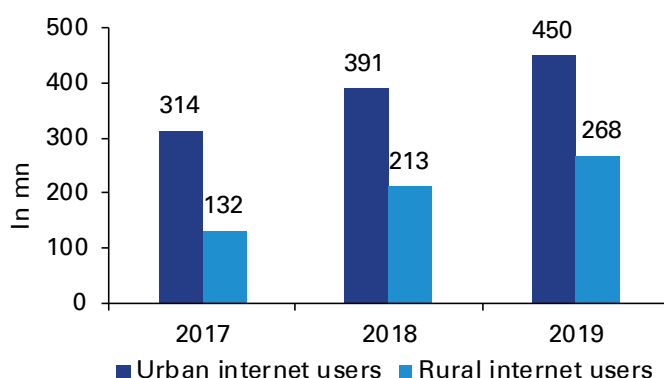
Region / GB per month	2019	2025	CAGR (2019-2025)
North America	8.5	45	32%
Western Europe	8.2	36	28%
North East Asia	7.5	27	24%
India, Nepal and Bhutan	12	25	13%
Global average	7	25	24%

Source: Ericsson Mobility Report, June 2020

Digital user base continues to grow in rural India

Urban India has an internet penetration of 106 per cent, as compared to rural India that is still at 30 per cent as on December 2019⁵. Growth rates are encouraging however, as rural subscribers grew at 26 per cent in the twelve-month period ended December 2019.

Rural internet users growing rapidly, albeit on a small base



Source: TRAI

- IDC, Canals, July 2020 via Business Insider, "Indian smartphone shipments plummeted 48% YoY in Q2", July 20, 2020
- IDC, Canals, July 2020 via Business Insider, "Indian smartphone shipments plummeted 48% YoY in Q2", July 20, 2020

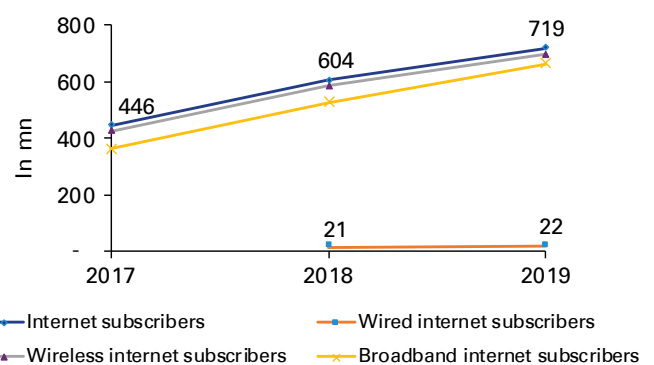
Mobile data consumption amongst the highest globally

Through their device of choice, the smartphone, users in India, Nepal and Bhutan consumed more data per user than any other country globally⁴. However, growth in data consumption is likely to peter out as other countries adopt 5G earlier than India.

India's internet base is highly skewed in favour of wireless

The total wireless subscribers at 696 million as of December 2019⁶ constitute the bulk of the overall internet connections in India, with wired internet subscribers remaining a minority. Of the wireless internet connections, high speed 3G and 4G connections, primarily on smartphones, account for a majority at 92 per cent.

India's internet subscriber base



Source: TRAI

- Ericsson Mobility Report, June 2020
- TRAI December 2019
- TRAI December 2019



However, internet speeds are a concern on both wireless and wired connections

The majority of subscribers continue to be wireless internet users, reiterating the importance of the mobile as the device of choice to go online. Speeds though remain slow and India ranks near the bottom alongside Uzbekistan and Iraq, with hardly an improvement over the previous year.

Fastest mobile internet connections globally⁷

Rank	Country	MBPS	Change from 2019
1	South Korea	110.1	22%
2	United Arab Emirates	107.53	87%
3	China	103.67	210%
4	Qatar	83.83	40%
5	Canada	71.61	13%

Source: Digital 2020 July Global Statshot Report, We are Social

Slowest mobile internet connections globally

Rank	Country	MBPS	Change from 2019
129	India	12.16	12%
130	Uzbekistan	11.78	22%
131	Iraq	11.51	11%
132	Algeria	11.17	57%
133	Somalia	10.58	16%
134	Bangladesh	10.53	10%

Source: Digital 2020 July Global Statshot Report, We are Social

Wired internet subscribers have hardly shown any growth but this is set to change as not only are supply side issues such as a discouraging regulatory framework and lack of fibre infrastructure being addressed but demand has also soared with the higher, concurrent needs from households for office, school and entertainment related activities. Speeds are a concern here as well with fixed internet connection speeds at 38.2 MBPS in India against a global average of 78.3 MBPS as of July 2020⁸.

However, the launch of fibre to home (FTTH) services by telecom players should act as a catalyst for wired internet adoption in India and spur competitive intensity in this space.

COVID-19 has propelled India's digital adoption

The coronavirus telescoped a number of trends that otherwise would have taken much longer to materialise. The obvious one has been the scope and scale of digital integration in our lives. Social distancing has become a commonly accepted, and indeed one of the most

effective, responses to fight the coronavirus. Without physical, person to person interaction, our reality is now wholly virtual. Schools, offices, shops all moved online and only served to hasten the progress of India's digital trajectory.

A new homogeneity emerges

As is explained later in the report in our update to the India's digital demography analysis, with nearly everyone in the country homebound, there were fewer differences in the digital behaviour of socio-economic groups as everyone from the elderly to school going children were online for their everyday activities.

Digital consumption increased across formats

Results from a survey undertaken by Nielsen and BARC⁹ of over 100,000 smartphone users during the period of the lockdown revealed the following:

- Time spent online daily on smartphones, increased considerably from 3 hours 22 minutes pre-COVID-19 to 3 hours 54 minutes in April 2020. It has since come back down to 3 hours and 37 with the first phase of unlock in July 2020

7. Digital 2020 July Global Statshot Report, We are Social

8. Digital 2020 July Global Statshot Report, We are Social

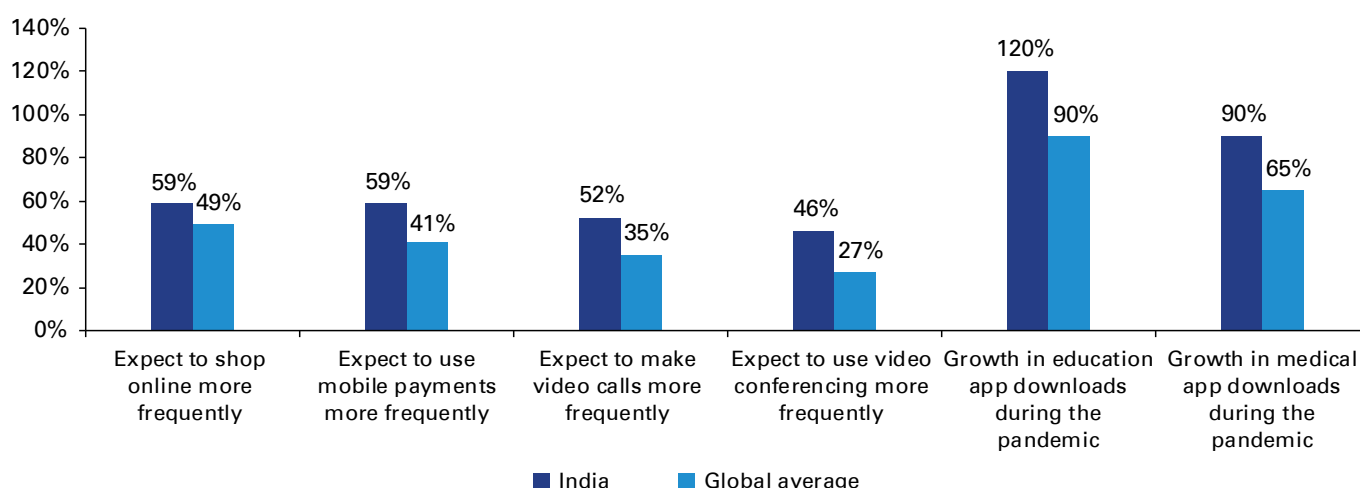
9. How are media habits changing as India enters Unlock 2.0, Nielsen BARC, July 2020

- Data consumption similarly went up from 1 GB per user per day to 1.21 GB per user per day in April but settled back down to 1.12 GB per user per day, by July 2020
- Social networking and gaming habits have changed structurally and show more resilience in their consumption even with the relaxation of lockdown restrictions. Time spent weekly on these two activities is down from their peaks in April 2020 but still registering a 24 per cent and 12 per cent overall growth as of July 2020, as compared to pre-COVID consumption levels
- The biggest shift has been in video conferencing that has recorded a 640 per cent increase in weekly time spent primarily on account of people working remotely. It will be interesting to wait and see

where this metric settles once people are able to go back to the offices. It is our opinion that video conferencing and – the work from home model – is likely to become an enduring feature in the lives of professionals across the globe.

... and will likely have lasting effects on user behaviour

The digital priorities and preferences of Indians may have structurally changed on account of the lockdown with users continuing to retain their higher level of engagement over the longer term as well. Not only do Indians expect to shop more online, continue to use mobile payments and video conferencing facilities even after the pandemic ends compared to the global average, but in these three categories they rank above every other country that was covered in the survey¹⁰.



Source: Digital 2020 July Global Statshot Report, We are Social

Moving beyond consuming to transacting

Once online, there has been a much greater variety in the digital applications being accessed from video conferencing, streaming to online shopping. We moved quickly from a nation of passive consumers of primarily free online video content to becoming more confident with digital commerce and payments. According to data from the National Payments Corporation for example¹¹, July 2020 saw the highest volume and value

of transactions through UPI since the interface was launched.

Digital in India: Current state and future growth

The market for digital media still derives a lion's share of its revenue from advertising – slightly over 90 per cent in FY20 – although subscription revenues are set to grow considerably.

Share in segment revenues	FY18	FY19	FY20	FY21P	FY22P
Digital advertising	96%	93%	91%	88%	86%
Digital subscription	4%	7%	9%	12%	14%

Source: KPMG in India analysis 2020, based on primary and secondary research

10. Digital 2020 July Global Statshot Report, We are Social

11. Digital payments shoot through the roof but fintech funding disappoints, Business Line, August 05, 2020



Unravelling the digital advertising ecosystem in India



Dolly Jha

*Country Head – Nielsen Media,
India*

The Indian internet landscape is evolving

The digital growth story in the country, which began a few years back, has got further accelerated due to COVID-19. With the number of rural internet users outstripping the ones in urban India¹², the Indian digital ecosystem is all set to achieve its promised potential. To devise the digital strategy for brands, it becomes imperative to understand the internet growth story. While the internet audience has increased at an overall level, let's look at how the landscape is changing with respect to specific demographics.

In terms of demographics, the overall growth is faster among females which is a 21 per cent increase as compared to a nine per cent increase among males in November 2019 as compared to March 2019. In terms of age, 2/3rd of the internet users in India are in the age group of 12-29 years.

With expanding digital audiences, digital advertising has come of age in the country. Digital publishers have wider audiences with sophisticated targeting capability. Further publishers are proactively coming forward to be included in the measurement ambit to ensure better monetization of their inventory, this is a massive change from what was seen about three years back!

The accuracy of digital targeting in India: How are advertisers currently leveraging digital?

The digital medium is being used by advertisers to attain specific marketing goals. Nielsen's learnings from evaluating digital ads for branding campaigns reveal that the average size per campaign in India is around 33 million tracked ads (impressions).

While the digital landscape has a plethora of options to advertise on, the share of measured digital tracked ads are significantly skewed towards social and video streaming platforms.

- On average, most advertisers, across a large number of categories, use only two publishers per campaign
- Categories like automotive and entertainment have been usually seen to leverage higher numbers of publishers per campaign (five or more publishers per campaign on an average in their media plans)

Metric	Value
Publishers/ aggregators measured	132
Number of advertisers measured	100+
Average scale/ campaign	33.2 million impressions
Average on-target per cent	73%
Average in-target frequency per campaign	3.4

Source: Nielsen's learnings from measuring over 1,500 digital ad campaigns between July' 19 to December'19

12. IRS estimates 2017 versus 2019 (respondents of age 12+ years)

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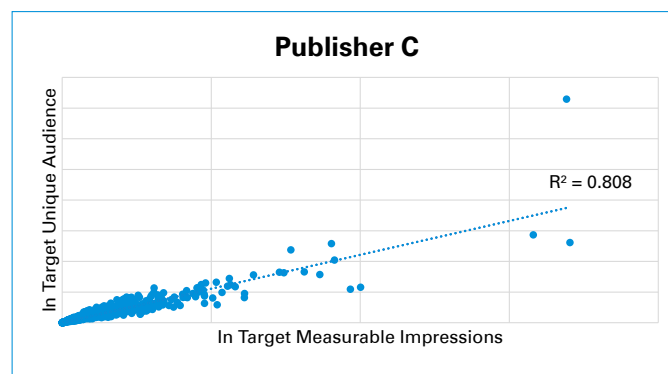
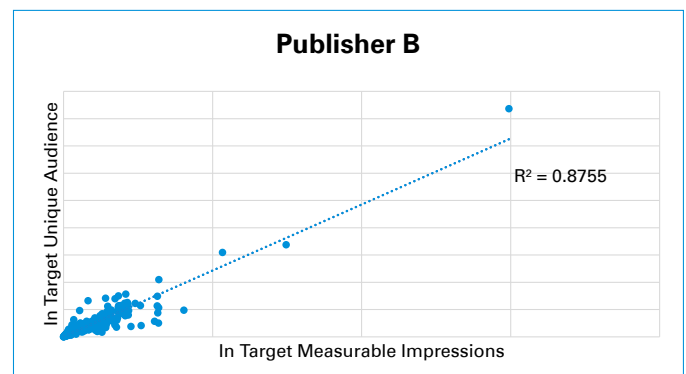
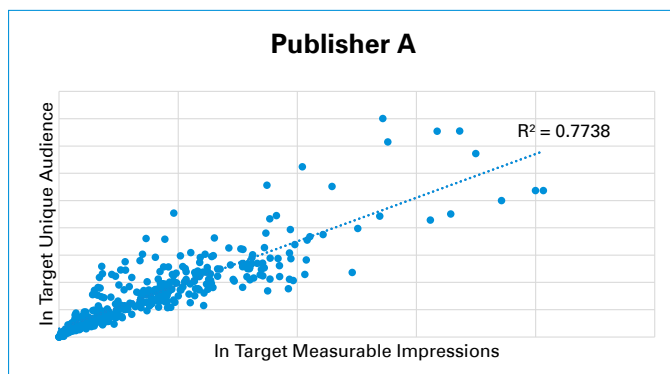
As advertisers increase spends on the medium, there is a greater focus on assessing if ads are being served to the intended target audience in terms of age and gender. Our learnings reveal that on an average, 73 per cent of the impressions reach the intended audience. The on-target rate varies across audience cohorts and device type.

The race for reach: Leveraging digital to reach the masses

a. Navigating the digital walled gardens: In the current digital ecosystem with reliance on publisher reported data and data generated from ad serving tools, the challenge is to understand unduplicated reach across platforms. Advertisers are leveraging

third-party independent measurement solutions to measure unduplicated digital reach and bring in-flight optimization to maximise reach and efficiency

b. The classic dilemma of scale: The quest for advertisers while planning marketing budgets has always been to understand the right scale that will maximise the reach of the campaign. The dilemma with digital is no different. From our learnings, we have observed that with the digital medium, so far the trajectory of the reach curve with respect to impressions volume is linear. There is therefore a merit in scaling up the campaign sizes of course with the right publisher mix to drive reach for the campaign.



Source: Nielsen's learning from measuring over 1500 digital ad campaigns between July '19 to December '19

The digital landscape post COVID-19

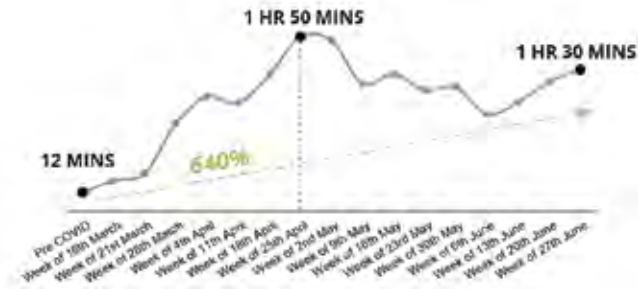
The digital consumption story of India has further accelerated during the COVID-19 pandemic. The COVID-19 pandemic forced consumers to stay at home since the end of March 2020. Among smartphone users this has led them to spend more time on their smartphones. The time spent on digital apps increased by 21 per cent during the peak lockdown phase. Overall

smartphone usage also increased by 16 per cent, from 3 hrs 22 mins/day to 3 hrs 54 mins/day.

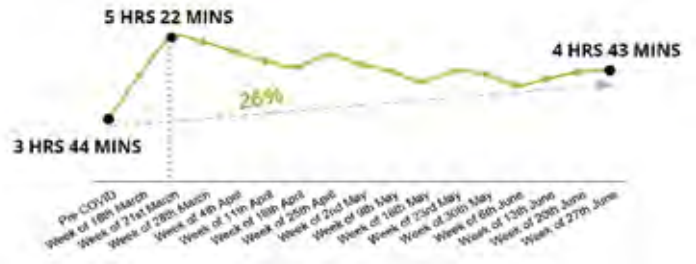
Further, as the work-from-home phase continues, categories like Chat and VOIP and Video Conferencing (especially amongst 34+ years audiences) continue to see increased usage with weekly time going up by significantly from mid-January to June 2020.



VIDEO CONFERENCING (34+ YRS)



CHAT & VOIP



Pre-COVID period - 13th Jan to 2nd Feb 2020, Peak-COVID period - 25th April to 5th June 2020
 Target group - NCCS ABC, 15-45 years, 1L+ Towns, Android Smartphone Users.
 Source: Nielsen Android Smartphone Panel

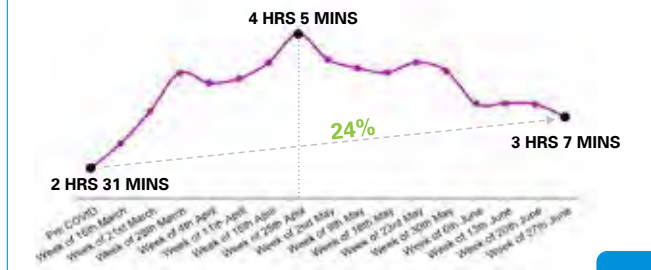
Additionally, staying at home has led to an increased propensity in consumption of entertainment categories like Gaming (+24 per cent), Video Streaming (+4 per cent), and Social Networking (+12 per cent) from mid-January to June 2020, all being major platforms for digital advertising.

So, what is next for the digital ecosystem?

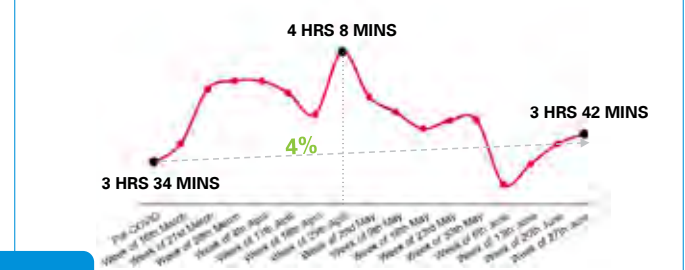
With small towns and rural India playing a significant role in digital growth, it will be important for the marketers and publishers to understand the rules of this turf with respect to reaching out to their audiences through digital campaigns. Let's look at how rural and small towns are impacting the digital landscape:



GAMING



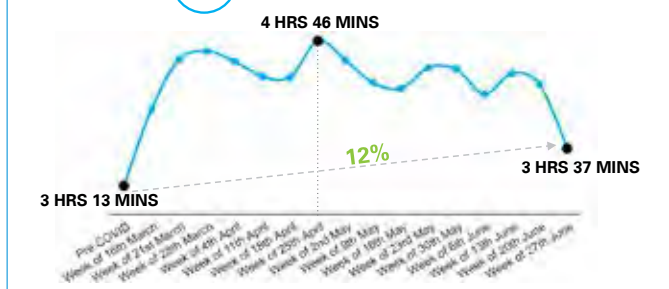
VIDEO STREAMING



WEEKLY TIME SPENT



SOCIAL NETWORKING



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a. Rural is driving the change in the internet landscape:

The internet landscape in India is evolving rapidly. As compared to 2017, internet penetration has more than doubled in 2019 with 41 per cent of Indians having accessed the internet in the last one month. While the current usage (last one month) is still higher among the urban population, the growth rate is faster among rural India. With the average cost of mobile internet in India being the lowest in the world, rural audiences are all set to further fuel the growth of internet penetration in India¹³.

b. Reach of key online categories in smaller towns:

The digital divide which existed between metro and smaller towns now ceases to exist. The reach of key online categories like video streaming, e-payments and online shopping is similar between large (metro + mini metros) and smaller cities (Tier I + Tier II). While the category reach is similar, the average number of sessions/ day is even higher amongst users in the smaller cities within certain categories.

January-February (Weekly average of Week 1-9)	Metros + mini metros (10L+ population)		Tier I + Tier II (Below 10L population)	
Online Categories	Reach (%)	Sessions per day	Reach (%)	Sessions per day
Video streaming	96%	7	97%	8
Mobile payment	73%	5	75%	6
Shopping	67%	4	70%	4
Games	59%	6	58%	6

Source: Nielsen Android Smartphone Panel representing 1L+, NCCS ABC, 15-44

Definition of reach: % of users who accessed the category app in the last one week

Definition of sessions/ day: Number of times the category app is accessed by the smartphone users/day

So, what is likely to work for the rural and semi-urban digital consumer? Simplicity will be the mantra!

- **Using the right publisher mix:** Given that a large chunk of rural population accesses the internet on a low-end phones, selection of correct ad asset/s and publishers is extremely critical
- **Simplified communication strategy:** It will be important to keep the messaging simple to aid quick comprehension

• Invest in building digital learning for your brand:

What worked in urban may not work as well in rural India. As more and more users are on-boarded to the internet, systematic understanding of rural audiences, their media consumption habits and their evolving context will have an impact on their ease of embracing digital media.

13. IRS estimates 2017 versus 2019 (respondents of age 12+ years)

Digital advertising

Growth slowed in FY20 but will halve in FY21

The Indian economy had decelerated to its lowest in over six years in Q3FY20¹⁴, which meant that many companies were potentially already scaling back their discretionary spending even before the outbreak of COVID-19.

- Despite a regular IPL calendar and a normal festive season, digital advertising revenues failed to meet

expectations in FY20 and registered a 24 per cent growth as against a projected 31 per cent, to reach a size of INR 199 billion at the end of FY20

- The true devastation caused by COVID-19 will be reflected through FY21, when the Indian economy is expected to contract considerably with a fallout on incomes and therefore consumption spends.

Revenues (in INR billion)	FY18	FY19	FY20	FY21P	FY22P
Digital advertising revenue	116	160	199	223	292
Growth	35%	38%	24%	12%	31%
CAGR (FY20-FY22)					21%

Source: KPMG in India analysis 2020 based on primary and secondary research

While digital advertising is expected to slow down dramatically and report a 12 per cent growth for the fiscal, this is still significantly better than the traditional media segments like TV and print, which are likely to see sharp declines in overall advertising revenues in FY21.

In fact, on account of the strong growth drivers and the relative insulation of the segment compared to others, digital advertising revenues are likely to surpass TV advertising revenues by FY21; a milestone that was earlier expected to only occur by FY23.

The relatively better performance of digital advertising in FY21 would be attributable to the following aspects:

- **Availability of new content, the differentiating factor:** Digital was one of the few segments that continued to offer new content to its consumers and the value proposition to both its audience and brands remained strong even through the pandemic.

A combination of continuously updated user-generated content, deep legacy libraries of global OTT players, erstwhile theatrical releases moving to OTT platforms as well as innovations in shooting of new scripts allowed digital M&E platforms including gaming to remain relevant to its existing and new consumers



- **Consumers in turn responded:** With limited outdoor options for entertainment, there was a substantial increase in the engagement metrics by digital audiences across target groups during the period of lockdown, which was encouraging to brands. The turn to digital however occurred not just because people were forced to stay indoors but also because among the at-home M&E options, it was primarily digital media formats that managed to offer fresh content to its users for far longer
- **A reallocation of marketing spend:** Digital advertising is considered performance marketing spend for most companies and brands see great value in the measurable outcomes offered by these publishers. While companies across sectors were increasing their digital advertising budgets even prior to the coronavirus outbreak, this was often in line with a secular increase in overall marketing budgets.

Now, as businesses reel in their discretionary spending, there is likely to be a reallocation within marketing budgets and a diversion away from traditional media segments of TV, print, radio, OOH to digital in accordance with consumer preferences



14. Potential impact of COVID-19 on the Indian Economy, KPMG in India, April 2020

- **Digital fulfilment is essential to almost every business:** Companies across sectors had to pivot to an online sales fulfilment model – a trend that is again unlikely to be completely reversed – and therefore advertising on the digital medium made imminent sense as well
- **Easier to measure return on investment:** Digital also offers the additional advantage of transparency in measurement and attribution as it allows specific targeting of user groups online. Leveraging the extensive amounts of data and analytics available on the digital user and their behaviour online, brands are able to select publishers catering to their particular audience and do so at a number of available price points through the auction system of programmatic

buying. This is especially important when brands are looking to cut budgets or redirect spends towards areas of highest return on investment.

One of the most important sub-segments within digital is OTT video, which has seen significant traction in terms of consumption and monetization in the last 12-18 months. There have been major investments in this hotly contested space from a supply point of view. On the other hand, the demand side has remained robust, and in fact grown during the pandemic, with OTT video emerging as the only outlet for original content. In the next section, we take a deep dive into the OTT video landscape in India, including the market sizing and key trends.



Built to last: OTT streaming in the U.S. before and after the crisis



Michelle Wroan

*National Media Industry Leader,
KPMG in the U.S*

Traditional video delivery models and consumption habits were being upended before COVID-19 as consumers sought more flexibility and choice for their video entertainment options — but the shift to streaming gained rapid momentum in the United States as COVID-19 stay-at-home orders and the pause in live entertainment options caused consumers to embrace streaming in record numbers. Streaming minutes nearly doubled year-over-year in March 2020 and this growth was shared among new and established video services.

For the U.S. media and entertainment sector, sudden growth in demand for new and established streaming services presents a compelling opportunity, while enhancing potential operational challenges. This includes shifts in longstanding content distribution and revenue models, as well as a need to generate insights from customer data (while protecting that data and meeting evolving compliance requirements).



The global media industry has been impacted in 2020 with dramatic shifts in consumption and accelerated adoption of streaming video [and gaming]. As the industry continues to evolve and grapple with the coexistence of legacy distribution models and new delivery systems, the winners in the current environment will be those excelling in digital distribution. They will need to continue to refine their business and operating models to ensure they are delivering the right returns for shareholders and a superior experience for their customers.



Alex Holt
Global Head of Telecoms and Media,
KPMG International



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Tech companies and studios stake their claim

Over the last few years, a small number of tech giants have dominated the streaming market with established delivery platforms that operate at scale, and deep pockets for content production and acquisition. They combine premium content offerings with a great user experience to keep customers within their ecosystems. Most importantly, these tech giants have access to a vast amount of subscriber usage and behavioral data, as well as the capability to analyze the data to understand user habits and refine their strategy for capturing the customer.

More recently, major studios and other content producers launched their own high-profile streaming services to compete with the leading services. These new market entrants have rich content libraries, and have also started taking back licensing rights from other services, which positions them well for sustained growth. This will help in their fight for market share to attract and retain customers. However, with content production at a standstill for several months of 2020, even the most robust services may see significant churn as housebound viewers search for new content.

How much choice is too much choice?

One of the greatest risks to streaming success is the fickle nature of the customer. Viewer demands have led to more choice, but also more complexity in the market. With more than 100 streaming services currently available in the U.S., most consumers are still gravitating to a small number of services to meet their entertainment needs¹⁵. People have access to a vast array of content, but a finite amount of viewing time.

And as much as they enjoy streaming video, there is a limit to the number of services to which consumers want to subscribe — and the amount of money they are willing to spend. According to our 2019 consumer survey¹⁶, the majority of consumers subscribe to two to three video streaming services, and currently pay under USD40 for their combined subscriptions. In considering additional services, most would be willing to increase their spend up to USD20 more per month.

Among the factors determining purchase decisions, price was cited as the most important in choosing a streaming service among all respondents. Consumers ages 18-24 ranked an ad-free service a close second,

followed by a service's content. Consumers ages 25-60 listed content a distant second, followed by ease of access.

In general, gaining a competitive edge in a crowded market is critical, and customers want a compelling user experience that balances content, price, and simplicity.

Content preferences and availability have shifted with COVID-19

Streaming services are also benefiting from changes in traditional distribution windows, which includes some high-profile theatrical content going direct-to-streaming, as well as a reduction in theatrical exclusivity to only a few weeks. All of this means content will be available on streaming services more quickly than was possible under pre-COVID-19 home entertainment windows. Assuming new content production resumes safely, this accelerated release schedule will help streaming services enhance their value proposition to consumers.

While strong demand continues for original, long-form content, consumer interest in mobile-first, shorter-form content has so far been less robust. Short segments designed to entertain viewers in brief moments such as standing in a line or waiting for an appointment are gaining less market acceptance with fewer people performing routine errands outside the home.

Still some work to do

Despite their compelling advantages, streaming services face a variety of operational and marketplace challenges.

- **Navigation and discovery curtail the user experience:** The sheer number of streaming services, for example, is emerging as a growth obstacle as consumers start to experience subscription fatigue. Each service comes with its own log-on and interface, making it complicated for consumers to navigate the supposedly relaxing experience of watching TV.
- **Value in aggregators:** To address navigation and content-discovery challenges, we expect to see aggregation platforms that, in essence, bundle the offerings of different streaming services on a single interface that serves as an in-home video dashboard. Such a platform would make the streaming experience easier to navigate and could provide a rich source of consumption data that provides additional opportunities for monetization.

15. How consumers choose video streaming services, KPMG in the U.S.

16. How consumers choose video streaming services, KPMG in the U.S.

- **Greater operational complexity:** Streaming services must also address a variety of complex operational and business issues. Reaching consumers directly — rather than through third-party distributors — represents a major operational change for content providers that includes establishing new technology infrastructures, billing relationships, customer service functions, and stronger data governance and compliance frameworks. Content providers also need to blend previously separate entities, such as production, distribution and other business units that were traditionally siloed in a B2B environment or performed by external partners.
- **Need for performance management systems:** Regardless of the business model, deciding what to measure—and how to measure it—is a key operational challenge. Providers should place a high priority on the accuracy of data for reporting, maintaining the integrity of information for billing and customer service, and strict adherence to regulatory expectations. Operations must be well controlled to ensure accuracy, integrity, and compliance.

Digital media should however retain its favoured position

Looking ahead, ad dollars will continue to concentrate in streaming services, social media platforms, and other digital services. Digital advertising's enhanced targeting

and attribution, automated placement tools, and lower costs offer attractive and compelling advantages over legacy broadcast and print media. Brands are better able to target addressable audiences using a variety of demographic, interest and behavioral data that can be coupled with analytics tools to generate powerful insights about consumers and the results of their ad campaigns. The extent of the recovery will, naturally, depend heavily on how well other sectors rebound.

Similarly, brands and their advertising partners will have to identify the most effective ad mix across channels, audiences, tactics, and messages to maximize results. They also will have to monitor results carefully as the economy re-emerges. Deploying and improving their analytics capabilities will play critical roles in delivering the needed business, customer and marketing attribution intelligence.

The road ahead

The implications of the interlocking changes to the streaming video market, advertising, and content distribution are likely to continue as the U.S. media and entertainment sector adjusts to a new reality, while content production and live entertainment search for ways to return safely to profitable viability. As companies focus on near-term issues including addressing liquidity, they also need to work on their recovery plans to be ready to compete in a transformed marketplace.



Digital OTT video

The OTT video sub-segment continued to see supercharged growth over the last 12-18 months with more than 40 OTT video platforms¹⁷ competing for a share of the Indian user's time and wallet. The last few months witnessed the entry of global OTT major Disney via Hotstar, the shutdown of HOOQ and the launch of niche platforms like 'Mubi' and 'Cinemaprenuer' which offer non-mainstream festival films and independent cinema not present on large platforms. In addition, the industry also witnessed a greater thrust on subscription with players either launching a full-fledged subscription

service or starting to experiment with a pay-per-view or transaction-driven model.

Industry performance – Current and projected

Historical performance

FY20 saw continued strong growth in the revenues of the OTT video sub-segment, with advertising revenues registering a growth of 26 per cent over FY19 to reach INR34 billion and the subscription revenues seeing a rapid 60 per cent growth to reach INR19 billion.

OTT Video Revenues (in INR billion)	FY18	FY19	FY20	FY20 growth
Advertising	17	27	34	26%
Subscription	4	12	19	60%
Total OTT video market	21	39	53	36%

Source: KPMG in India analysis, 2020

Note: The above numbers are a representation of advertising revenues of OTT video platforms including YouTube in India. The same have been arrived through a combination of primary and secondary research

Advertising - The growth in advertising on digital video platforms was marginally slower than in FY19, on the back of a tepid macro-economic environment which impacted almost all sectors of the M&E industry. Based on our interactions, we understand that this growth is largely helping increase the overall advertising pie and has not yet eaten into the share of Television advertising as such. OTT platforms continued to focus on differentiating themselves to attract advertisers, through differentiated content and expanding distribution, and are also working on improving their ad tech solutions to enable better targeting.

Subscription - The subscription revenues saw a rapid growth in FY20, on account of

- Organic growth and increased acceptance of digital video as a means of everyday entertainment
- Pricing and packaging innovations by players to cater to a wider spectrum of consumers
- Bundling of streaming services by internet service providers (ISPs), leading to a significantly wider distribution for almost all OTT players
- A sharper focus on content with increased investments in originals, in order to attract customers with a wider array of interesting stories
- Rapidly growing device ecosystem with smart TVs becoming more affordable¹⁸

Projected performance

OTT Video customer base (in mn)	FY20	FY21P	FY22P
Total online video viewers in India	400	486	555
Total SVOD subscribers in India	22	40	57
Total SVOD subscriptions in India	22	41	62

Source: KPMG in India analysis, 2020, based on primary and secondary research

Note: SVOD subscribers and subscriptions refer to users directly accessing and paying for online video streaming services

17. KPMG in India analysis, 2020, based on industry discussions

18. Prices of smart TVs on e-commerce portals – Amazon and Flipkart on August 8, 2020

OTT Video Revenues (in INR billion)	FY21P	FY22P	FY21 growth over FY20	FY22 growth over FY21
Advertising	39	60	15%	55%
Subscription	31	46	62%	49%
Total OTT video market	69	106	32%	53%

Source: KPMG in India analysis, 2020

The OTT video market is expected to achieve robust growth over the next couple of years, with the COVID-19 pandemic having resulted in an acceleration of digital video consumption and adoption. We estimate the total online video viewers in India to reach 555 mn by FY22, with the paying users likely to touch 57 mn by the same timeframe. Based on our industry discussions, the same represents an adoption acceleration of 3-6 months, with the potential of a long-term acceleration of 12-18 months as well.

While monetization usually has some lag to consumption when it comes to OTT video, the revenue growth is also projected to be robust. The total OTT video revenues are estimated to reach INR106 billion by FY22 with subscription revenues expected to drive growth, especially in FY21, on the back of a thriving device ecosystem, habit formation among users owing to an uptick in consumption during the lockdown, along with pricing and bundling innovations by players.

Advertising revenues, however, are expected to grow at a tepid 15 per cent in FY21 due to the pandemic led disruptions, slowdown in economic activity resulting in rationalization of advertising spends across M&E

segments. In Q1 FY21, platforms across the board had a tough time filling up their inventories in an environment where Cost Per Mille (CPMs) were dropping. As a result, ad revenues for most platforms witnessed an estimated decline of 30 per cent to 50 per cent in Q1 FY21 on a y-o-y basis.¹⁹

However, they are expected to rebound in FY22, as normalcy is likely to return, with continued spends by advertisers on digital, who would look to make use of the increasing reach and accurate targeting which digital advertising provides.

Key themes:

Lockdown – A boon for OTT video consumption

The lockdown imposed on account of COVID-19 disrupted everyday life and significantly reduced the avenues of 'out of home' entertainment for individuals. While movie theatres remained shut, live sports and fresh TV content also came to stand-still. These limitations nudged more people to explore content on OTT video platforms and engage in online gaming.

Increase in weekly time spent on video streaming platforms through smartphones



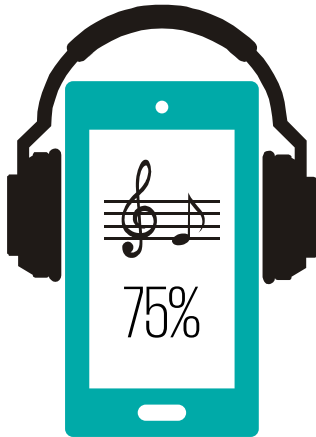
Source: Crisis Consumption – An insights series into TV, smartphone and audiences (10th Edition) by Nielsen, BARC, July 2020

19. KPMG in India analysis, based on industry discussions



The music genre consumption also saw a clear shift in preferences, wherein an increasing number of consumers moved towards consuming music content on video platforms post COVID.

Increase in the preference of video platforms to consume music (Post COVID as compared to Pre COVID)



Source: KPMG primary survey, 2020, to analyse the change in trends around music consumption habits

What also worked in favour of the OTT video platforms was the fact that they were able to offer fresh content in the form of originals and digital premiers of movies in order to keep the audiences engaged. The same could happen as players like Netflix, Zee5, Amazon Prime Video etc. had large portions of their content already shot, and these platforms could effectively pivot to remote collaborations in order to post produce the content and get it in shape for the consumers.

Platforms with a robust portfolio of originals, movies and library content witnessed a surge in user base and engagement levels while those heavily dependent on a live TV and / or sport content could not make the most of this opportunity as users began to explore more content on the platforms with a greater amount of time at hand.²⁰



	Pre-COVID	Post COVID (Weeks 18-21 or 25 April 2020 to 22 May 2020)
Share of original series in the total smartphone OTT viewership time	5%	19%
Share of movies in the total smartphone OTT viewership time	12%	27%

Source: Crisis Consumption – An insights series into TV, smartphone and audiences (10th Edition) by Nielsen, BARC, July 2020

Are OTT video platforms the new theatres?

The Indian film industry has been forced to contend with a shut-down of theatres for a prolonged period, and with no respite in sight for the theatre owners, some producers opted to go ahead with digital premieres for their movies.

The situation resulted in a significant number of movies, both Hindi and some regional; like Lootcase, Dil Bechara, Gunjan Saxena, Gulabo Sitabo, Penguin, Ghoomketu, V, C U Soon, etc. premiering on OTT platforms²¹. Multiple

movies are further scheduled for digital-first releases for the rest of the year.

The movies which are being released on the OTT platforms are typically made at a smaller to medium budget of INR500 million or less with big-ticket Bollywood films made at budgets of INR1 billion or more, holding out for theatrical releases.²² Box office collections are crucial for producers of big budget films to achieve profitability and hence, most big-budget films are unlikely to go for a digital-first release.²³

20. KPMG in India analysis, 2020, based on industry discussions

21. KPMG in India analysis, 2020, based on secondary research

22. KPMG in India Analysis, 2020, based on primary and secondary research

23. KPMG in India Analysis, 2002, based on industry discussions

Growing focus on SVOD model and direct subscriptions

Digital platforms across the board started to experience pressure on advertisement revenues towards the second half of FY20 on account of weak macro-economic environment. The situation further deteriorated for advertising post Mar-20 once COVID-19 hit the country and economic activity came to a screeching halt.

However, the silver lining of an uptick in consumption resulted in a doubling down of focus by platforms on their SVOD offerings, which as per our interactions, have seen a sharper growth during the lockdown.



Platform	Strategic initiatives to drive subscription growth
VOOT	Expanded beyond its AVOD model with an SVOD offering under 'Voot Select' ²⁴ and launched a paid OTT video product for kids called 'Voot Kids' ²⁵
Netflix	Introduced the mobile only pack to target the price conscious consumers and penetrate deeper into the Indian market ²⁶
Sony Liv	Rebranded itself and focused on enhancing user experience with fresh original content as a part of "SonyLiv 2.0". ²⁷
ALT Balaji	Increased focus on direct subscriptions by moving away from offering content through multiple partnerships to a single-partner and direct model. ²⁸ To support this change in strategy, ALTBalaji also inked a deal with Zee5 to co-create over 60 originals that would be offered exclusively on these platforms. ²⁹

Source: KPMG in India analysis, 2020

Experimentation with pricing continues

As the industry evolves and matures, players are constantly experimenting with packaging and pricing to attract a wider audience base. Zee5 has been one of the platforms who continued to experiment last year. While they removed language-specific packs from their offerings, they added subscription packs spanning three and six months respectively to the existing monthly and annual subscription plans. In addition, Zee5 has also launched an entry level subscription plan called 'Zee5 Club' in July 2020 at INR365 per year to target consumers' who desire a variety of content but not necessarily the latest premium content.³⁰

Netflix, meanwhile, chose to diversify its offerings based on the mode of consumption and launched a mobile only pack at INR199 per month in July 2019 to target the price-conscious subscribers in India. The pack allows

consumers to stream standard definition content on one smart-phone or tablet at a time³¹ and based on industry discussions, has been successful for the platform. Further on these lines, Netflix is also testing another low-priced pack called 'Mobile+' at INR349 per month which will enable consumers to stream high definition content on one mobile, tablet or computer screen at a time³².

On the other hand, players are also starting to experiment with a pay-per-view model in the Indian market, particularly for movie premieres. While Disney+ will release the movie Mulan on 4 September 2020 globally in a Transactional Video on Demand (TVOD) fashion, ShemarooMe is trying out the model through its Box Office feature where direct-to-digital films are available for viewing at INR80 to INR100 over a three-day window.³³

24. Viacom18 launches Voot Select, a subscription based video streaming service, The Hindu Business Line, March 4, 2020, accessed on August 20, 2020

25. Viacom18 enters learning space with the launch of VOOT Kids, The Hindu Business Line, November 13, 2019, accessed on August 20, 2020

26. Netflix launches mobile plan for India, Netflix news release, July 2019, accessed on August 20, 2020

27. SonyLIV 2.0 seeks to refresh through new-age, youthful vibe, Indian Television, July 2, 2020, accessed on August 20, 2020

28. ALTBalaji hopes to rake in more direct subscribers and revenue from Zee5 deal, Medianama, August 20, 2019, accessed on August 20, 2020

29. ALTBalaji, ZEE5 collaborate to co-create original content, Economic Times, July 19, 2019, accessed on August 20, 2020

30. ZEE5 Launches 'ZEE5 CLUB' @ INR365/Year; Democratizes Access To Premium Content For Every Indian, Zee5, July 30, 2020, accessed on August 20, 2020

31. Netflix launches Mobile Plan for India at INR 199/month, Press Release by Netflix, July 24, 2019, accessed on August 20, 2020

32. Netflix India's newest experiment: A cheaper entry-level plan, The Economic times, July 21, 2020, accessed on August 20, 2020

33. Pay-per-view model is happening in India, but can it mirror international success?, Moneycontrol, August 14, 2020, accessed on August 20, 2020



Bundled offerings across broadband and telcos remain pivotal

Internet Service Providers (ISPs) across the country have started to bundle OTT video platforms as a part of their offerings to attract and engage their users.

Jio Fiber, which was rolled out in the second half of 2019, started to bundle varied OTT platforms like Disney+Hotstar, Sony LIV, Zee5, SunNXT, AltBalaji, Amazon Prime Video, etc. along with Jio Cinema and Jio Saavn for its FTTH subscribers depending on their plans. In addition, Reliance Jio launched 'JioTV+' in July 2020 to ease access for over 12 video streaming platforms via an integrated platform that will enable its FTTH subscribers to access content across different platforms with a single login to the app via its STB.³⁴ Similarly, Airtel has launched its Airtel Xstream box with Netflix, Amazon Prime Video and Zee5 bundled for its broadband subscribers according to their plans³⁵.

On the telco side, Airtel has launched pre-paid plans at INR401 and INR289 per month that bundle 'Disney+Hotstar VIP'³⁶ and Zee5³⁷ premium subscriptions respectively. Reliance Jio has offered a one-year complimentary Disney+Hotstar VIP membership to its pre-paid users who avail plans starting at INR401 per month³⁸. BSNL launched three new special pre-paid tariff plans which provide Eros Now subscription for different durations³⁹.

This bundling of video streaming platforms with broadband and telco offerings is expected to further propel the trend of increasing consumption of OTT video content and help boost subscription revenues in the future.⁴⁰

Ad monetisation and the rush for proprietary ad stacks

OTT platforms with an ad model have realized the importance of technology for carrying out bottom of the funnel advertising activities which require ad personalization to be done based on consumer data. Such advertising activities enable brands to design effective marketing campaigns, measure the reach and response as well as maximize advertiser return on investments (ROIs).

As a result, brands are increasingly preferring platforms which have the ad-tech that enables them to deliver highly personalized measurable ads.



Zee5, which has a freemium model, has been investing in building its own proprietary ad stack to serve brands more effectively. As a part of this effort, Zee5 has launched Adsuite - an ad stack with multiple tools that allow brands to reach the relevant audience, adopt innovative ad formats and develop consumer insights.⁴¹

COVID-19 likely to result in innovation on the content side

Originals and movies scheduled for filming over the course of the foreseeable future are likely to face significant on-ground disruptions. This situation is likely to derail the timelines for fresh content releasing on streaming platforms and force players to innovate in order to keep their users engaged, with diversification to their digital portfolios and additional of use cases, a likely outcome.

Gaming and educational content has been among the most popular choices for platforms expanding their offering.



While Zee5 partnered with Gameloft to introduce a bouquet of hyper-casual games⁴², MX Player also added casual games to its platform. On the other hand, Voot has partnered with Upgrad to offer informative and educational content to its users⁴³. Allied content offerings have also found a place in this expanded set of offerings with Zee5 launching a hyper-short-form user generated video platform called HiPi and Voot planning to make a foray into health and wellness content.⁴⁴

34. Reliance launches JioTV+ for integrated OTT content, Ambani shares 5G vision for India, YourStory, July 15, 2020

35. Airtel broadband website, www.airtel.in, accessed on August 20, 2020

36. Airtel launches Rs 401 prepaid pack with free Disney+Hotstar VIP subscription, IndiaToday, April 24, 2020, accessed on August 20, 2020

37. Airtel launches new pre-paid packs with premium content of Zee5, Press Release by Airtel, July 7, 2020, accessed on August 20, 2020

38. Reliance Jio Disney+Hotstar offer: Here's everything you need to know about it, Indianexpress, June 8, 2020, accessed on August 20, 2020

39. Eros Now expands existing partnership with BSNL, Indian Television, April 1, 2020, accessed on August 20, 2020

40. KPMG in India analysis, 2020, based on industry discussions

41. Up your brand's game with Zee5's ad suite, Livemint, December 10, 2019, accessed on August 20, 2020

42. Gameloft, Zee5 enter into a strategic partnership to launch online gaming, Brand Equity – The Economic times, May 20, 2020, accessed on August 20, 2020

43. VOOT forays into edutainment, partners with Upgrad, Financial Express, May 28, 2020, accessed on August 20, 2020

44. How OTT platforms are looking beyond their core offerings to increase stickiness, Financial express, June 10, 2020, accessed on August 20, 2020

Jio platforms - Fund raise snapshot

On 22 April 2020, Reliance Industries Limited (RIL) and Facebook Inc. (Facebook) announced the signing of binding agreements for an investment of INR43,574 crore (USD5.8 billion) by Facebook into Jio Platforms Limited (Jio Platforms or Jio). With this investment, Facebook acquired a 9.99 per cent equity stake in Jio Platforms.⁴⁵

This was followed by a string of minority stake investments by financial investors led by sovereign funds such as Abu Dhabi Investment Authority (ADIA) and Saudi Arabia's Public Investment Fund (PIF), private equity funds such as Silver Lake, Vista,

General Atlantic, KKR, Mubadala, TPG, L Catterton and strategic investors such as Qualcomm and Intel.⁴⁶

On 15 July 2020, Google LLC (Google), RIL and Jio Platforms announced the signing of binding agreements for an investment of INR33,737 crore (USD 4.5 billion) by Google into Jio Platforms. Google acquired 7.73 per cent equity stake in Jio Platforms on a fully diluted basis with this investment.⁴⁷

Total investment in Jio Platforms by both strategic and financial investors till 15 July 2020 has been to the tune of USD20 billion.⁴⁶

Investor ⁴⁶	Amount (USD bn) ⁴⁶	Stake (%) ⁴⁶	Investor type
Facebook	5.8	9.99	Strategic
Google	4.5	7.73	Strategic
Vista Equity Partners	1.5	2.32	Financial
KKR	1.5	2.32	Financial
PIF	1.5	2.32	Financial
Silver Lake Partners	1.4	3.23	Financial
Mubadala	1.2	1.85	Financial
General Atlantic	0.9	1.34	Financial
ADIA	0.8	1.16	Financial
TPG	0.6	0.93	Financial
L Catterton	0.3	0.39	Financial
Intel Capital	0.3	0.39	Strategic
Qualcomm Ventures	0.1	0.15	Strategic

Source: News sources and KPMG in India analysis, 2020

While financial investors may look for an opportune time to exit (for instance, when Jio Platforms gets listed on a stock exchange), the strategic investors like Facebook, Google, Qualcomm and Intel may continue to benefit from each other's presence in Jio

Platforms in the long run, bringing in infrastructure and technology solutions for consumers not only in India but globally. The below table summarises some of the key takeaways for the strategic investors and Jio.

45. "Facebook to Invest INR43,574 crore in Jio Platforms for a 9.99% Stake", Media release by Reliance Industries dated 22 April 2020, accessed on 03 August 2020

46. "RIL AGM 2020: Google will invest Rs 33,737 crore for 7.7% in Jio Platforms", Moneycontrol.com, dated 15 July 2020, accessed on 20 August 2020

47. "Google to invest INR33,737 crore in Jio platforms for a 7.73% stake" media release by Reliance Industries dated 15 July 2020, accessed on 03 August 2020



Deal rationale for the strategic investors: Who gets what

Facebook	<ul style="list-style-type: none"> • Access to over 380 million Jio subscribers. This will give Facebook an opportunity to launch new products and services (for example, Lasso – a short-video sharing app) to Jio’s vast customer base. • An opportunity to monetise WhatsApp with JioMart. WhatsApp in India already has reach with 400 million users. The WhatsApp Pay service, with instant access to small businesses and the merchant network on JioMart, can take on established players like Paytm, Google Pay and PhonePe in the payments space.⁴⁸ • An impetus for Facebook’s technological pursuits, especially in virtual reality (VR) and Internet of things (IoT), the success of which will depend on access to 5G. Jio has developed its own end-to-end 5G technology and has sought the approval of the Telecom Authority of India (TRAI) for 5G trials.⁴⁹ • As the telecom sector is heavily regulated in India, Facebook is likely to also benefit by associating with an Indian company that knows how to do business in the Indian regulatory set up.
Google	<ul style="list-style-type: none"> • Google and Jio Platforms have entered into a commercial agreement to jointly develop an entry level affordable smartphone with an optimized Android operating system integrated with Google Play Store. • This entry level smartphone can get a new set of first-time smartphone users to the Google Play Store and Android operating system. These new smartphone users can help Google strengthen its position in the digital ecosystem of India, which is one of the fastest growing economies and second largest population in the world. Google recently announced that it will invest USD10 billion in India over the next five to seven years.⁵⁰
Qualcomm and Intel	<ul style="list-style-type: none"> • Qualcomm and Intel offer technologies and products that are used in mobile devices, wireless products, network equipment, broadband gateway equipment, consumer electronics devices and other connected devices. • Qualcomm and Intel can benefit from the tie-up with Jio by supplying technologies and products for the Jio-Google entry level smartphone and other product offerings of Jio Platforms.

Deal rationale for Jio

- Accelerate Reliance Retail’s new e-commerce business on the JioMart platform and to support small businesses on WhatsApp. JioMart is being built in partnership with millions of small merchants and kirana shops. Jio Mart will help the consumers access the nearest kiranans that can provide products and services to their homes by transacting through the JioMart platform using WhatsApp.
- The partnership with Google can help Jio capitalize on the smartphone market by making a made in India smartphone. Google and Jio plan to jointly develop an operating system for an entry-level smartphone that will support 4G/5G and target India’s 350 million feature-phone users.⁵¹
- By collaborating with Intel and Qualcomm, Jio has ensured the technological support for the hardware to further its 5G and smartphone plans.

48. “Reliance Jio-FB deal will upend payments sector: Experts”, telecom.economicstimes.indiatimes.com, dated 23 April 2020, accessed on 03 August 2020

49. “Reliance Jio officially enters 5G space as a technology vendor; aims to export tech to global telcos”, telecom.economicstimes.indiatimes.com, dated 15 July 2020, accessed on 03 August 2020

50. “Google to invest \$10 billion in India over 5-7 years”, tech.economicstimes.com dated 14 July 2020, accessed on 03 August 2020

51. “Google to invest Rs 33,737 crore for a 7.7 per cent stake in Jio Platforms”, economicstimes.indiatimes.com, dated 16 July 2020, accessed on 03 August 2020

Key takeaways

- Impetus to make in India technology and products?
 - It remains to be seen if these investments will usher in more made in and made for India products and solutions. For instance, Jio plans to introduce entry level 4G/5G smartphone in collaboration with Google and Qualcomm that may be another completely made in India product.
- Increased financial inclusion?
 - As per the media release by RIL dated 22 April 2020, the Facebook investment is aimed at empowering 60 million micro, small and medium enterprises, 120 million farmers, 30 million small merchants and millions of small and medium enterprises in the informal sector.⁵² This Facebook deal may help in expanding financial inclusion as 400 million users of WhatsApp can leverage Facebook's UPI-based Whatsapp Pay platform for various purposes.
- Growth in the number smart phone users?
 - The Google-Jio entry level smartphone will target India's 350 million feature-phone users. This may help to accelerate the migration of millions of Indians, who currently use a 2G feature phone, to an affordable 4G/5G smartphone.
- Playground for more international players?
 - This wave of new internet users in India has benefited technological giants like Google and Facebook, both of which are experiencing saturation in the West and are developing a lot of interest in Asia and emerging economies to reach the next billion users.⁵³
 - These recent investments have made Jio Platforms the only investee company anywhere in the world where more than one FANG (Facebook, Amazon, Netflix and Google) company has invested together.⁵⁴

While some concerns have been raised related to data privacy, net neutrality and lack of comparable competition to Jio,⁵⁵ it remains to be seen how these concerns pan out. Ultimately consumers may stand to gain with access to better technology, more affordability, increased ease of access to digital products and awareness on the uses and applications of technology and financial products.

52. "Facebook to Invest INR43,574 crore in Jio Platforms for a 9.99% Stake", Media release by Reliance Industries dated 22 April 2020, accessed on 03 August 2020

53. "Next billion users will come from India: Google, Facebook and others can't afford to ignore them" firstpost.com dated 16 July 2019, accessed on 3 August 2020

54. "Google in talks to invest \$4 billion in Jio Platforms", telecom.economictimes.indiatimes.com dated 15 July 2020, accessed on 3 August 2020

55. "Internet startups raise concerns over Facebook-Jio deal" Livemint.com dated 21 June 2020, accessed on 28 August 2020



Future trends and their implications

Many digital trends prevalent in India prior to the outbreak of COVID-19 have been amplified post March 2020, and ones on the periphery are now part of the mainstream. For example, segments of the population that would have typically taken longer to 'on-board' such as the older demographic or users in smaller towns of India now display fewer divergences from the digital behaviour of their urban counterparts. What is particularly noteworthy is that these relatively naïve digital consumers have embraced the internet wholeheartedly and are doing a lot more than checking messages or watching videos online but rather buying groceries, making bill payments and a whole host of other more 'sophisticated' digital activities.

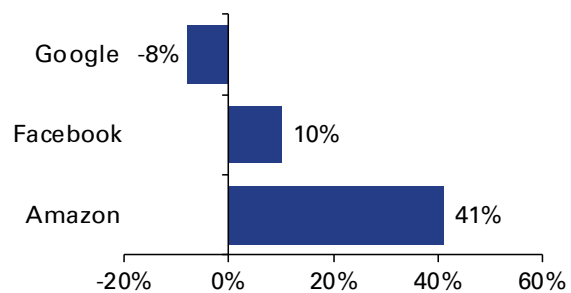
All of these changes have important implications for digital advertising and OTT video, some of which are outlined below:

- Digital should grow from strength to strength:** In India, digital advertising is projected to exceed TV advertising in FY21, an acceleration of two years compared to pre-coronavirus projections. With TV expected to witness a sharp decline in revenues in FY21 and with digital gaining strength, the gap may continue to widen in the years to come
- More attention paid to the digital behaviour of consumers in Bharat:** Rural internet users continue to grow at a faster pace than their peers in urban India. Equally, the recovery from the crisis seems to be driven largely by smaller towns and rural markets, where the pandemic has relatively had a lesser impact in terms of community transmission. Demand for fertilisers, two-wheelers and tractors have jumped with the unlock in June. Similarly, rural markets account for 36 per cent of FMCG sales in India and grew at 3x the national average in June 2020⁶². Given this potential, the profile of the rural digital user, their preferences and consumption patterns warrant greater study to ensure that relevant content and services, with customization in terms of UI/UX can be made available
- Voice-assisted searches will help bridge the urban rural divide:** Access, discovery and the user experience for digital users in smaller towns and rural centres will benefit from the continued increase in adoption of voice as a medium for digital interface. As against 51 per cent of digital searches that began with voice in 2019, in 2020, the same figure was at

60 per cent. This was the highest among all countries surveyed⁶³

- Direct to OTT releases here to stay:** In the near to medium term, a new genre of digital-first niche movies made at low to medium budgets with leaner crews (due to COVID-19) and innovative use of technology are likely to find their way onto OTT platforms.
- E-commerce to challenge existing duopoly in digital advertising:**

Year on year change in advertising revenue
April - June 2020



Source: "Amazon's business is pandemic proof," Quartz, August 17, 2020, company filings

Company	Net digital ad revenues in USD bn (2019)
Google	103.73
Facebook	67.37
Alibaba	29.20
Amazon	14.03

Source: eMarketer, February 2019

The trend, which is already undeniable in the U.S, indicates that users are increasingly beginning their product discovery and online queries on e-commerce platforms. Their intent to purchase is expectedly much greater. Advertising on such platforms offers brands unprecedented access to behavioural data of consumers that was typically only available through offline retail partners. Not only does it offer bottom funnel advertising opportunities for brands but also a brand-safe, controlled environment

62. Growth for FMCG sector coming from rural and smaller markets: Nielsen, Best Media Info, August 04, 2020

63. We are Social

- **Digital video platforms likely to embrace an ecosystem play:** With most digital platforms in the country looking to diversify into an ecosystem play by adding use cases, OTT video platforms are likely to follow suit. The same would help rationalize customer acquisition costs over wider use cases and help monetize offerings better. In the near term, gaming and education content are likely to emerge as important add-ons for OTT video platforms to keep users engaged
- **Regional content would continue to be the growth driver for OTT video:** As outlined in the TV chapter, regional content is seeing significantly higher growth in terms of viewership on traditional media than Hindi content, and the same is likely to pan out on OTT video as well. There is an increasing demand for regional language content as digital infrastructure penetrates deeper into 'Bharat' and OTT video platforms are taking notice, in terms of their efforts to acquire exclusive regional movies and produce original regional content. This is likely to be amongst the top agenda items of digital OTT platforms in the near future
- **Greater investment into building proprietary stacks:** Publishers will continue to invest in developing a self-service model for brands with proprietary, in-house ad-stacks. OTT players who are leading this trend have the advantage of providing a narrow cast, brand safe, controlled environment to brands, not unlike e-commerce players in the search format.

Conclusion

Based on our conversations with stakeholders across the digital segment, there is near unanimous agreement that the pandemic has accelerated the adoption of digital technologies into the lives of the average Indian. During the lockdown, levels of engagement rose considerably amongst the young, digitally savvy population with more time being spent on gaming and OTT platforms. Digital facility also showed considerable improvement among the older demographic as well as users in smaller towns in India. This behaviour is unlikely to regress. The trajectory of India's digital population has undergone a structural shift and telescoped between 18-24 months of future progression into a few weeks. Over the next couple of years, with economic recovery gaining momentum, the full impact of this change should translate into significant digital advertising and subscription growth.



An Indian super-app – Not if, but when



Aditya Mehta

*Head – Corporate Strategy and Development,
Sony Pictures Networks India*

I recently watched, ‘Tidying up With Marie Kondo’, on Netflix. Ms. Kondo talks about the importance of de-cluttering; to only keep those things in life that spark joy. And as I look at my phone screen, saturated with some 115 odd apps, occupying space and memory on my device; this Konmari, way of life, to me, is the simplest analogy for what a super-app is.

So then, what is a super-app?

Simply put, it is an all-in-one app, managing users’ primary needs- in a seamless, single ecosystem. This everyday app incorporates many functions such as text messaging, video calls, e-commerce, entertainment, gaming, P2P money transfer, financial services, utilities payment, ride-hailing, food ordering, and even travel needs. From the users’ lens, it is convenient, offers a variety of services, a uniform and individual user experience and saves phone memory. It sparks joy!

The success story - A peak into Tencent’s WeChat

China has nearly 900 million internet users with more than 40 per cent transacting online and a GDP per capita income of \$10,200 compared to India’s USD2,100⁵⁶, and therefore China has a higher spending capacity.

Tencent’s WeChat is one of the largest social networks in the world has over 1.15bn monthly active users (MAUs) and almost two-thirds of the Chinese population uses WeChat. If we are to dwell into a few reasons as to why WeChat became extremely popular and a successful super-app, the story would be the following: a) drawing on mobile interconnectivity, it launched popular features like interactive voice messaging; b) enabled over one million mini-programs to support third-party apps (app within an app); c) integrating WeChat with China’s popular apps and services, for instance, an all-in-one app to perform three daily tasks: paying bills, buying movie tickets and chatting with friends, without having to install three apps. Public utility services included booking doctor appointments, paying electricity fees or traffic fines, and booking transportation, all through their payments network, WePay; d) an integrated content platform for entertainment and gaming.

A prime example of this is, 2015 Chinese documentary – Under the Dome. Of the 200 million views it garnered in three days, more than 40 per cent of those views were on WeChat alone.

56. The World Bank: data.worldbank.org. 2019 data

57. Data Reportal, TRAI, KPMG secondary research

58. Goldman Sachs Investment Research

The digital ecosystem in India - an open field of opportunity

Currently, India has more than 700+ million internet users, 450 million smartphones, 400+ million video viewers, 350+ million online gamers, 200 million music listeners, 100 million shoppers, 40-50 million travel buyers, and 25 million food delivery users⁵⁷. Even with such an enormous user base in each category, monetization remains low, with less than 10 per cent of the population transacting online and internet accounting for 4 per cent of all consumption spends in India⁵⁸.

Most internet companies have significant cash burn with profitability not in sight, at least in the near future. Primary reasons are a) Indian consumer mindset on both counts, willingness to pay (only 3 per cent of video viewers are paid users), and ability to pay (60 per cent debit card penetration and 4 per cent credit card penetration in India⁵⁹); b) increased competitiveness as most categories have at least two-well funded players; and c) acquiring traffic or users i.e. customer acquisition costs (CAC).

One of the key reasons why platforms create a super-app is that if transacting were to be combined in a highly engaged platform, monetization would improve significantly, both in terms of access to a larger user base and better unit economics.

Super-app in India – Ready, Set, Go!

Seeing WeChat's unparalleled success in China, it was only fair to assume that, this export from China, would be easy to replicate in the Indian market. However, this assumption is an oversimplification. The Chinese socio-economic demographic is very homogenous, as compared to a diverse country like ours which cuts across various geographical and cultural differences. Secondly, the Chinese market has limited competition, unlike an open economy like India - which faces tough contest from international players. One should also note, that WeChat launched at an extremely opportune moment in China- just after the exit of Google over censorship issues, in 2010.

The Super-app trajectory in India, so far, has been that of trial and error. However, with continued, invested effort over the years and with big players like Reliance and Facebook shaking hands, this seems like a pivotal moment for the next phase of internet usage in India.

Super-app has been in existence in India since both, Paytm and PhonePe launched multiple service offerings and features on their platforms. Both these platforms started off as payments platforms and have built a super-app ecosystem with the help of massive investments and partnerships with third-party apps. These platforms are facilitating voluminous UPI transactions on a monthly basis with their super-app ecosystem still evolving - 15 million daily active users (DAUs) and an average time spent of 5+ minutes⁶⁰. PhonePe has integrated a host of mini-apps with seamless payment gateway within their ecosystem -therefore making it easy to use, coupled with multiple offerings.

According to a recent BARC study, social media and entertainment is where Indians spend most of their time – 49 per cent of the time spent on social media and 23 per cent on entertainment (digital video, music) of the 3 hours 50 minutes of daily average time spent.

Therefore, one would assume, that just like WeChat, WhatsApp will be the natural contender to build a super-app in India. WhatsApp currently has over 400 million MAUs, 180 million DAUs and 46 minutes of daily time spent⁶¹. The road to building a super-app seems more of a reality with the investment Facebook Inc made in Jio Platforms Ltd (JPL), to acquire 9.9 per cent stake, in April 2020. It seems quite clear that both parties will bring their existing strengths to the table; traffic, engagement and digital advertising-led monetization in the case of Facebook. Execution and know-how of consumer-tech businesses in the case of Reliance. Together, the ante could be dialled a notch higher with investments into categories that are high on engagement and monetization or then a partnership route with existing platforms. Over the last few years, JPL's investments across gaming, entertainment, chatbots, retail, potential investments in daily grocery/milk, online pharmacy, furniture, innerwear, along with the support of tech giants, will potentially be a game-changer.

It will be interesting to see, if media and entertainment or OTT players venture into building a super-app or will they get subsumed to the might of bigger and stronger players, in the long run? With the current pandemic and evolving dynamics in 'Digital India', this sector is likely to witness its own watershed moment.

59. Euromonitor, Reserve Bank of India

60. Company data, press reports (ET, Livemint), Statistica, SimilarWeb

61. Company data, press reports (ET, Livemint), Statistica, SimilarWeb

In late March this year, when the countrywide lockdown was in its second week, popular Hindi cinema actor Ranveer Singh posted a striking image on his Instagram. The image was a shot from his hugely successful film Gully Boy - a graffiti wall that reads 'Roti, Kapda aur Makaan +Internet'. For me, this scene from the film, very accurately captures this big paradigm shift in India, where internet is as essential a commodity, as is food, clothing and shelter. With the India internet estimated to grow to 3x its current size by FY25, the share of addressable population, will also witness a noticeable increase. Cheap smartphones and even cheaper data have truly democratized the Internet in India - covering a wide spectrum of population encompassing both,

the haves and have nots. This dichotomous population serves, both as a challenge and an opportunity for developers, to create a super-app ecosystem that serves as an easily navigable; one stop solution, providing a wide array of services and offerings.

The fundamentals across all businesses remain the same, either order book in the case of manufacturing, or volumes and distribution in the case of FMCGs, or traffic and engagement in the case of internet companies. The axioms of scale and unit economics remain unchanged.

So, the question isn't about whether India will see a behemoth super app? It is how soon we will see it!

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



Industry perspectives

In the last few months in India, consumers and businesses got a sneak peek into a future where digital plays a central role in our lives. They liked what they saw, driving a fundamental shift from offline to online. Businesses are rethinking how to build brands, create affinity, engage with consumers and drive sales. There is a new consensus: digital marketing is now mainstream marketing.



Ajit Mohan
Managing Director & Vice President, Facebook India

As video platforms focused on serving ads scale up, it is critical for them to build a proprietary ad stack which helps to deliver bottom-of-the-funnel advertising. A proprietary ad stack enables a platform to do much more for the advertisers compared to relying on a third party ad stack – optimizing ad campaigns, personalization of ads and precision targeting based on user's profile and consumption patterns. We, at Zee5, are investing heavily in developing our ad-tech capabilities to ensure that we can monetize our scale effectively.



Tarun Katial
Chief Executive Officer, Zee5

With accelerated digital transformation, most companies will have to reassess their existing strategies from sustenance to growth. It is a watershed moment for M&E but the opportunities for expansion are immense and a deeper connect with the consumer through different mediums or platforms will enhance the lifetime value of that consumer.



Aditya Mehta
Head – Corporate Strategy and Development, Sony Pictures Networks India

Subscription Video on Demand (SVOD) category has seen a significant increase in demand as a large section of customers looking for high quality entertainment are turning to streaming video in these unprecedented times. Services with content depth as well as a strong cadence of new releases, in this period, have become preferred customer choices. Amazon Prime Video, over the last 5 months, has launched multiple Indian Originals & Exclusives such as Paatal Lok, Breathe Into the Shadows, Bandish Bandits, Four More Shots Please (S2) & Panchayat ; Global Originals like The Boys S2, Hunters & Hanna S2 ; Oscar award winners like Joker & Parasite and several direct to digital releases including Shakuntala Devi, Penguin, Gulabo Sitabo among others – all of this leading to a strong growth in new customers joining Prime as well as overall increase in viewership of Prime Video in India. The other trend that we are seeing is around the strong growth in consumption of our content on Living Room devices, where customers, along with their families, are enjoying watching our Originals series & latest movies on a big screen from the safety and comfort of their homes.



Gaurav Gandhi
Director & Country General Manager, Amazon Prime Video, India

Telecom companies will continue to be the catalysts of change, and this time for the digital subscriptions in India. In the next two to three years, growth in the subscriptions market will be driven by greater adoption of bundled content by telecom companies. I expect upto 500 million consumers adopting digital content services by 2025, with even a base ARPU of Rs. 100 per month toward digital subscriptions, this could mean a Rs. 60,000 Cr market, benefiting all stakeholders in the value chain.



Neeraj Roy
Founder and CEO, Hungama Digital Media Entertainment Ltd.

The growth of rural internet users continues to outstrip that of urban India. To tap into this new audience, it is important to understand consumer profile, behavioural nuances and preferences of this large group. Increasingly, advertisers have also realised the importance of this segment and the differences it holds. While there are steps to understand these consumers, a systematic and robust body of work is crucial to drive better targeting and increased engagement with Rural audiences. The government on its part is also trying to accelerate greater digital facility and engagement with rural consumers with several initiatives.



Dolly Jha
Country Head,
Nielsen Media, South Asia

Due to the ongoing pandemic, the resultant economic downturn, and the devolution of TV news channels, we're seeing a shift in consumer preferences towards uplifting content and lighthearted genres. There's a fatigue setting in for dark crime stories and jingoistic content which have been the mainstay for OTT content over the past 3 years. We expect to see an uptick in comedies, family dramas and real, relatable, non-crime dramas over the next 2-3 years



Ashwin Suresh
Founder,
Pocket Aces

The OTT ecosystem is on the precipice of an exciting new journey towards user interactivity and participation. In the course of the past year, we've seen strong success in using interactivity across the Voot platforms to drive deep user engagement, and more importantly re-engagement. Whether in the areas of games, quizzes, read-alongs on the Voot Kids service, polling and fandom on "Bigg Boss" or user generated content on show like "Go Fun Yourself," the message has been uniform – "We like to consume content, but we love to express ourselves much, much more!!"



Gourav Rakshit
COO,
Viacom18 Digital Ventures

There has been a dramatic increase in viewership on OTT post the onset of COVID-19. As TV could not showcase fresh content for an extended period of time, viewers shifted to OTT platforms to watch fresh originals and discover content from their vast existing libraries. The older generation also started to discover content and learned to navigate OTT platforms with guidance from their children / grand-children, who were home as well. The lockdown, which has in one form or another extended beyond 120 days already, has brought about a behavioral shift and resulted in new habit formation among consumers, a habit that won't be easily broken now.



Sameer Nair
CEO,
Applause Entertainment

Like many other businesses, we also faced supply chain constraints during the lockdown. We innovated the most during this period to keep our customers engaged. We have tried to redefine entertainment by offering hyper-casual games, significantly ramping up the kids content and launching a UGC platform to increase consumer stickiness. With content coming back we have observed 4 fold growth in engagement and 50% increase in user base.



Rajeev Dhal
Chief Revenue Officer,
Zee5

Post the outbreak of crisis in March 2020, while the marketing dollars across all media segments have gone down driven by uncertain business environment and market disruptions, the impact on digital seems to be the least severe. What plays well for the digital players is the strong audience growth and the fact that it is insulated from challenges that other media like radio, outdoor and print media are facing. We have seen a huge uptick in the audience group across all our platforms. Focusing on strong editorial strategy and a broad-based coverage beyond just giving data and updates has helped us to partly sustain the surge in consumption we witnessed in Mar'20 and Apr'20. We are also seeing new interesting category of advertisers like Ed-tech, gaming, FMCG etc. emerge in the last 3-4 months. After a challenging Q1, Q2 is showing early signs of improvement in the overall business environment for digital. Having said that, this year is going to be more about closely monitoring how things pan out on a month on month basis and moving forward exercising a lot more caution, trying to weather the storm and sail through.



Puneet Singhvi
President, Digital & Corporate
Strategy Network18



2

Television

Rolling with the punches





Television

Rolling with the punches

The Television (TV) segment had an eventful FY20 with the New Tariff Order 1.0 (NTO 1.0) migration deadline of 31 March 2019 and the subsequent stabilisation over FY20¹. The tariff order brought in the much-needed transparency around distribution of revenues across the value chain and resulted in a substantial growth in the distribution revenues of broadcasters. Apart from the first quarter, the rest of FY20 was tepid from an advertising perspective, with sluggishness in the wider economy and the COVID-19 pandemic affecting the segment negatively towards the fag end of the year.

The COVID-19 pandemic had an adverse impact on TV like most of the other traditional media segments in India. The lockdowns ensured that consumers had no avenues for out of home entertainment and the same resulted in a sharp growth in viewership of TV. However, with the contributing sectors of the

recessionary economy (for FY21) adversely impacted, and no fresh content on TV available post mid-April 2020, advertising spends saw sharp cuts in the first half of FY21. This resulted in an important shift in terms of digital advertising revenues overtaking TV advertising revenues for the first time in FY21. The subscription revenues were also adversely impacted, although less so, owing to issues around collections and temporary reverse migration of a large blue collar/informal working population.

With NTO 2.0 on the anvil, the segment is likely to see a further disruption in terms of pricing and the way consumers make their choices. However, the pandemic has shown that television as a medium of entertainment remains robust, providing the highest reach to the brands in the country and will remain both important and relevant in the near to medium term.

Television – Historical performance

Revenues (in INR billion)	FY16	FY17	FY18	FY19	FY20	FY20 growth	CAGR (FY16-20)
TV segment	552	596	652	714	778	8.9%	9.0%
Advertisement	184	203	224	251	262	4.2%	9.2%
Subscription	368	393	428	463	516	11.4%	8.8%

Source: KPMG in India analysis, 2020, based on primary and secondary research

The TV segment's revenues were estimated at INR778 billion in FY20, a growth of 8.9 per cent from FY19, having grown at a CAGR of 9 per cent between FY16-FY20. The market size comprises advertisement revenues of INR262 billion and subscription revenues of INR516 billion².

The turbulence created by the implementation of the NTO 1.0 in the last quarter of FY19 began to fade away during the year as all stakeholders came to terms with the new pricing regime. As a result, subscription revenues witnessed an uptick in FY20 primarily on account of the NTO 1.0 with the introduction of Network Capacity Fee (NCF) and greater transparency among the TV segment participants.

1. TRAI website, www.trai.gov.in, accessed on August 10, 2020

2. KPMG in India analysis, 2020, based on primary and secondary research

Advertisement Revenues

The first quarter of FY20 witnessed strong interest from advertisers on account of three major events – the national general elections, Indian Premier League (IPL), and the ICC Cricket World Cup 2019. As a result, the news and sports genres delivered a strong performance.

The general elections, which were conducted in seven phases from 7 April 2019 to 19 May 2019, boosted viewership for the news genre with ad revenues in the first quarter of FY20 witnessing a significant growth of 30-50 per cent³ on a Yo-Y basis⁴.

The sports calendar in FY20 was packed with marquee tournaments like the IPL and the ICC Cricket World Cup 2019 scheduled between March to July 2019, along with the regular India cricket season. Ad volumes during IPL 2019 surged by 100 per cent compared to the previous season. Smartphones and cellular brands had the highest share in the ad volumes at 30,253 insertions⁵. The overall ad spends during IPL 2019 were estimated at more than INR20 billion.⁶ The ICC Cricket World Cup 2019 is estimated to have brought in INR16 billion in advertising revenue for the broadcast segment⁷.

However, the ad market was sluggish for the rest of the year due to a weakening of the macroeconomic environment. With none of the big four broadcasters having their flanking Hindi GEC and movie channels on DD Free Dish post February 2019, ad revenues for FTA channels also declined significantly. As a result, the overall growth in advertising during FY20 remained subdued at 4.2 per cent.

Subscription Revenues

The subscription revenues witnessed a significant growth of 11.4 per cent in FY20 to reach INR516 billion as NTO 1.0 was implemented fully and stabilised over the course of the year.

The TV universe in FY20 comprised of 130 million Pay Cable and Satellite (C&S) households and nearly 33 million DD Free Dish households.^{8,9} The Average Revenue Per User (ARPU) increased by 5-10 per cent¹⁰ for both cable and DTH operators due to the minimum payout of NCF of INR130 + taxes, especially for Phase 3 and 4 subscribers whose ARPUs were much lower (INR60-100) before the regime change.

The broadcaster sub-segment size

Revenues (in INR billion)	FY16	FY17	FY18	FY19	FY20	FY20 growth	CAGR (FY16-20)
Broadcaster sub-segment	273	300	331	371	420	13.0%	11.4%
Advertisement	184	203	224	251	262	4.2%	9.2%
Subscription	89	97	107	120	158	31.6%	15.4%

Source: KPMG in India analysis, 2020, based on primary and secondary research

TV broadcasters witnessed a robust overall growth of 13 per cent in FY20 to reach annual revenues of INR420 billion.

While advertisement revenue growth was subdued in FY20, subscription revenues grew significantly for the broadcasters, as they started to realise a higher share of the consumer-level ARPUs from the pay C&S universe post NTO 1.0



As a result, the share of subscription revenues in the overall revenue of broadcasters went up from 32.4 per cent in FY19 to 37.7 per cent in FY20.

3. KPMG in India analysis, 2020, based on industry discussions

4. News networks reports a 10per cent growth in advertising and subscription revenue from this General Election, Brand Equity by Economic Times, May 22, 2019

5. IPL ad volume registers 100per cent growth in 2019: BARC, Inside sport, May 2019

6. Star India's IPL 2019 ad revenues slightly higher than those in 2018, Financial Express, May 14, 2019

7. World Cup 2019: Star set to reach its ad revenue mark despite India's exit, Financial Express, July 13, 2019

8. KPMG in India analysis, 2020, based on industry discussions

9. Note: The number of Pay C&S households for FY20 is not comparable to that reported in FY19 as the current number reflects active users post the implementation of the New Tariff Order in February 2019 which brought in greater transparency in reporting due to the MSRs now being made available to the broadcasters by the DPOs

10. Based on industry discussions



Key themes underpinning the TV segment for FY20

a. NTO 1.0 – the dust has settled

The NTO 1.0 was implemented in the last quarter of FY19. While the segment faced initial headwinds implementing the order with blackouts in several places and non-renewal of subscriptions due to increased prices, the NTO 1.0 regime stabilised as all stakeholders including the subscribers, adjusted to the new dynamics of packaging and pricing in FY20. The regime brought about transparency in the value chain by ushering in a pay-per-subscriber set-up and making it mandatory for broadcasters to declare the channel prices. The increased transparency in revenue sharing led to a significant growth in subscription revenues for broadcasters and improved margins for Distribution Platform Operators (DPOs) as the content costs became pass-through.

While the objective of the NTO 1.0 was to offer choice to consumers, majority of the pay C&S subscribers (to the tune of 80-85 per cent¹¹) opted to go for DPO bouquets as it was a convenient and hassle-free choice. Further, there were significant discounts on both DPO and broadcaster bouquets, as compared to the sum of a-la-carte channels making up that bouquet. This was on account of the condition on discount cap at 15 per cent being struck down by the Madras High Court, prior to implementation of the NTO 1.0. However, there were some discerning subscribers who did utilise the option of choosing their channels and optimised their spending on television. Most of these subscribers were at the higher end of the ARPUs in Phase 1¹².

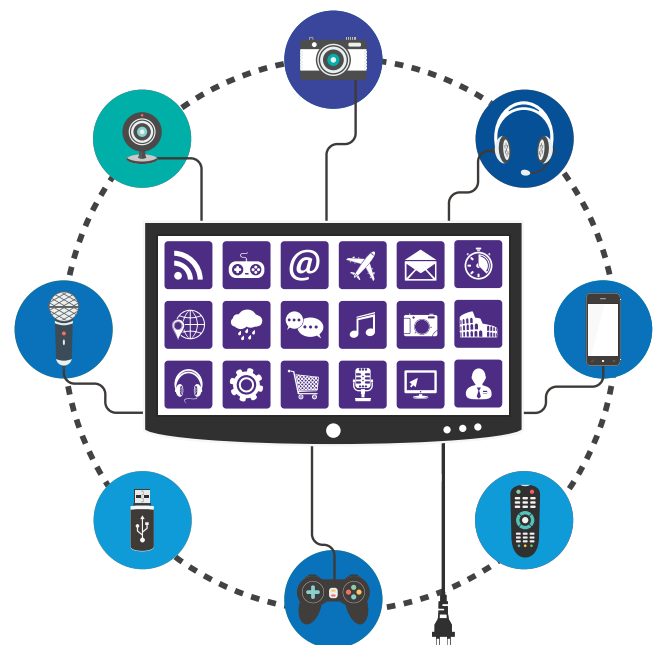
The ARPUs for the TV segment witnessed an uptick, particularly in the Phase 3 and 4 markets, as the NCF of INR130 + taxes became a bare minimum for pay C&S households.

b. Regional going strong

The viewership of regional channels has grown steadily over the last few years. The viewership share of languages other than Hindi, Tamil, Telugu, Kannada and Malayalam increased from 15 per cent in 2016 to 23 per cent in 2019¹³.

Language	Growth in viewership from 2016 to 2019 ¹⁴
Bhojpuri	200%
Urdu	179%
Gujarati	157%
Marathi	128%
Assamese	125%
Odia	111%
Bangla	83%

The importance of regional channels increased further post the implementation of NTO 1.0. While DPOs ensured that they carried top regional channels as a part of their bouquets, consumers ensured that they prioritised and picked regional channels in their customised bouquets. As a result, there was a meaningful increase in the subscription revenues earned by regional channels with the top two to three channels also benefiting on the advertising front due to a wider reach.¹⁵



11. KPMG in India analysis, 2020, based on industry discussions

12. Based on industry discussions

13. What India Watched, 2019: BARC, March 2020, accessed on August 10, 2020

14. What India Watched, 2019: BARC, March 2020, accessed on August 10, 2020

15. KPMG in India analysis, 2020, based on industry discussions

c. English and niche channels continue to face challenges

English and other niches genres such as infotainment, lifestyle witnessed a steep decline in subscription revenues¹⁶ as OTT became a viable option for the target audiences to consume fresh content for the said genres. In addition, reach for these channels

dipped as they were not a part of the base packs created by broadcasters or DPOs. Recognising this trend, the advertisers targeting premium consumers with niche preferences also started to migrate to OTT video platforms resulting in substantial decline of ad revenues for these channels.

The relatively high content costs and declining revenues are making it unviable for broadcasters to keep the show running on the English and niche channels¹⁷.

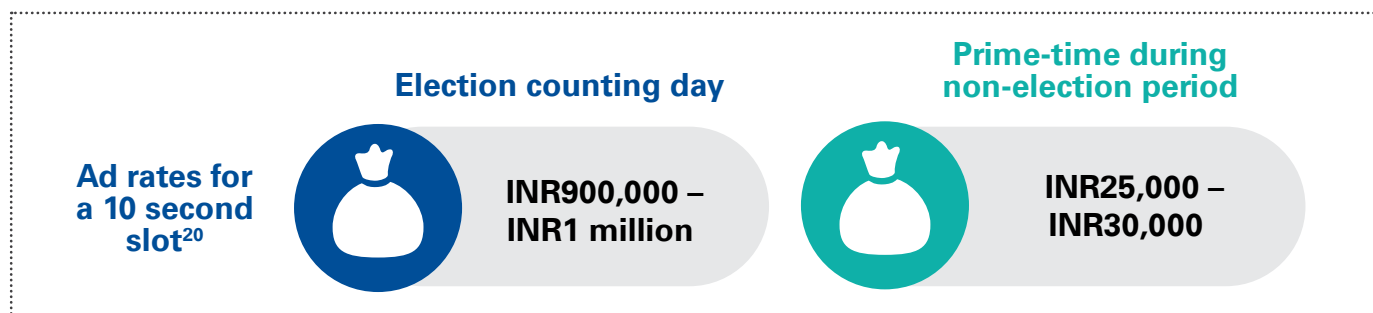


Channels that went off air ¹⁸	Date
AXN , AXN HD	1 July 2020
FYI TV18, FYI TV18 HD	8 July, 2020

d. Strong performance by the news genre

The general elections in the first quarter of FY20 led to a robust growth in viewership and advertisement revenues for the news genre. The counting day (May 23, 2019) for the 2019 Lok Sabha election registered 59 billion viewing minutes for the news genre, which

contributed to 38 per cent of the total TV viewership on that day.¹⁹ In addition, as per industry discussions, news networks were estimated to grow by 10 per cent in ad revenues for the period between March to May of 2019 compared to the same period in 2014 when the previous general elections were held.



16. KPMG in India analysis, 2020, based on industry discussions

17. End of road for English entertainment channels, Financial Express, July 13, 2020, accessed on August 10, 2020

18. Star World to go off air?, Exchange4Media, June 24, 2020, accessed on July 30, 2020

19. What India Watched, 2019: BARC, March 2020, accessed on August 11, 2020

20. News networks reports a 10per cent growth in advertising and subscription revenue from this General Election, Brand Equity by Economic Times, May 22, 2019, accessed on August 11, 2020



e. High viewership and growth in sports

The viewership of sports has grown steadily over the years and witnessed a growth of 17 per cent (in terms of duration) in 2019 on the back of two major cricketing events, as outlined above. Cricket maintained its apex position and accounted for 58 per cent of the viewing minutes of sports broadcast in 2019.²¹

On the one hand, IPL-12 was watched live by 424 million unique viewers across 24 channels with an additional nine per cent of the TV viewing population watching the tournament in restaurants, pubs and other such locations.²² On the other hand, CWC 2019 was watched by nearly 509 million viewers at home and out of home with two million seconds of advertising featuring 192 brands over the course of the tournament.²³

Advertisement rates for India matches during CWC 2019 were in the range of INR1.5 million – INR1.7 million for a 10 second slot with most slots sold even before the event began. Some of the notable brands which advertised included PhonePe, One Plus, Havells, Amazon, Coca-Cola, Oppo, CEAT Tyres, Uber, ICICI Lombard.²⁴

f. Decline in the FTA ad market

In February 2019, the top four national broadcasters pulled out their flanking FTA channels from DD Free Dish and converted them to pay channels under

NTO 1.0 with an intention to boost the subscription business. The void in content left behind by this was filled up by lesser known channels such as Dangal, Fakt Marathi, Big Magic and Big Ganga. As a result, Dangal and Big Magic witnessed unprecedented growth in viewership with Dangal's viewership share increasing to 21 per cent in June 2019 from eight per cent pre-NTO, and Big Magic increasing to 15 per cent in June 2019 from a negligible share in the pre-NTO days²⁵.

While channels like Dangal and Big Magic gained significantly in ad revenues, the overall FTA market declined substantially as the FTA channels could not sell their inventory as effectively as the big four broadcasters due to the lack of a comprehensive portfolio that could serve the wider needs of advertisers.

We estimate the overall FTA ad revenues at INR 7.5-8.5 billion in FY20, a sharp decline from INR 15-17 billion in FY19²⁶.



21. What India Watched, 2019: BARC, March 2020, accessed on August 10, 2020

22. What India Watched, 2019: BARC, March 2020, accessed on August 10, 2020

23. What India Watched, 2019: BARC, March 2020, accessed on August 10, 2020

24. World Cup 2019: Star India set to score Rs 1,800 crore in advertising revenue, Financial Express, May 30, 2019, accessed on August 8, 2020

25. TRAI's new tariff order is impacting Hindi GECs: Here's why, Financial Express, June 3, 2019, accessed on August 12, 2020

26. KPMG in India analysis, 2020, based on industry discussions

COVID-19 – Deep revenue cuts, but consumption a silver lining

The onset of the COVID-19 pandemic resulted in a nationwide, complete lockdown which began in the last week of March and extended till the first week of June 2020. The lockdown severely disrupted supply chains across industries and led to no new content

being available on most of the Pay TV channels once the episode bank got exhausted. However, the overall TV consumption saw a spike during the lockdown, which, unfortunately was not seen when it came to monetisation.

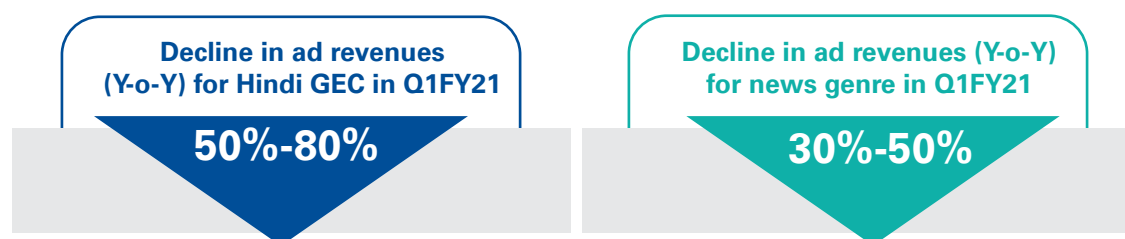
The lockdown is likely to have some short term and long-term changes for the TV segment, which are summarised below²⁷.

	Near Term	Long Term
Viewership	Significant spike as no 'Out of Home' entertainment options were available	Viewership likely to come back to pre-COVID levels. English/Lifestyle channels likely to face an existential crisis especially under NTO 2.0 regime
Advertisement Revenues	Sharp decline in Q1 FY21 (70-80% across major channels), overall decline seen in FY21 as the contributing sectors remain weak and GDP is expected to contract in FY21	Long term fundamentals of TV remain robust, with no cannibalisation being seen from OTT, which was evidenced during the lockdown. Ad spends to recover in FY22 and beyond
Subscription Revenues	Adverse impact in FY21 on account of reverse migration, issues around disposable income and collection challenges. Although this impact will be lower than ad revenue impact	India still remains under-penetrated as far as C&S HHs are concerned. Long term growth prospects to be driven by growth in HHs and ARPUs. Although ARPUs to face headwinds post implementation of NTO 2.0
Content Costs	Additional costs due to COVID-19 SOP compliance. However, broadcasters are negotiating with production houses to rationalise content costs, including talent costs	Near term rationalisation could be undone partially in the long run. However, on a net basis, content costs could see a marginal decline
Content Supply Chain	Adversely impacted, with very little use of technology. The TV segment is struggling to be efficient in terms of producing content with COVID-19 related restrictions in place	Technology interventions could see efficiencies in terms of cost increase in the long run, although lead times may not be impacted much

Advertisement revenues

Many industries, barring the essentials, came to a grinding halt during the lockdown and as a result their focus shifted to managing working capital and conserving cash by rationalising their spends, including advertising spends. As a result, even though the TV

viewership rose to record high levels during lockdown, owing to limited options on out of home entertainment; most companies cut back on advertisement spends. Lack of fresh content on GECs further exacerbated the situation. Consequently, advertisement revenue for all genres witnessed a steep decline in the first quarter of FY21.



Source: KPMG in India analysis, 2020, based on industry discussions

27. KPMG in India analysis, 2020, based on industry discussions



India witnessed a gradual revival in demand and economic activity from June with companies across different product categories resuming operations. This has resulted in a steady recovery for the TV ad market from May to July 2020²⁸ with ad volumes in June 2020 returning to volumes seen in January 2020.²⁹

Subscription revenues

The pandemic forced displacement of migrant workers from cities to their homes in rural India. In addition, job losses and cash crunch further exacerbated the situation as consumers looked to reduce their discretionary spending. Hotels, pubs and offices remained shut during the lockdown and did not require an active pay TV connection. The lack of fresh programming content on GECs propelled a segment of the users to change their mix of pay TV channels and/or opt to consume more content on OTT platforms. As a result, some of the pay C&S subscribers chose not to renew their pay TV connection during some months in the lockdown.³⁰

DPOs have typically relied on cash collections from subscribers with limited role of digital payments in their day-to-day operations. As a result, collections proved to be a challenge for most DPOs with social distancing norms and the lack of adequate workforce hindering the process. Consequently, DPOs witnessed a significant decline in their revenues in the first quarter of FY21.³¹

While institutional subscriptions began to recover in unlock 1.0, subscriptions lost due to worker migration are expected to take a little longer. However, some

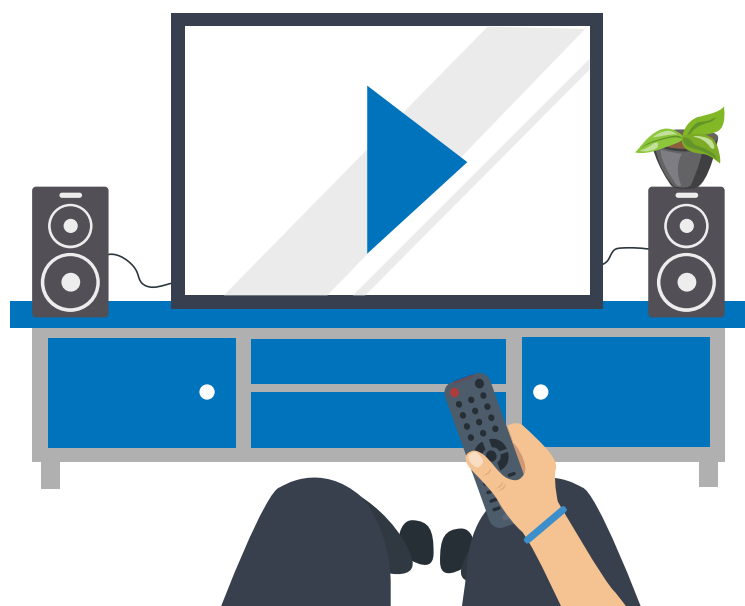
consumers who shifted to consuming content on OTT during the lockdown may have permanently transitioned away from TV, although this number is expected to be very small.

The TV segment is estimated to have witnessed a decline of 10 to 12 per cent in subscription revenues during the first quarter of FY21, majorly contributed by a decline in volumes. While ARPUs have remained relatively stable during the first quarter of FY21³², whether there will be shift to lower priced packs as the economic scenario unfolds remains to be seen.

The FTA U-turn

A year after pulling out of DD Free Dish, Zee Anmol, Sony Pal, Star Utsav and Colors Rishtey returned to the platform on June 3, 2020 after winning MPEG-2 slot bids.³³ This move from the top four broadcasters comes on the back of a weak macroeconomic environment, in an effort to recoup some advertisement revenues from the FTA market.

The flanking GECs have already gained in viewership and reach post them being made available on DD Free Dish. The benefit of higher reach is likely to translate into better ad revenues for the leading broadcasters. In addition, their ability to bundle ad sales and offer reach to the rural audiences, particularly for categories like FMCG, is likely to hold them in good stead over standalone channels in the FTA space. The FTA market, as a result, is expected to gain significantly in FY21.



28. KPMG in India analysis, 2020, based on industry discussions

29. Crisis Consumption – An insights series into TV, smartphone and audiences (10th Edition) by Nielsen, BARC, July 2020, accessed on July 28, 2020

30. KPMG in India analysis, 2020, based on industry discussions

31. KPMG in India analysis, 2020, based on industry discussions

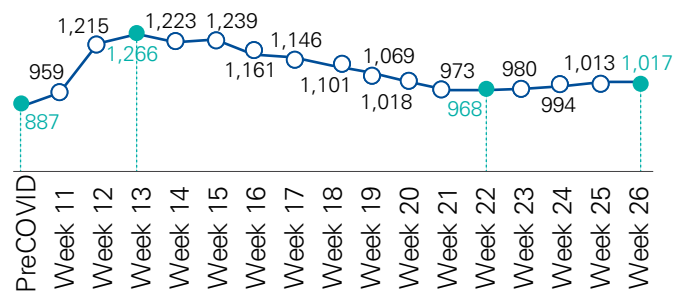
32. KPMG in India analysis, 2020, based on industry discussions

33. With the big four of FTA getting more eyeballs, are advertisers too making a comeback?, Exchange4Media, July 9, 2020

Viewership trends

TV viewership in India witnessed a massive surge during the lockdown as demonstrated in the following charts.

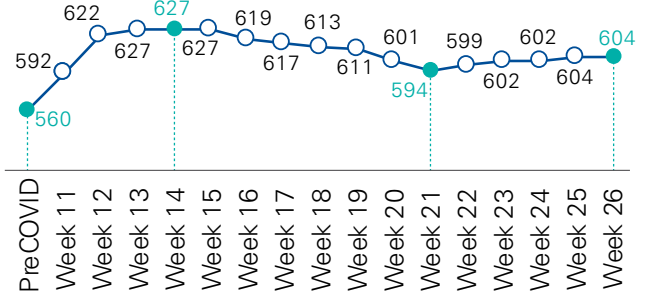
Weekly Viewing Minutes in Billion



Source: How are media habits changing as India enters unlock 2.0, Edition 10, BARC-Nielsen, July 9,2020

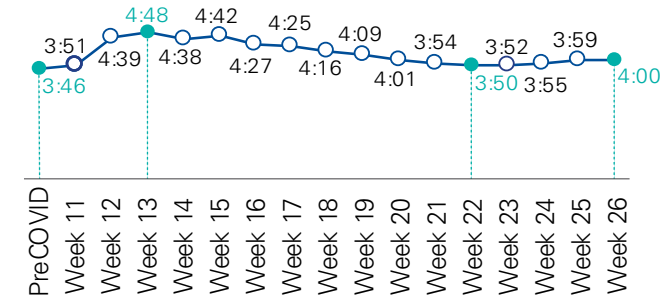
Note: Pre-COVID is defined as the period between Week 2 to Week 4 of 2020 (11 January to 31 January of 2020)

Daily Average Reach in million



Source: How are media habits changing as India enters unlock 2.0, Edition 10, BARC-Nielsen, July 9,2020

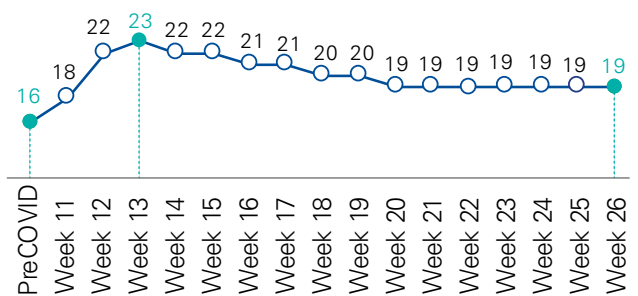
Daily ATS/Viewer (HH:MM)



Source: How are media habits changing as India enters unlock 2.0, Edition 10, BARC-Nielsen, July 9,2020

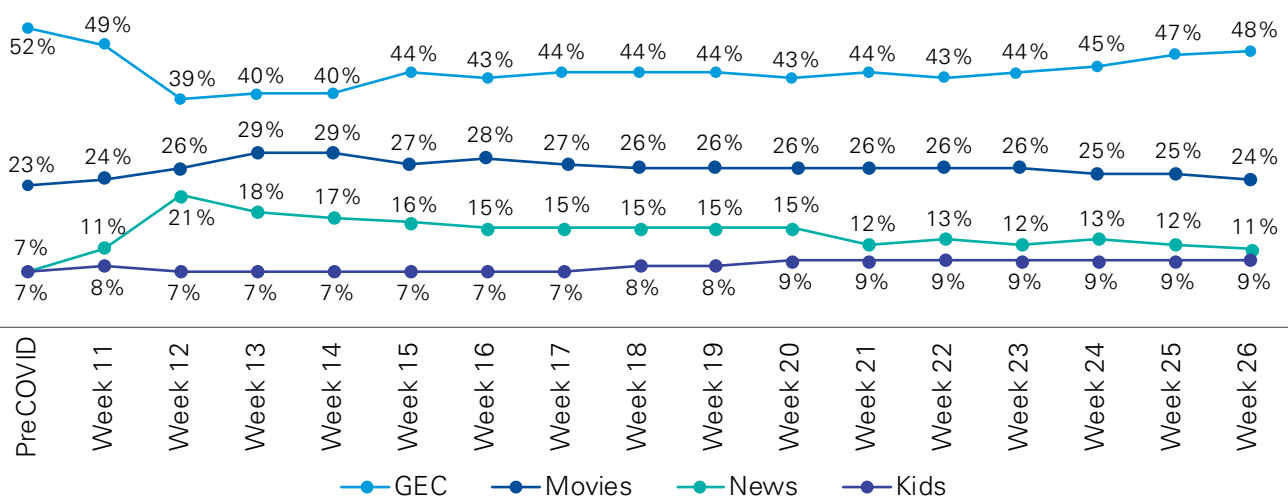
Note: Pre-COVID is defined as the period between Week 2 to Week 4 of 2020 (11 January to 31 January of 2020)

Number of Channels watched/viewer/week



Source: How are media habits changing as India enters unlock 2.0, Edition 10, BARC-Nielsen, July 9,2020

Share of viewership by genre



Source: How are media habits changing as India enters unlock 2.0, Edition 10, BARC-Nielsen, July 9,2020

Note: Pre-COVID is defined as the period between Week 2 to Week 4 of 2020 (11 January to 31 January of 2020)



While the weekly TV viewership peaked within a couple of weeks post lockdown before starting to decline, the weekly watch time and daily reach for TV remained higher by 15 per cent and eight per cent respectively, in Week 26 compared to pre-COVID levels (Week 2 to 4 of 2020)^{34,35}.



While TV consumption increased at an overall level, the choice of preferred genres changed during the lockdown with GECs starting to put up repeats in the absence of fresh programming content. The news and movies genres benefitted the most with their genre shares peaking at 21 per cent and 29 per cent respectively in Weeks 12 and 14 respectively before settling down closer to pre-COVID levels (Week 2 to 4 of 2020).³⁶

In the absence of fresh content, GECs including DD, telecast re-runs of classics like 'Ramayan' and 'Mahabharat' which garnered high viewership, owing to the nostalgia associated with these epics. DD National also put up other classics like 'Shaktimaan', 'Buniyaad', 'Dekh Bhai Dekh' and 'Circus' to continue engaging consumers. Content on GECs is likely to be a mix of fresh programming and re-runs over the near to medium term as the content supply chain adapts to the post COVID-19 realities.³⁷

The consumption pattern for TV also changed with non-primetime viewership growing significantly and settling at nearly 43 per cent higher levels compared to the pre-COVID levels (Week 2 to 4 of 2020) whereas primetime viewership showed a decline of about 10 per cent in the same period.³⁸

The content supply chain faces a new reality

Content creation proved to be a significant challenge for the TV segment post the onset of the pandemic. The news channels could adapt and use technology to create virtual studios at news readers' home and thereby continue to operate during the lockdown. However, it was a lot more difficult for entertainment channels to transition and adapt to the new environment.

While most entertainment channels resumed shooting activities in July with safety measures and new Standard Operating Procedures (SOPs) in place, content generation is expected to be slower than before with logistics, local regulations, safety of crew and cast being the key challenges in a dynamic environment³⁹. Broadcasters and production houses have tried to reduce crew size, enable remote working for scripting and post-production activities and innovate with story-lines/locations to optimise and churn out fresh content. Technology has started to receive greater consideration for the different roles it can play in order to optimise content production.⁴⁰

With technology in the content supply chain now a hygiene factor rather than a choice, the same could result in efficiencies emerging in the medium term as far as content creation is concerned.

34. Pre-COVID has been defined as the period between 11th January to 31st January 2020 (Week 2 to 4 of 2020)

35. Crisis Consumption – An insights series into TV, smartphone and audiences (1st Edition to 10th Edition) by Nielsen, BARC, April – July 2020, accessed on August 8, 2020

36. Crisis Consumption – An insights series into TV, smartphone and audiences (10th Edition) by Nielsen, BARC, July 2020, accessed on August 8, 2020

37. KPMG in India analysis, 2020, based on industry discussions

38. Crisis Consumption – An insights series into TV, smartphone and audiences (10th Edition) by Nielsen, BARC, July 2020, accessed on August 8, 2020

39. KPMG in India analysis, 2020 based on primary and secondary research




40. KPMG in India analysis, 2020, based on industry discussions

NTO 2.0 - A matter of when and not if

TRAI announced amendments to the NTO 1.0 and notified NTO 2.0 on January 1, 2020.⁴¹ The key motive for the amendment was to curb the discounting offered on bouquets compared to a-la-carte channels so that consumers can choose and pay only for the channels

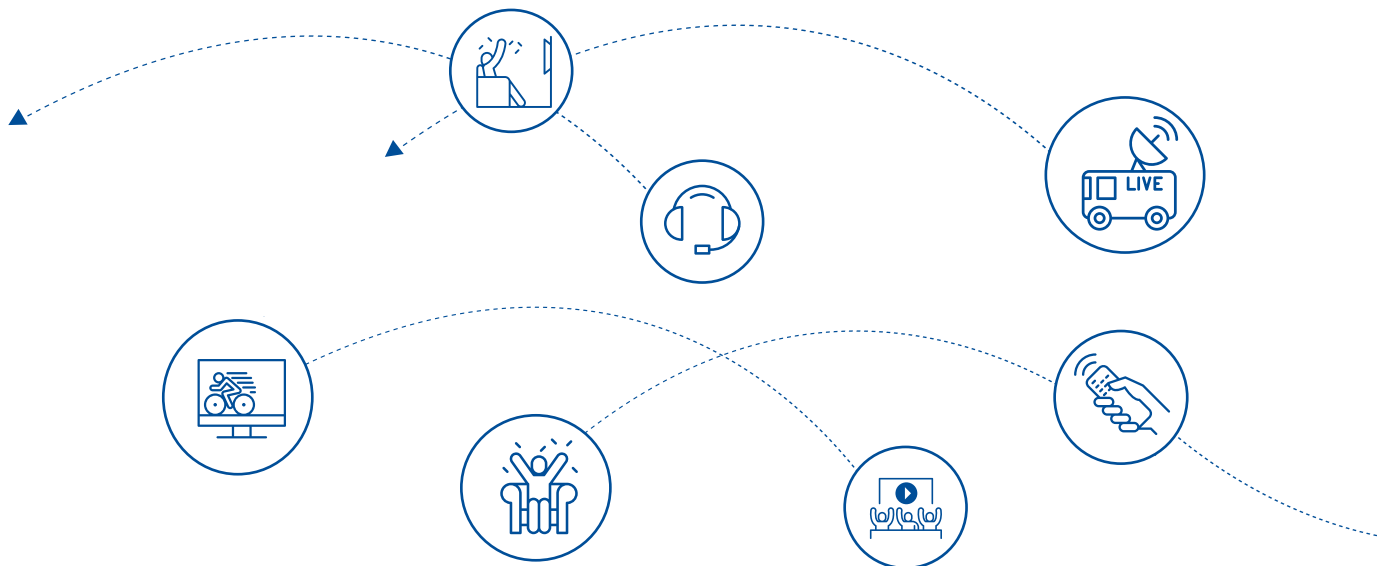
they wished to watch. The intent of the regulator around the same is to potentially rationalise the higher DTH/Cable bills that were universally seen post the implementation of the NTO 1.0.

The salient features of the order include:

 <p>The MRP of individual pay channels forming a part of the bouquet has been lowered to INR12 from INR19</p>	 <p>Bouquets can be offered at a maximum 33 per cent discount to the sum of the MRPs of its constituent channels</p>	 <p>The NCF of INR130 (excluding taxes) introduced in NTO 1.0 will now include up to 200 SD channels instead of 100 SD channels. In addition, the maximum NCF that can be charged per TV connection has been capped at INR160. Also, NCF for multi-TV connections has been capped at 40 per cent of the applicable NCF for the additional connections.⁴²</p>
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While certain DPOs have started to implement NTO 2.0 and are charging NCF as per the new rules, the broadcasters have challenged the order in the Bombay High Court and the matter is currently subjudice⁴³. The key concerns raised by broadcasters are that the order will lead to a decline in subscription revenues in a

scenario where the advertisement revenues are already seeing a downfall. The capping of prices will constrain their budgets further and therefore impact the quality of content produced. If the order is implemented in its current shape and form, it is likely to result in a decline of four to five per cent in the distribution revenues.⁴⁴



41. Understanding TRAI's latest directive, Exchange4Media, July 27, 2020, accessed on August 10, 2020

42. Telecommunication (Broadcasting and Cable) Services (Eighth) (Addressable Systems) Tariff (Second Amendment) Order, 2020, Telecom Regulatory Authority of India notification, January 1, 2020, accessed on August 12, 2020

43. Bombay HC to pronounce final order on August 24 in TRAI vs broadcasters' case on NTO 2.0, Best Media Info, August 12, 2020, accessed on August 14, 2020

44. KPMG in India Analysis, 2020, based on industry discussions



Future of the TV segment – A slow recovery

Revenues (in INR billion)	FY20	FY21P	FY22P	FY21 decline over FY20	FY22 growth over FY21
TV segment	778	708	769	-8.9%	8.6%
Advertisement	262	217	258	-17.0 %	19.0 %
Subscription	516	491	511	-4.8 %	4.0 %

Source: KPMG in India analysis, 2020, based on primary and secondary research

The TV segment is expected to decline by 8.9 per cent to INR708 billion in FY21, on account of the disruptions caused due to COVID-19. However, the revenues are expected to bounce back post FY21 and reach INR769 billion by FY22.⁴⁵ The growth across both advertising and subscription sub-segments is highlighted as below.

Advertising revenues

While the advertisement revenues witnessed a steep decline during the first quarter of FY21, the subsequent quarters are likely to witness a recovery with economic activity picking up, the festive season kicking in, and the proposed IPL in the UAE also acting as a big boost. However, on an annual basis, the advertising revenue for FY21 is expected to decline by 17 per cent due to the sharp decline suffered by the TV segment in the first quarter. The segment ad revenues are expected to bounce back to pre-COVID levels (FY20 levels) by FY22 due to:

- Improvement in macroeconomic factors, assuming normalcy returning to the economy, and a subsequent revival in ad spends by brands
- Potential shift in ad spends from print and OOH to TV, owing to TV continuing to provide better ROIs and reach in a recovery year.

TV will continue to remain an important medium for advertisers as it provides a much deeper reach compared to other media. However, as OTT platforms witness greater consumption and scale, some ad dollars are likely to be reallocated to digital platforms; however, the same may not really play out in the short to medium term. Overall, the TV advertisement revenues are expected to grow at 19 per cent from FY21 to FY22 and reach INR258 billion by FY22

Subscription revenues

On the subscription front, while disruptions on account of COVID-19 in the first quarter of FY21 are expected to impact revenues, the decline is likely to be much smaller as compared to advertisement revenues with a five per cent decline in FY21. The key reason for a smaller impact in subscription revenues is that entertainment options in the COVID era are limited to in-home entertainment and TV remains a cost-effective medium of entertainment.

The subscription levels are expected to grow at four per cent from FY21 to FY22 to reach INR511 billion. This tepid growth is on account of the potential impact of NTO 2.0, which we have assumed will be implemented in FY22 fully, and as outlined earlier, is likely to result in an adverse impact of four to five per cent on the ARPUs of the TV segment.

Broadcaster sub-segment forecasts

Revenues (in INR billion)	FY20	FY21P	FY22P	FY20-21 decline	FY21-22 recovery
Broadcaster sub-segment	420	368	416	-12.4%	12.9%
Advertisement	262	217	258	-17.0 %	19.0 %
Subscription	158	151	157	-4.8 %	4.2 %

Source: KPMG in India analysis, 2020, based on primary and secondary research

The revenues of broadcasters are expected to decline by 12 per cent in FY21 to reach INR368 billion. Subscription revenues for broadcasters are expected to recover in FY22, on account of the lost subscriptions coming back, but the ARPUs may face headwinds due to the impact of NTO 2.0.

45. KPMG in India Analysis, 2020, based on primary and secondary research

Conclusion

The TV segment has had a tumultuous couple of years with the implementation of NTO in 2019 and a pandemic-driven lockdown towards the end of March 2020. While subscription revenues increased in FY20 on account of the NTO, advertisement had a tepid year due to sluggishness in the economy. TV has stepped into FY21 with multiple challenges – tepid ad market, a content supply chain facing challenges, disruptions in cash collections and increasing challenge from OTT platforms.

However, due to the importance of TV as a medium, as well as the effective reach that it provides to advertisers, the segment is expected to remain highly relevant in the short to medium term. It is expected that the segment will adapt quickly to the new normal and restore the content supply chain, and with a revival of the economy envisaged in FY22, the fundamentals of TV remain strong as ever.



Industry perspectives

COVID has led us to devise innovative ways of working by leveraging technology. For example, the KBC auditions have been conducted online this year. This has saved huge costs of production and enabled us to reach a wider section of people. We also plan to conduct the Indian Idol auditions via the online medium. In essence, COVID has precipitated innovation and helped develop cost-effective and sustainable operational models for broadcasters.



N.P. Singh
Managing Director & CEO Sony Pictures Networks India Pvt. Ltd.

TV Advertising is still grossly underpenetrated in India. The universe of advertisers on TV in India is very small – about 5,000 advertisers. There are a large number of small and mid-size companies which have never advertised on TV, but who have significant growth aspirations. As they experience and learn about the impact of video advertising, including through the digital medium, I foresee a significant market development and growth opportunity for TV in the years ahead.



Punit Misra
CEO – Domestic Broadcast Business, Zee Entertainment Enterprises Limited

While the news genre had been able to maintain reach even post NTO 1.0, viewership has increased after the lockdown in Mar-20. As a result, on the monetisation front, the news genre on TV has been able to show greater resilience than print as well as GECs in the aftermath of the pandemic.



M.K. Anand
CEO and MD, Times Network

The Media & Entertainment sector has witnessed accelerated digital transformation stemming from the impact of the Covid-19 pandemic. It has brought alive the agility across the industry and a new mindset to make businesses more responsive, targeted and collaborative. As we realign ourselves to the new normal, the year ahead certainly looks promising with new technologies and trends driving content innovation. This will further enhance the overall experience being delivered to the end consumer across multiple platforms. This industry is certainly a sunrise sector for the nation's economy. Proving its resilience to the world, the Indian M&E sector is on the cusp of a strong phase of growth.



Punit Goenka
MD & CEO, ZEEL | President, IAA, India Chapter | Director, IBF | Chairman, BARC.

COVID-19 has radically changed the way we operate in the news business with work-from-home and remote production control rooms set ups in place for some of our news channels. While 30-40% staff is still operating from offices and on the field, a large number are working from home. For news networks like us with a wide geographic spread, managing the constantly changing local regulations related to COVID has been a constant logistical challenge. However, this adversity has pushed us to be more innovative and bring in more efficiencies and double-down on creating content catering to television and digital seeing the upsurge in digital audiences as well. As time progresses, it is very likely that the learnings and efficiencies gained over the past couple of months will become a part of the new normal.



Avinash Kaul
CEO - Television News, Network18

'Repeat, Recycle and Reuse' has been our mantra to operate in the COVID era. Viewers have an insatiable appetite for their favourite shows and characters which is why repeats of recently aired episodes and reruns of iconic shows have rated well during the lockdown. Additionally, viewers have appreciated the diversity of content now available in their native language via dubs and subtitles. Since the creation of original content continues to be a challenge, we can expect multiple innovations in programming, ranging from shorter duration episodes to content that is shot entirely indoors. However, throughout these difficult times, viewers have been very supportive of the efforts by broadcasters to keep their channels running and have continued to watch more television throughout the day pushing ratings and time-spent back to pre-COVID levels.



Ravish Kumar
Head – Regional TV Network,
Viacom18 Pvt. Ltd.

There was an impact on new subscriptions post the lockdown. We have seen some customers optimizing on channel subscriptions due to non-availability of live / fresh content on Sports & GEC channels and also an increase in the uptake of news channels during the initial period of lockdown. As a result, the channel mix in subscription packs has changed without a material impact on ARPUs during the pandemic.



G. Sambasivan
CFO, Tata Sky Ltd.

The Sports genre will continue to face some headwinds till a vaccine / treatment is found for COVID-19 which enables sports events to be conducted again with crowds in the stadia. However, given the long gap in live sporting action due to the lockdown, people are hungry for live sports content. This pent-up demand coupled with limited entertainment options should result in increased viewership for events like the IPL and India-Australia series when they happen. Meanwhile, the current environment is likely to result in some moderation in the value of broadcasting rights for sports properties.



Nitin Nadkarni
CFO Sony Pictures Networks
India Pvt. Ltd.

The pandemic has had a radical impact on the TV ad revenues, particularly in Q1 FY21. While ad revenues have started to pick up from June as Unlock 1.0 unveiled and are expected to improve further as economic activity picks up and original content returns on TV, reversion to pre-COVID levels will take time as there will be a lag in ad spends. In the meantime, broadcasters are trying to optimize their content costs in every possible way including negotiating with production houses and despite the incremental costs of sanitization and safety, overall content cost for next few months (except for impact properties) is likely to be lower than previous year.



Mukesh Mundra
CFO, Viacom18 Media Pvt. Ltd.

NTO 1.0 corrected legacy issues of the past with equitable distribution of subscription revenues benefitting broadcasters across the board. Regional channels, in particular, benefitted significantly from NTO 1.0 as they were being sold and charged separately, while English language channels suffered due to lack of reach.



Anuj Gandhi
Group CEO, Indiacast Media
Distribution Pvt. Ltd.

Telling stories is at the heart of what we do and we want to ensure that these stories are available to viewers on any platform, pipe or screen they choose to access the same. TV as a medium continues to be the main source of entertainment and information in the country and is expected to remain so in the future. It is one of the mediums that not only delivers mass reach but also consumer viewership measurement, making it relevant for brands and advertisers as well. As Digital/OTT continue to gain momentum given the increasing access and the current landscape, we will see both TV and Digital/OTT co-exist and in many ways complement each other. This will allow us to be future ready and deliver our stories far and wide across screens and devices.



Nina Elavia Jaipuria
Head - Hindi Mass
Entertainment & Kids TV
Network, Viacom18 Pvt. Ltd.

There is a strong preference for local IP in the kids genre. Sony YAY! has invested heavily in creating local content from the very beginning. It was very important for us to differentiate ourselves and consistently add fresh content to build stickiness for our shows which were all new IPs. As a result, our refresh rate has been much higher compared to the established channels in this genre.



Leena Lele Dutta
Business Head – Sony Yay!, Sony
Pictures Networks India Pvt. Ltd.

Cable operators need to evolve from MSOs to digital service providers by offering blended services to aspirational consumers. Blended services refer to a combined offering of cable, broadband, home-security, cyber-security, etc. – all the myriad digital services that are demanded / required by a consumer. This model will make life easier for the consumer who will be required to pay a single bill and have a single point of contact for all the services. The growth of cable operators in the years to come will depend a lot on their ability to transform into digital service providers.

While there were initial hiccups, the implementation of NTO 1.0 was well managed by the industry. NTO 1.0 brought about transparency in the industry and led to an increase in the ARPUs for broadcasters and DPOs. It was a huge bonus for regional channels, many of which were getting paid for subscriptions for the first time and witnessed high growth.



Rajesh Kaul
Chief Revenue Officer, Distribution
and Head – Sports, Sony Pictures
Networks India Pvt. Ltd.



Ashok Mansukhani
Managing Director,
NXTDIGITAL and Non-Exec
Vice Chairman, IndusInd
Media & Communication Ltd.

Globally, there has been a trend of bundled ad sales with players selling ads on their linear and digital platforms together. The adoption of this trend in India has been delayed due to the ongoing COVID-19 pandemic. However, it is likely to be the major trend in times to come as bundled ad sales are likely to benefit both the advertisers and the media companies. While advertisers can reach the audiences through both mediums, media companies can effectively monetize their linear and digital inventories.



Rohit Gupta
President – Chief Revenue Officer
- Ad Sales and International
Business, Sony Pictures Networks
India Pvt. Ltd.

The lock-downs have resulted in massive on-ground challenges for the distribution chain. Distributors, particularly the MSOs, typically operate with LCOs collecting cash from the consumers - with a significant portion attributed to a post-paid model. In the aftermath of the COVID-19 crisis, revenues declined for most operators in Q1 FY21 as physical cash collection activities suffered. However, we were able to deal with this situation better compared to peers, due to the fact that we are the only MSO with a pre-paid subscriber base of just under 100% and a robust existing digital payment mechanism - with a large part of the subscriber payments coming in digitally.



Vynsley Fernandes
CEO, NXTDIGITAL Ltd &
President, IMCL

Creation of new content will be a bottleneck for everyone in the industry post the pandemic. Unfortunately, players across the industry had never seriously attempted to improve operational efficiencies prior to the pandemic. However, as players are forced to innovate, content production will change. Players who are able to make the supply chain agile and produce content with shorter turnaround times by investing in innovative ideas as normally happens in the manufacturing sector are likely to have higher probability of success in the times to come.



Saurabh Yagnik
Head, Monetisation Strategy and
Consumer Insights, Sony Pictures
Networks India Pvt. Ltd.





Print

Weathering the storm



Print

Weathering the storm

The print media segment was growing at a subdued rate since the past three years. FY20 remained another unfriendly year for the sector with strong economic headwinds profoundly impacting advertisement revenue and declining circulation¹.

With worsening economic conditions mounting from all sides, segment relied heavily on a favourable last quarter of FY20 to aid recovery. However, the lockdown and resulting slowdown in economic activity wrought by COVID-19 in March 2020 deepened the adverse macro-economic impact on the segment.



Even before the imposition of the lockdown on March 22, 2020, sentiments across industries had turned to extreme caution by mid-March with advertisers halting spends and withdrawing print campaigns – a worsening outlook to an already precarious scenario. The top three listed print media players collectively reported an overall revenue decline slightly over nine per cent in FY20². Overall the segment shrunk by eight per cent in FY20³.

Soft global newsprint prices in the range of USD560 to USD570⁴ per tonne (including 10 per cent customs duty on imported newsprint) brought some respite to the bottom lines compared to FY19 which suffered from high newsprint prices of around USD 7702 per tonne at its peak.

Although, COVID-19 will be a significant setback to the growth trajectory of the segment, the successful execution of certain fundamental changes can enable print media to remain a reliable pillar of the media and entertainment segment.

Historical performance: Print

Size of India's print industry (INR billion)	FY16	FY17	FY18	FY19	FY20	FY20 decline	CAGR (FY16-20)
Advertising	192	204	211	221	198	-10.3%	0.8%
Circulation	96	104	108	112	107	-4.2%	2.8%
Total	288	308	319	333	306	-8.3%	1.5%

Segment wise revenue (INR billion)	FY16	FY17	FY18	FY19	FY20	FY20 decline	CAGR (FY16-20)
Newspaper	274	295	306	321	295	-8.1%	1.9%
Magazine	14	13	13	12	10	-13.0%	-7.7%
Total	288	308	319	333	306	-8.3%	1.5%

Source: KPMG in India analysis based on primary and secondary research, 2020

1. KPMG in India analysis based on primary and secondary research, 2020.
2. KPMG in India analysis Based on secondary research, July 2020

3. KPMG in India analysis based on primary and secondary research, 2020.
4. DGCIS data till March 2020, accessed on 15 July 2020

Declining ad revenues in FY20

Advertising revenue (INR billion)	FY16	FY17	FY18	FY19	FY20	FY20 growth/decline	CAGR (FY16-20)
English	69	72	73	74	63	-15.0%	-2.4%
Hindi	60	64	67	72	64	-10.0%	1.9%
Regional	63	68	71	76	71	-6.0%	3.0%
Total	192	204	211	221	198	-10.3%	0.8%

Source: KPMG in India analysis based on primary and secondary research, 2020

Newspapers rely heavily on ad revenue for financial stability.

To remain affordable for the general public, Indian print media recovers most of its costs from ad revenues - which account for 70 to 75 per cent⁵ of overall newspaper revenues. In comparison, global print media follows a practice of earning 40 to 50⁶ per cent of total revenue from advertisements.



Globally, the advertising revenue of print declined by 11 per cent in 2019, while the share of print media in the global advertisement expenditure (adex) declined further from nine per cent in 2018 to eight per cent in 2019⁷. The Indian print media segment still performed better compared to its global counterparts with a share of 30 per cent of the national adex in 2019.⁸ It remains the second-highest contributor after TV which leads with 37 per cent of adex.⁹

However, print advertisement revenues declined by 10 per cent in FY20 over FY19¹⁰ due to a poor festive season, lower than expected ad revenue in the May 2019 general elections and the downturn seen in key sectors such as auto and consumer durables and slowdown in consumption. While FMCG, auto, education and real estate continued to contribute to nearly half of print media's ad revenues, e-commerce emerged as a major driver adding a revenue of approximately INR1.1 billion in CY 2019 over the previous year¹¹.

Overall ad volumes saw a decline of three per cent in CY 2019 led by a decline of seven per cent in English language advertisements, followed by four per cent decline in Hindi and a marginal growth of one per cent in regional ad volumes. Within regional, while Marathi, Telegu and Gujarati witnessed a decline of 5 to 6 per cent, Malayalam, Kannada and Tamil posted a growth of 13 per cent, 10 per cent and five per cent respectively in CY 2019¹². Decline in English ad volumes can be primarily attributed to the saturation of reach in key markets of metro cities. Emergence of digital media outlets in the last few years has also added to decline in English print revenues. English adex is probably the first to lose to digital due to overlap of the English-speaking audience with increased penetration of smartphones, access to high-speed internet and variety of digital news sources.



5. KPMG in India analysis, based on Industry discussions and secondary research, July 2020

6. KPMG in India analysis, based on Industry discussions, July 2020

7. This Year Next Year, Global Media Forecasts: Group M, December 2019

8. Pitch Madison Advertising Report, 2020

9. Pitch Madison Advertising Report, 2020

10. KPMG in India analysis based on primary and secondary research, July 2020

11. Pitch Madison Advertising Report, 2020

12. Pitch Madison Advertising Report, 2020



English circulation declines in FY20 on the back of saturation; cover price increase puts a dent in regional

Circulation revenue (INR billion)	FY16	FY17	FY18	FY19	FY20	FY20 decline	CAGR (FY16-20)
English	33	34	34	34	31	-7.1%	-0.9%
Hindi	33	37	39	41	40	-3.0%	4.9%
Regional	30	33	35	37	36	-3.0%	4.1%
	96	104	108	112	107	-4.2%	2.8%

Source: KPMG in India analysis based on primary and secondary research, 2020

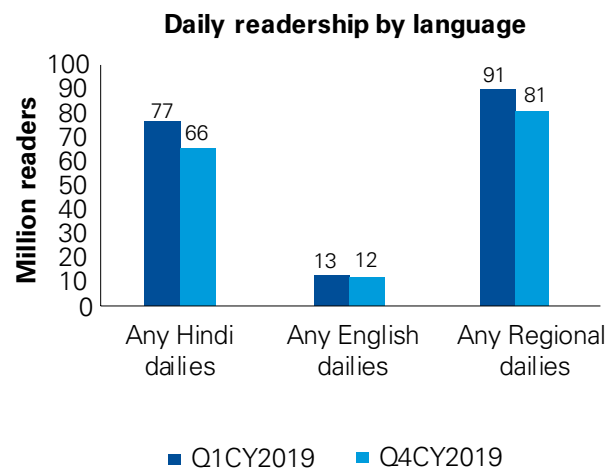
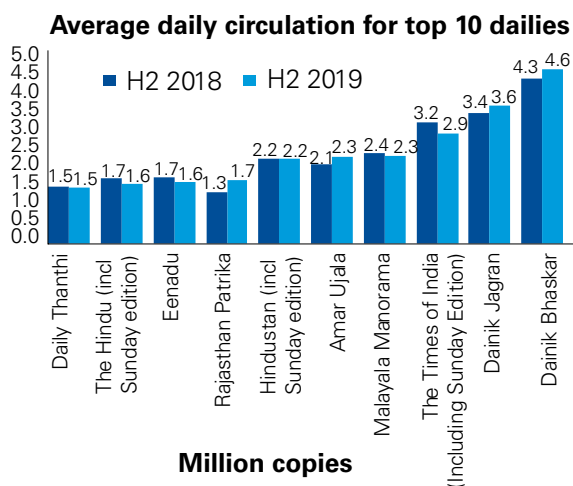
Circulation revenue declined by approximately four per cent in FY20 with a higher decline in circulation revenue from English newspapers compared to Hindi and certain regional newspapers¹³. The average daily circulation volumes also declined by four per cent in CY 2019, with English and regional daily circulation declining by six per cent and an almost stagnant circulation of Hindi daily newspapers.¹⁴

English circulation has witnessed a steady decline in the last couple of years primarily due to the saturation in key geographies such as Metros and Tier II cities. Although, penetration of English print is low in Tier III and rural regions, there has been no growth in English circulation in these areas due to preference for Hindi or

regional languages by readers, and failure to tap into this market's English print readership.

Loss of circulation in regional languages such as Marathi and Gujarati in 2019 was driven by the segment-wide increase in cover prices in price-sensitive geographies. Some of the major players across Hindi and regional languages also raised cover prices in Q4 FY20.

As per the latest Indian Readership Survey, newspaper readership declined by 5 per cent in Q4 2019 over Q1 2019 driven by a decline in rural readership. Daily newspaper readership declined by 12 per cent in Q4 2019 over Q1 2019 led by a decline in Hindi daily readership.¹⁵



Source: Audit Bureau of Circulations, June to December 2019; Indian Readership Survey, MRUC India, May 2020

13. KPMG in India analysis based on primary and secondary research, 2020

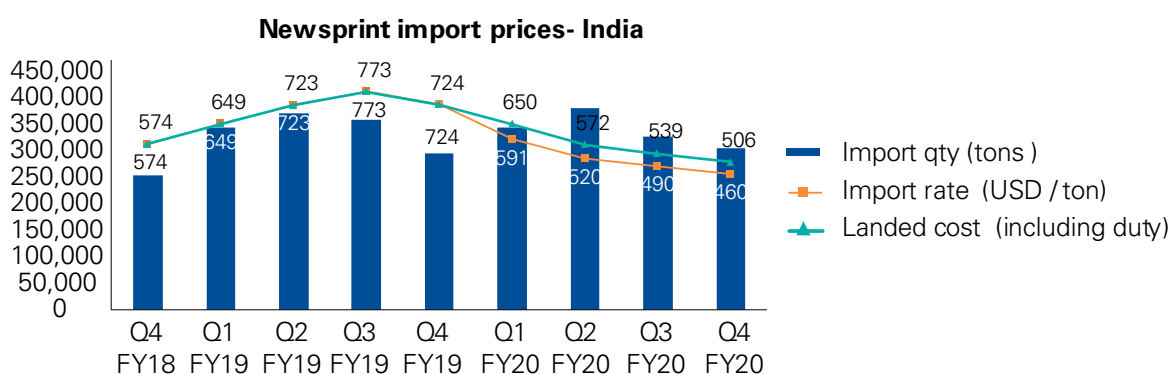
14. Audit Bureau of Circulations, June to December 2019

15. Indian Readership Survey, MRUC India, May 2020

Newsprint prices lower than FY19 despite 10 per cent custom duty

In a relief to the segment, newsprint prices declined to USD506 per tonne in FY20¹⁶ compared to the surge in FY19 caused by China's change in pollution control regulations that banned paper pulp and paper waste for newsprint production. This provided a much-needed

relief in bottom lines to a segment buckling under economic conditions. The fall in global prices also balanced the 10 per cent customs duty levied on newsprint FY20 onwards.



Source: DGCIIS data till March 2020, accessed on 15 July 2020

Austerity measures halted advertisement spends and lockdown halted circulation

Lockdown in India was announced on 22 March 2020. However, jitters had started spreading since mid-March 2020. A total nationwide lockdown continued till 1 June 2020 from which the phase-wise unlocking began with restrictions imposed in containment and high case density zones.

According to players, the segment is expected to post a decline of approximately 70 per cent to 75 per cent in the first quarter of FY21 with the pandemic shrinking advertising budgets across industries. Further major players estimate that advertisements budgets fell as low as 90 per cent of pre-COVID levels in April 2020 - the first complete month to take a hit¹⁷.

Print circulation was also disrupted during the first 21-day government lockdown due to uncertainty over distribution combined with readers' fear of contracting the virus from touching newspapers.

COVID-19 shrunk ad revenues already under pressure

COVID-19 brought a complete halt to advertisement revenue from mid-March 2020 to mid-May 2020. With global lockdowns enforced to stop the spread of the virus, businesses had to take a stringent view with discretionary spends to maintain liquidity and manage cash flows. Advertisements and brand promotions were foremost to take a hit in these austerity measures.

English newspapers witnessed a significant revenue decline with Q1 FY21 revenues estimated to be 75 per cent to 80 per cent of Q1 FY20 revenues¹⁸. Key advertisement sectors such as education remained subdued due to delay in the start of the academic year to August. Further industry discussions pointed out that English print also witnessed revenues being diverted to digital media. While the national lockdown initially impacted local ad volumes over national, the subsequent extensions till June 2020 impacted English print ads in Metros significantly.

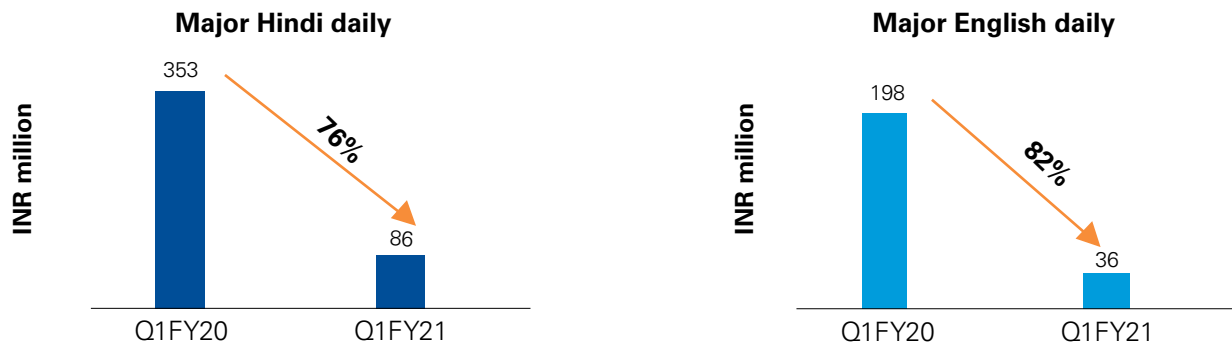
In comparison, Hindi and regional advertisement revenue had a better recovery revenue rate of approximately 20 per cent to 25 per cent in Q1 FY20 due to a wider circulation during the lockdown in Tier II and Tier III cities and inflow of local advertisements post unlock in June 2020.¹⁹

16. DGCIIS data till March 2020, accessed on 15 July 2020

17. KPMG in India analysis, based on Industry discussions, July 2020

18. KPMG in India analysis based on primary and secondary research, 2020.

19. KPMG in India analysis based on primary and secondary research, July 2020.



Source: Investor presentation Q1 FY21, July and August 2020

Industry discussions indicate that the path to recovery of ad revenues in FY21 will be slow, especially for the English print due to continued restrictions in movement of vendors in containments zones primarily in Metro and Tier II cities even post unlock in June 2020.

There is a consensus among industry experts that the upcoming festival season in the second half of FY21 may drive recovery in FY21 and the best-case scenario would be a 30 per cent to 35 per cent decline in FY21 over FY20²⁰. While DAVP (Directorate of Advertising & Visual Publicity) rates increased in April 2020, industry experts are also hopeful that increase in government spending, a major source especially for Hindi and regional newspapers, will increase government advertisement revenues and value in the short term.

Globally advertisement spends are expected to decline by approximately 12 per cent in 2020 over 2019 with some stimulus from political spends in the upcoming U.S. 2020 presidential elections.²¹

While lockdown halted circulation; Hindi and regional newspapers recovered faster than English newspapers

After the national lockdown was enforced, most dailies were not distributed for the first two weeks in most parts of the country and one week in Kerala due to disruptions in the distribution network by lockdown restrictions²². The Maharashtra government banned doorstep delivery of newspapers till June 2020²³. With many readers worried about newspapers being carriers of the virus and newspaper vendors on strike over disputes with publishers in Delhi, ²⁴the print media segment plunged into chaos. These events caused a significant drop in circulation in April 2020.

English newspapers were impacted more due to the lockdown with circulation in April 2020 dropping to five per cent of April 2019 levels. There was some recovery in May with circulation climbing to 15 per cent and then 25 per cent in June 2020 compared to 2019.²⁵



20. KPMG in India analysis based on primary and secondary research, July 2020

21. Group M mid-year Forecast, June 2020

22. KPMG in India analysis, based on Industry discussions, July 2020

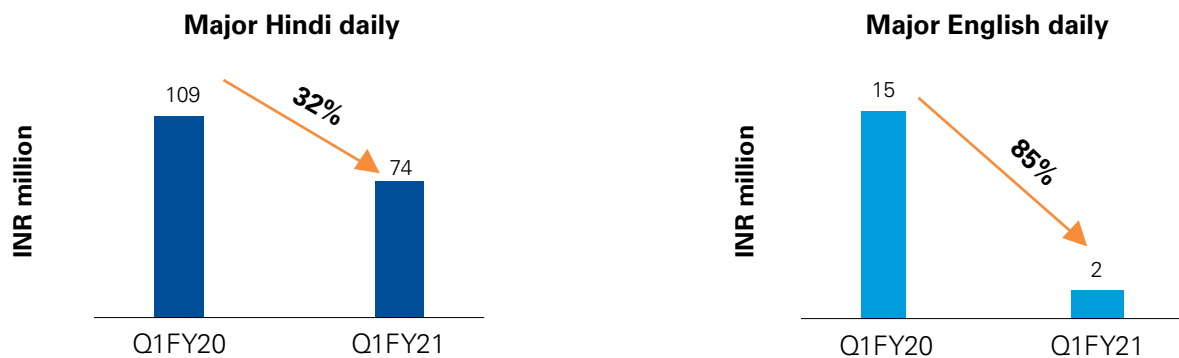
23. Will allow doorstep delivery of newspapers from June 7: Maharashtra CM Thackeray, Hindustan Times, 31 May 2020

24. Apple mangoes and newspaper circulation in India, Medium.com, 24 June 2020

25. KPMG in India analysis based on primary and secondary research

However, compared to Hindi and regional newspapers, English circulation recovered significantly slowly during the lockdown. This could be attributable to the fact that Metro cities such as Mumbai, Delhi and Bengaluru remain the core areas of circulation for English newspapers. While circulation in Delhi recovered slightly more post unlock, doorstep delivery

of newspapers remained a challenge in Mumbai and Delhi due to restrictions posed by state governments, housing societies and reduced availability of vendors and paperboys who either refrained from stepping out or returned to their hometowns. Circulation improved from May 2020 on the back of awareness campaigns ran by major newspapers.



Source: Investor presentation Q1 FY21, July and August 2020

At the same time, Hindi and regional newspapers took a softer hit with circulation in April 2020 being 60 per cent to 65 per cent of April 2019 levels and recovering to around 70 per cent in May 2020 and up to 75 per cent to 85 per cent in June 2020.²⁶ Urban areas in states like Kerala where doorstep delivery of newspapers was not interrupted due to lockdown recovered to almost 90 per cent of the circulation compared to 2019 in June 2020.²⁷ Balance circulation for majority newspapers was affected due to loss of sales from shops, railway stations and other institutions which remain restricted even after the unlock was announced on 1 June 2020. The faster recovery in vernacular publications can be primarily attributed to the greater reach in Tier II, Tier III and Tier IV cities and rural areas where fewer restrictions were imposed during the lockdown.

Industry leaders attribute the recovery in newspaper circulation to urgent steps taken to spread awareness, dispel rumours over transmission of the virus through newspapers, thorough sanitisation of newspapers and providing vendors with protective equipment. Various state governments such as West Bengal and Kerala also assisted with delivery in containment areas by easing restrictions on doorstep delivery of newspapers.²⁸

Apart from other factors the recovery in circulation also demonstrated to players a deep-rooted trust in the credibility of newspapers as consumers relied on newspapers for accurate and researched information amidst the storm of unverified news circulating over social media.



Further, regional and Hindi newspapers can deliver hyperlocal news which is not obtained by national or even digital news media. This has believed to have built strong customer loyalty and preference for language newspapers.

26. DGCIIS data till March 2020, accessed on 15 July 2020

27. KPMG in India analysis, based on Industry discussions, July 2020

28. KPMG in India analysis based on primary and secondary research, 2020.



Industry response to COVID -19

Strengthening the bottom line and liquidity through cost optimisation

The drastic fall in revenues owing to the onset of the COVID-19 pandemic prompted most players to cut costs and enhance liquidity to stay afloat. However, these were not just short-term measures.

The pandemic forced the segment to restructure legacy operations to operate on a leaner cost base resulting in long-term, sustainable cost savings.

Discretionary spends on advertising and promotions were significantly reduced, as most publishers felt they were not necessary to retain readers.

Fixed costs in printing, bureau and distribution costs were also restructured to deliver a permanent impact. One of the examples can be consolidation of small-town printing and distribution centres with nearby cities to reduce overheads and increase efficiency. Newspapers also converted a portion of their reporting personnel from a retainer model to a fully variable model where they were paid only for the pieces contributed by them. Work-from-home imposed due to lockdown also led to the adoption of technology and streamline processes such as editing to reduce head office and branch office expenses and create leaner and agile operations.

Industry players believe that COVID-19 will also lead to greater collaboration among major players to take advantage of cost synergies in areas such as printing and distribution, especially in smaller Tier III and rural centres.

Another impact was the reduction of the number of newspaper pages from 20 to 24 pages pre-COVID to 12 to 14 pages during lockdown.²⁹ However, cover prices remained constant. Combined with soft newsprint prices, contribution per copy increased without any impact on circulation recovery and cushioned the impact on the bottom line.

Building resilience and sustainability by lowering dependency on advertisements

One of the key themes that have emerged since the pandemic hit is that if the print media segment wants to survive; it must reduce dependency on advertisements and focus on creating models that promote higher circulation revenue. This means increasing cover prices and converting users to subscription models.

Industry discussions revealed that an important realisation for publishers during the ongoing pandemic is that readers would continue buying newspapers at the same cover price with lesser number of pages especially reduced advertisement pages. Certain key players even increased cover prices by INR1 to 2.

Readers valued strong editorial content without distraction from advertisements.

Pre-COVID, a typical daily followed an ad-editorial ratio of 60:40 in favour of editorial content in a 20 to 24-page edition. Post lockdown it changed to 80:20 in favour of editorial content in a 12 to 14-page edition and almost no advertisements in a 10 to 12-page edition.³⁰ This was further validated by the recovery of circulation except in case of Metro focussed publications. Reduced pages not only lower the cost of newsprint but may also lead to better advertisement realisation on account of reduced inventory for the same reach.

Newspapers with direct-to-home models have been able to convert monthly subscribers to annual subscribers with ease by discounting an annual package and building a more extensive recurring revenue base. Converting to such models over shop-sales also promote sustainability and opportunity for an increased readership reach.



29. KPMG in India analysis, based on Industry discussions, July 2020

30. KPMG in India analysis, based on Industry discussions, July 2020

Threat to smaller players

Even before the emergence of COVID-19 print media players such as Daily News and Analysis (DNA), The Deccan Chronicle and The Financial Chronicle suspended operations in key geographies such as Mumbai, Delhi and Bengaluru due to dire financial conditions³¹.

The lockdown saw publications such as Mail Today shutting shop and Business Standard wrapping its weekend edition. Over 2,000 journalists are estimated to either have lost jobs or faced massive pay-cuts since the lockdown in March 2020.³²



COVID-19 is expected to see further shrinkage in players outside the Top 5 in language and geographies. Due to the severe liquidity crisis brought about by the loss in revenue, players with a strong balance sheet and reserves will be able to take the hit and the segment may shed several publications from its tail. While this may lead to consolidation in terms of circulation, a certain portion of advertisement revenue may leave with the small players due to the unsustainably low rates.

Accelerated growth of digital

As the digital penetration in India grows, so will the shift to digital news. The threat appears to be larger and more immediate to English print due to the stagnation of readership in Metro cities and increase in access to affordable smartphones. Comparatively Hindi and regional news has limited digital outlets of reliable news with only the major players foraying into building and amplifying digital presence.

Digital news platforms received an unprecedented boost for not only English but also language players. Unique visitors increased to close to 2x during the lockdown.³³ Industry experts believe that 50 per cent to 60 per cent³⁴ of this impact will be sustainable even after the threat of COVID-19 subsides.

While the top 10 digital news sites are dominated by English news and aggregators, Hindi media are also making inroads with multimedia offerings. Out of the top 10 news platforms (excluding apps), two were predominantly Hindi content.³⁵

Industry-wide consensus is that next step would be greater monetisation of the subscriber base as the dominance of Google and Facebook and extremely low cost per impressions make advertisement revenues an unsustainable source.³⁶ With global outlets only now successfully going behind paywalls, Indian players have a longer horizon to subscriptions in general news. Traditional print players are investing to provide multimedia content combining not only text and video but also audio content to enhance consumer reach. They are also investing in increasing consumer engagement by greater personalisation and leveraging reliable content in the era of misinformation or 'fake news' floating on social media.

Regional and Hindi newspapers continue to leverage the strength of local and hyper-local content to attract subscriber base and place exclusive content behind paywalls. Any digital strategy will have to be subscriber driven and thus, content led.



COVID-19 also prompted publishers to release interactive e-papers distributed via email, phone and other social media platforms to maintain their readership base while circulation was hampered. Some major players also successfully put these e-papers behind paywalls³⁷. One of the key value propositions of e-papers was that subscribers could obtain reliable information from editions beyond their local level, at a national as well as global level. While e-papers remain an interim digital solution, they act as a stepping-stone in digital adoption by getting consumers familiarised with reading newspapers on a smaller phone screen daily, and then eventually progress to full digital mode. The fact that readers were willing to pay for a digital offering is a promising sign on the long road to monetisation of digital assets.

31. Apples, mangoes and newspaper circulation in India, The Medium; June 2020

32. Second phase of retrenchment in print media, www.exchange4media.com; August 2020

33. KPMG in India analysis, based on Industry discussions, July 2020

34. KPMG in India analysis, based on Industry discussions, July 2020

35. ComScore COVID-19 and its impact on Digital Media Consumption in India, May 2020

36. KPMG in India analysis, based on Industry discussions, July 2020

37. Are Indian newspapers heading towards a paywall model? Exchange4media.com, 22 May, 2020



Weathering the storm

Revenues (INR billion)	FY19	FY20	FY21P	FY22P	FY21 decline over FY20	FY22 growth over FY21
English						
Advertising	74	63	33	56	-47.5%	70.0%
Circulation	34	31	20	32	-36.3%	58.0%
	108	94	53	88	-43.7%	65.5%
Hindi						
Advertising	72	64	37	62	-42.5%	67.5%
Circulation	41	40	30	41	-25.7%	38.5%
	113	105	67	103	-36.0%	54.5%
Regional						
Advertising	76	71	37	68	-47.5%	82.0%
Circulation	37	36	31	37	-13.2%	20.0%
	112	107	68	105	-36.1%	54.0%
Grand total	333	306	188	296	-38.4%	57.4%

Source: KPMG in India analysis based on primary and secondary research, 2020.

COVID-19 has delivered a setback and pushed the segment back by at least three years from its growth trajectory. FY21 will bear the full impact of the pandemic and see an overall decline of 38 per cent over FY20.³⁸ Over the next two years, with global and domestic economic conditions on the mend, the segment hopes to recover to FY19 levels by FY23 with English tagging behind regional and Hindi newspapers.³⁸ The circulation of English newspapers will continue its downward trajectory, which may be accelerated by the push to digital in the pandemic. Circulation for the Hindi and regional newspapers shall continue to deliver a single-digit growth with a scope of penetrating to Tier III and IV cities and rural markets.

Conclusion

According to major players, COVID-19 has believed to have established print media to be one of the most reliable sources for news in the age of sensationalism and misinformation. But quality content shall demand a price and the segment should move towards greater monetisation with an increase in cover prices and building subscriber-based models.

While the newspaper habit is more predominant in older age categories with a loyal readership, the digital evolution of the segment is inevitable. Traditional print companies shall have to make investments in sustainable digital strategies aimed towards greater monetisation of the subscriber base on the cornerstone of creating and delivering quality content.

38. KPMG in India analysis based on primary and secondary research, 2020.

Covid-19: a wake-up call for the Print media industry



R K Agarwal

*CFO,
Jagran Prakashan Ltd.*

There is a silver lining amidst the clouds of economic downturn brought about by the Covid-19 pandemic. While the industry had previously adopted a “wait and watch” approach for macro-economic conditions to improve, Covid-19 spurred legacy operations to rapidly re-think strategies, question old norms and redesign processes to be agile and dynamic. Liquidity management and optimization of fixed as well as variable costs was the immediate reflex of the industry.

Reduction in fixed costs meant implementing short term cost cutting measures as well as assessing legacy cost structures and processes to operate on a lower cost base in the long run. A thorough analysis of cost structures revealed that costs that were previously deemed to be fixed in nature and vital to function were semi-variable or even variable in nature and could be reduced significantly or eliminated altogether. The exercise also meant increasing the efficiency of spends.

An example of this rethinking is the consolidation of printing centers wherever possible without compromising with the delivery time of the newspaper.

When these were set up, on time transportation of newspapers was difficult and proximity to the local area was important to understand readers, market and establish brand. Consolidation of some of the district offices, editorial desks and centralization of advertisement scheduling are a few other examples.

These measures reduced the overhead base by 30 to 35% during the peak of the pandemic with an estimated permanent savings impact of 15% to 20%. The extensive and intelligent use of technology in analysis, implementation and monitoring was the key to the success in achieving these savings

Covid-19 also brought about greater collaboration amongst industry players. An area of collaboration was to reduce distribution costs by optimizing networks. This collaboration shall also enable an increase in cover prices to commercially viable level, a change in business model that will make the industry more risk ready. This collaborative approach will also help in saving wasteful expenditure on circulation promotion which for the industry is a very significant cost component.



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

Industry perspectives

In a market as populous as India which has an internet penetration of only about 45-50%, there is immense scope for growth on the digital front. The role of technology across various facets of digital content lifecycle viz. content creation, content amplification and content monetization has been pivotal and is ever increasing in shaping up sustainable business models. Creating interactive content and layering it with audio/video feature is one instance where technology can be leveraged in providing an enhanced experience to the user. Besides this, understanding the content consumption pattern of users across social media platforms, enabling a user to effectively toggle between related content, connecting the advertiser with right set of users, are all crucial for the sustenance and growth of digital news publishers and require a great reliance on technology.

On the monetization front, digital players are soon realizing that complete dependence on advertising would not be sustainable in the long run and accordingly they have started tapping additional revenue sources like subscription, content syndication, branded content etc. Having said that, online audience preferences vary significantly, and it is important to ascertain their needscape & engagement level with the brand and content before introducing subscription models. Subscription is a journey and only when you build a strong content differentiator along with minimum loyal user base can you monetise from a subscription model.

Finally, in this new era of digital first consumption, collaboration will play a key role. Publishers, Platforms & Clients/Agencies will need to work together towards scalable & sustainable ecosystem.



Bharat Gupta
CEO, Jagran New Media

The outbreak of the Covid-19 pandemic has impacted the over-all economy. However, heartening to note that Print Media has recovered from COVID pandemic much faster than expected. Indian Language newspaper Circulation has reached around 85% of pre covid level and current Qtr 2 advertising has reached around 70% of pre covid level for Indian Language Newspapers. As things start beginning to normalise with complete lockdown lifting, businesses would be ready to welcome back consumers. Based on early market feedback, the festival season this year is expected to be good for the print media industry. Companies would like to capitalize on festivals like Navratri & Diwali to make up for losses incurred in the first two quarters of FY 21. There are clear indications that the Tier II and Tier III cities shall continue to be growth drivers of the economy owing to the relatively lesser impact and faster opening of these cities from lock down. This could be the clarion call from the smaller cities to the marketers. We expect Indian Language newspapers to gain from this consumption shift and recovery could be comparatively quicker for them.



Girish Agarwal
Director, DB Group

The way advertising was going during the initial few weeks of the lockdown, it was quite scary. In April advertising was as good as zero. First quarter was not good for all of us across the country. Fortunately, in Kerala, we had normal home distribution of copies. Almost 99% of our copies are home delivered. We hope to see advertising picking up, now that economic activity is almost back to normal.



Jayant Mathew
Malayala Manorama
Company Limited

FY20 witnessed slowing of the economy and consequently many advertisers held back expenditures on national campaigns. English Print Media suffered more than the Vernacular. Most organizations launched aggressive programs on resource optimization and conserving cash. FY21 opened with the infliction of pandemic and the Print Media suffered deep losses with the collapse of demand and restrictions on physical movement. This industry is a large employer with more than 3 million people. It has approached the Govt through its association of Publishers (Indian Newspaper Society) for an urgent stimulus package.



Mohit Jain
Executive President, BCCL

The inherent strength of regional newspapers is the ability to deliver hyper-local news. The focus on local news and exclusive scoops shall remain going forward. There is also better possibility for such content to be put behind a paywall on digital assets. There is an inundation of news with 24-hour TV and social media. Regional newspapers, while are reliable should now move to deliver highly curated and focused content. They must change to adapt to evolving expectations of readers for clutter-free and trustworthy content that differentiates newspapers from the other sources. Strong editorial content with news and analysis shall act as a filter from sensationalism and “breaking news” trends that crowds other media. Cutting through the clutter will be the way forward.



Lakshmipathy R
Dinamalar

Consolidation of micro-markets will be the key focus area for regional newspapers in near future. Delivering neighborhood specific content is valued by readers. This is the strength of regional players. Newspapers can deliver more hyper local content and can increase user engagement. Players that can provide depth of content will also be able to command a higher cover price. Delivery of Hyper-local content and connect with local business & communities will play a key role to sustain in the market. It will help media houses to increase penetration of copies and boost advertising volumes and ad spends.



Uday Jadhav
CEO Sakal Media Group

I reiterate what I’ve been saying since long. Focus on selling content, not advertising. Going forward subscription economy will play a vital role in the very existence of publications. Therefore, publishers must invest in developing quality content and building capabilities that can help command the right subscription price and thereby reduce dependence on advertising. We must take these challenging times as an opportunity to build audiences across platforms. This will also have a dominos effect as it induces advertisers to believe in the quality of the platform and it’s associated audience.



Vinay Maheshwari
Sakshi Media

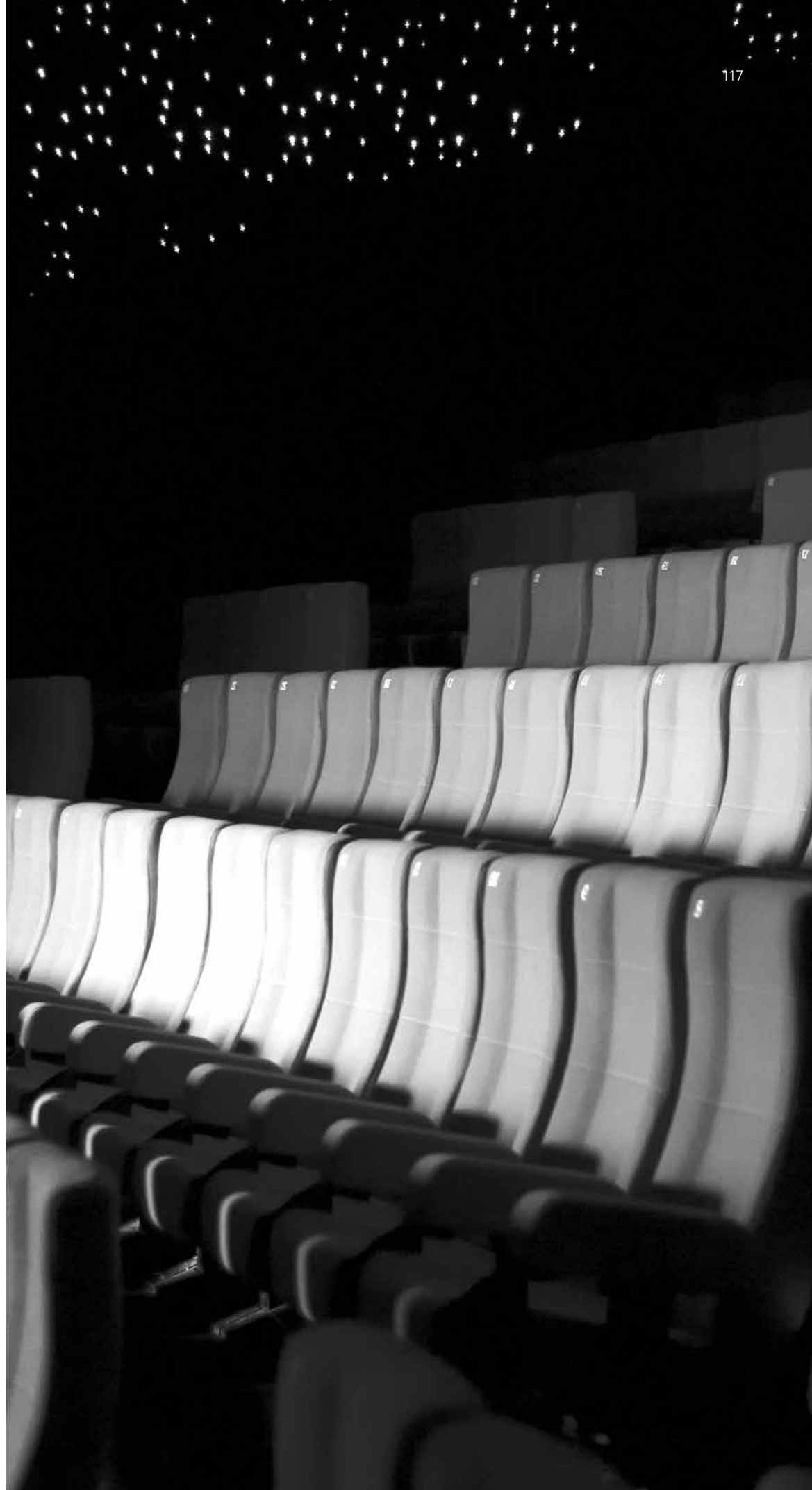


4

Films and Outdoor entertainment

Hitting the pause button





Films and Outdoor entertainment

Hitting the pause button

FY20 was a muted year for outdoor entertainment with both Films and other verticals such as Out of Home (OOH) and events showing adverse trends. With the outbreak of COVID-19 pandemic in India and

ensuing lockdown, all forms of outdoor entertainment have emerged as worst affected segments by the pandemic.

Films – reboot and reinvent

In FY20, the Indian box office saw a decline in performance compared to an outstanding performance in FY19; the box office collection of Hindi films remained stable while regional cinema underperformed as compared to previous years. The box office performance in FY20 was largely driven by a mix of star power, compelling storylines and themes.¹

In line with the domestic collection, overseas collection also saw a decline. Hollywood films continued to draw audiences in India and 'Avengers: Endgame' was the highest grosser at the Indian box office² earning INR 3.6 billion, which indicates an evolving audience behaviour and preference towards them. Digital streaming continues to grow as OTT platforms are paying premium prices to build their content library. In terms of other segments, while music was stable, in-cinema advertising declined due to a drop in the government spending.

The COVID-19 pandemic and the resultant lockdown has disrupted the India film industry - with cinemas closed, production activities halted and are struggling to resume;

movies either did not complete their box office run or were postponed indefinitely or are directly releasing on OTT platforms; production daily-wagers are struggling to survive and holiday and festive seasons lost their shine.

The industry is grappling with uncertainty as there is no clarity on reopening of cinemas and increased number of films are releasing direct-to-OTT. Cinema 2.0 could see a momentous shift with optimal budgets, new models of production process, increasing use of technology and OTTs emerging as a medium for movie releases.

1. Industry discussion conducted by KPMG in India and KPMG in India analysis 2019-20

2. Boxofficeindia.com accessed on 22 July 2020 by KPMG and KPMG in India's analysis, 2019-20

Size of India's film industry

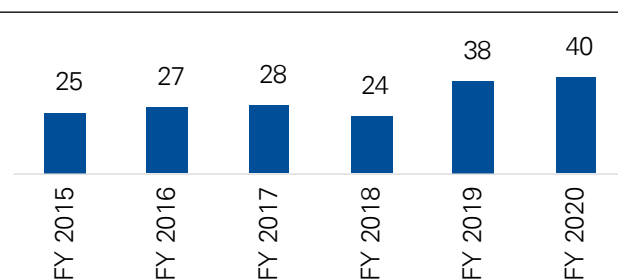
Segments (in INR billion)	FY16	FY17	FY18	FY19	FY20	FY20 growth/decline	CAGR (FY16-20)
Theatrical revenue							
India	100.8	101.4	108.9	124.9	122.1	-2.2%	5.0%
Overseas	10.8	12.3	14.8	17.2	16.7	-3.2%	15.2%
Other streams							
Cable and satellite rights	15.8	15.5	16.1	18.0	19.2	7.0%	5.0%
Music rights	3.0	3.1	3.4	3.6	3.9	6.0%	6.3%
Digital rights	-	4.8	6.2	8.1	10.9	35.0%	31.2%
In-cinema advertising	6.7	7.7	9.5	11.4	10.5	-5.0%	14.8%
Total	137.1	145.0	158.9	183.2	183.3	0.2%	7.6%

Source: KPMG in India's analysis, 2019-20

Indian box office

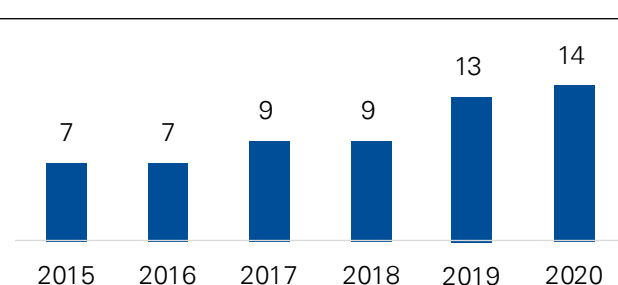
FY20 declined from its FY19 box office performance by 2.2 per cent.³ While FY19 was an exceptional year for the industry, many players were hopeful that FY20 would replicate the performance. FY20 performance for Hindi films for the first three-quarters appeared to be on the right path, however with the closure of theatres due to COVID-19 pandemic, movies like *'Baaghi 3'* and *'Angrezi Medium'* were not able to finish their theatrical runs and the release of big-budget movie *'Sooryavanshi'* was postponed.⁴ FY19 was largely content-driven with small budget movies performing well at the box office while FY20 saw big-budget entertainers with star value taking centerstage such as *'War'*, *'Tanhaji: The Unsung Warrior'*, *'Kabir Singh'*, *'Housefull 4'*, *'Bharat'*, *'Mission Mangal'*, *'Good Newz'* delivering strong box office performances.

Net box office collection of top 50 Hindi movies (in INR billions)



Source: Boxofficeindia.com accessed on 22 July 2020 by KPMG and KPMG in India's analysis, 2019-20

Number of INR 1Bn movies



Source: Boxofficeindia.com accessed on 22 July 2020 by KPMG and KPMG in India's analysis, 2019-20

3. KPMG in India's analysis, 2019-20

4. Covid-19 impact explained: How India's film industry got hit and is preparing for a new normal, Indianexpress.com, 29 April 2020



Fourteen movies crossed INR 1 billion domestic Net Box Office Collection (NBOC), highest ever in any financial year.⁵ Further, domestic NBOC of top 50 movies increased from INR 38 billion in FY19 to INR 40 billion.

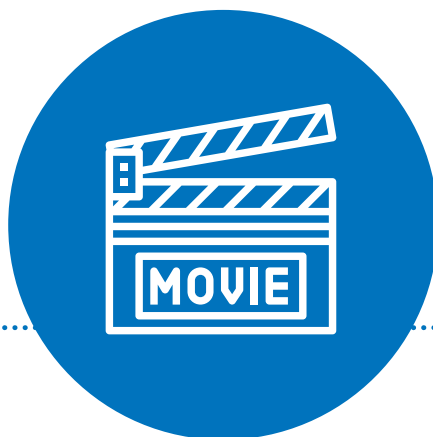
Nine movies in the current year earned domestic NBOC of INR 0.6 billion to INR 1 billion as against eleven in the FY19.⁶ In FY20, the occupancy of PVR and INOX remained stable at 35 per cent⁷ and 28 per cent⁸ as against 36 per cent and 28 per cent in FY19. In line with domestic box office performance, overseas collections of Indian films also declined by 3.2 per cent.⁹ Also, all Indian films released in the China market in the current year underperformed compared to FY19, except 'Andhadhun' which grossed Yuan 325 million (i.e. approximately INR 3,250 million)¹⁰

Hollywood movies released in India witnessed historic performances in FY20, with 'Avengers: Endgame' emerging as the highest-grosser at the Indian box office earning NBOC of INR 3.6 billion.

Other releases such as 'The Lion King', 'Spider-Man: Far From Home', 'Fast & Furious Presents: Hobbs & Shaw' and 'Joker' also put up strong performances. Over the years, Indian audiences are drawn to global content and global production studios are increasingly looking to tap the potential of the Indian box office by releasing their films in multiple languages.

In a multi-lingual country like India, regional cinema continues to thrive. In FY20, South movies and other regional cinema contributed 36 per cent and nine per cent, respectively, to domestic theatrical collection.¹¹ Regional cinema has time and again proved that stories with universal appeal will draw audiences.

FY20 was a tepid year for Tamil cinema. While FY19 had strong box office performances with '2.0', 'Petta' 'Viswasaw', 'Sarkar' and 'Kaala' grossing INR 1.5 billion worldwide,¹² FY20 saw only two movies, 'Bigil' and 'Darbar' achieving that feat. As regards Telugu cinema, many big-budget movies such as 'Sye Raa Narasimha Reddy', 'Saaho' underperformed whereas 'Ala Vaikunthapurramuloo', 'Sarileru Neekevvaru' and 'Maharshi,' put up a strong box office performance. Malayalam and Kannada box office also underperformed in the current year. In terms of other languages, there were no major Marathi films released in the current year. Punjabi films continued good performance with movies like 'Shadaa' and 'Ardaas Karaan', and Gujarati film 'Hellaro' put a decent performance at box office.



5. Boxofficeindia.com accessed on 22 July 2020 by KPMG and KPMG in India's analysis, 2019-20

6. Boxofficeindia.com accessed on 22 July 2020 by KPMG and KPMG in India's analysis, 2019-20

7. PVR investor update Q4 2019-20

8. Inox Leisure Limited – Earning presentation Q4 and FY19-20 – May 2019

9. KPMG in India analysis, 2019-20

10. Global Times - How did Indian films fare in the Chinese market this year, published on 29 December 2019, accessed by KPMG on 11 August 2020

11. KPMG in India analysis, 2019-20

12. sacnilk.com – Kollywood Box Office Collection 2019 and 2020 accessed on 23 July 2020 by KPMG

Other segments - C&S, digital rights, music and in-cinema advertising

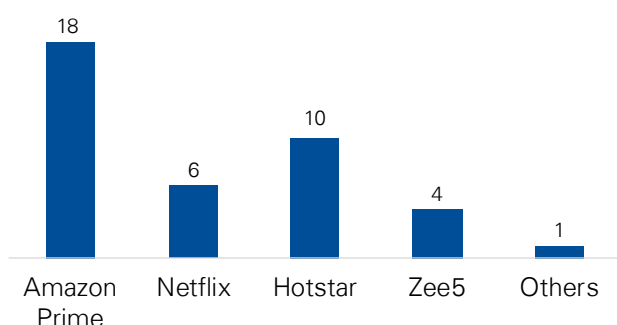
In FY20, sale of C&S rights grew by seven per cent¹⁴ as all big-budget Hindi and regional films were able to fetch a premium price driven by a high-profile star cast and pre-release deals. Many industry players believe film consumption will gradually move from television to OTT platforms driven by cheap data, low subscription prices and on-demand viewing. However, production studios do not expect any significant correction in the C&S deal values in the immediate future.

In FY20, the digital segment grew by 35 per cent.¹⁵ With an upsurge in paid subscriber base across all OTT platforms, they are paying premium value to acquire content including Hindi and regional movies.



Digital rights segment continues to thrive and record double-digit growth. Major OTT players are sprucing up content film libraries, for example, Amazon Prime acquired eighteen films out of the top grossing Hindi films this year, followed by Hotstar acquiring ten films and Netflix acquiring six.¹⁶

Number of rights acquired in 2019-2020 from highest grossing films of the year¹³



13. KPMG in India's analysis, 2019-20

14. KPMG in India analysis 2019-20

15. KPMG in India analysis 2019-20

16. KPMG in India analysis 2019-20

OTT platforms have emerged as a boon to the Indian film industry in these times of uncertainty, with the closure of cinema halls due to COVID-19 pandemic. Production studios with movie inventory have an option to release their movies directly to streaming platforms, thereby giving them an outlet to monetise their films at a reasonable return on investment.

In-cinema advertising segment declined by five per cent in the current year, primarily due to the reduction in government ad spending and general economic slow-down.

Eros-STX merger – A key M&A development in the film industry

Eros has had presence in India for over four decades with local library of over 12,000 films across Hindi and regional languages. The company has seen success in the international markets like China with *'Andhadhun'* and *'Bajrangi Bhaijaan'*¹⁷. The company's OTT platform Eros Now reports 196.8 million registered users and 29.3 million paying subscribers as of 31 March 2020. On the other hand, STX was founded by film producer Robert Simonds and investor Bill McGlashan in 2014 with an objective of exploiting a gap in the market for mid-budget, star-driven films; it has released 34 movies which have earned over USD1.5 billion in global box office¹⁷.

In a Press release dated 30 July'20, Eros International Plc announced the merger of Eros and STX Entertainment Inc (STX). Eros-STX expects to benefit from USD110 million of incremental equity, with an additional USD15 million to be completed within 90 days of the closing of the merger, from new and existing global investors including TPG, Tencent, Hony Capital and Liberty Global¹⁸.

Key potential benefits of the merger:

1. Access to combined inventory of both the entities
2. Synergies in the form of merging or amalgamating resources - actors, talent on cinematography, direction and story ideas
3. Leverage the distribution partnerships of both companies
4. Creation of unique content from cross functional teams from U.S. and India to adhere to a larger audience.

17. Eros International Plc and STX Entertainment Complete Merger to Form Eros STX Global Corporation, business wire, published on July 30, 2020 accessed on September, 12, 2020.

18. Eros India CEO Explains STX Merger Logic: "The Bigger Story Is on the OTT Side", The Hollywood reporter, published on April 22, 2020 accessed on September, 12, 2020.



Impact of COVID-19 pandemic on Indian film industry

The global outbreak of Coronavirus (COVID-19) impacted the Entertainment industry worldwide; India being one of the worst affected countries, the impact was severe.

Many sectors have been affected by the pandemic, however outdoor entertainment medium including theatrical exhibition business has been worst affected as revenue has been zero since closure of cinema halls and with the burden of fixed rentals and other fixed overheads such as staff salaries, the situation is very grim.

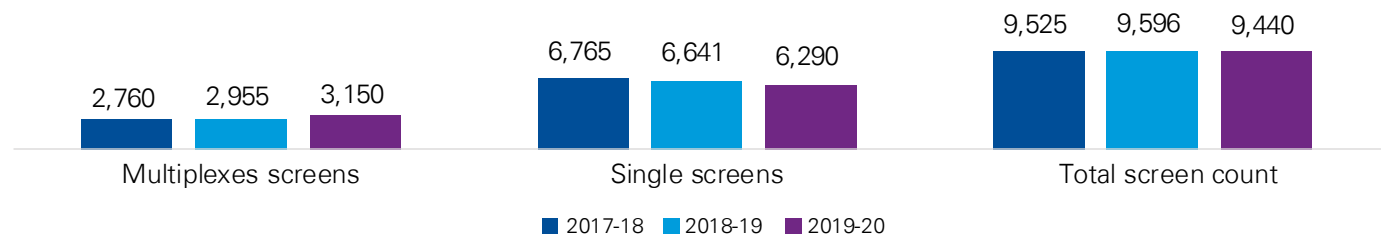
In India, nationwide lockdown was announced in mid-March and since then the industry is waiting for government approvals for cinema halls to re-open. Production activity is slowly resuming in a phased manner.

Cinema halls - impact

India theatrical exhibition business with 9,440 screens of which 3,150 are multiplex screens²⁰ is one of the most under-penetrated markets and although Indian economy is opening up in a phased manner, however cinema halls are expected to re-open only in the second part of the year. In Cinema 2.0, industry players will have to find newer ways to draw audience to cinema halls and monetise their content.

Post the lockdown in March 2020, no new screens are expected to be added during FY21 other than those already under progress. Also, many single screens may be permanently closed.

Estimated number of screens in India¹⁹



Cinema halls – reopening

On reopening of cinema halls, the new cinema viewing experience would probably integrate audience safety norms such as temperature checks, regular disinfecting processes and seating arrangement considering the social distancing and capacity guidelines.

The reopening of cinemas in India may see a phase-wise release of movies; thus regional films which earn majority of collections from respective language markets, may release earlier, although for a Hindi film a phase-wise limited release may not be feasible. Some countries have experimented with 'drive-in' theatres and others who have opened cinema halls, have had few successes.²¹

The industry believes that if assured of safety, audiences will come back to cinema halls as India continues to have a strong movie-watching culture. Movies is the most preferred mode of outdoor entertainment and the experience of watching a film in the theatre will never be replaced by other mediums.

19. Industry discussion conducted by KPMG in India and KPMG in India analysis 2019-20

20. Industry discussion conducted by KPMG in India and KPMG in India analysis 2019-20

21. Industry discussion conducted by KPMG in India

Content creation and impact of supply chain

Cinema 2.0 releases

The Hindi film industry has big releases like 'Sooryavanshi', '83', 'Radhe' and 'Coolie No. 1' in the pipeline, which are either completed or nearing completion; these movies will be released once cinema halls reopen. Many movies which are under production or partially completed will follow, thus due to time lag there may be extended period with no significant releases which may be occupied by smaller or regional films. On the Hollywood front, most big releases like 'Top Gun', 'No Time to Die', etc. have been postponed. Without doubt, there will be a lack of consumer confidence, whereby audiences will be reluctant to return. This coupled with the postponement of most big movies until they are sure of patrons returning, will mean low occupancy for the short term.

Also, the filmmakers and artists have used the lockdown period more efficiently in conceptualising and planning new projects which will be announced in future.

Film production's new normal

Under the new normal for film production, one may no longer see huge crew and cast as in the recent past but with only optimal cast and crew within the prescribed guidelines. The production studios will have to devise different modes and methods to shoot films at optimal budget within stipulated schedules, as under the current situation, production cost is expected to increase largely driven by safety, precaution and COVID-19 insurance for production crew. Production studios may green light projects which are visual effects driven or, going forward, filmmakers may increasingly use technology for location, crowds which may be economical and safer in the current scenario.

Rise of OTT in COVID-19 times

Direct-to-OTT releases

With the multi-fold increase in viewership base since lockdown, streaming platforms are taking precedence over other modes of entertainment. OTT platforms are lapping up films from production studios and offering direct digital release on their platforms.

The industry has witnessed a paradigm shift from the erstwhile approach that involves an eight-week wait period between a film's theatrical and digital release.



OTT Platform	Movies	TV Shows	Direct to Digital Releases(Illustrative) ^{22,23,24,25,26,27,28,29,30}
Amazon Prime Video	3000	480	7 Indian Films , including 5 Regional language Films
Zee5	3147	1153	15 films
Netflix	798	112	<i>Choked, Mrs Serial Killer, Maska, What are the odds?, Ludo, Gunjan Saxena</i> , all T-Series movies including <i>Indoo ki Jawani</i> and <i>Chhalaang</i>
Disney+ Hotstar	1900	370	7 movies including <i>Laxmmi Bomb, Bhuj: The Pride of India, Dil Bechhra, Sadak 2 , The Big Bull, Khuda Hafiz</i> and <i>Lootcase</i>

22. Filmmakers Eye OTT Platforms For Release, Give Theatres A Miss, Inc42, 11 May 2020
 23. The Best Hindi Movies on Amazon Prime Video in India [April 2020], NDTV, 07 April 2020
 24. The Best Series on Amazon Prime Video in India [June 2020], NDTV, 15 June 2020
 25. Netflix is losing to homegrown OTT players in India — as the country remains addicted to soaps and movies, Business Insider, 13 February 2020
 26. OTTs win over multiplexes in lockdown as Amazon Prime Video sets off 'direct-to-digital' in India, Your Story, May 2020

27. Filmmakers Eye OTT Platforms For Release, Give Theatres A Miss, Inc42, 11 May 2020
 28. The Best Series on Disney+ Hotstar [June 2020], NDTV, 17 June 2020
 29. The Best Movies on Disney+ Hotstar [May 2020], NDTV, 19 May 2020
 30. Disney+ Hotstar Multiplex to release 7 Bollywood movies directly on its platform between July and October, Business Insider, 29 June 2020



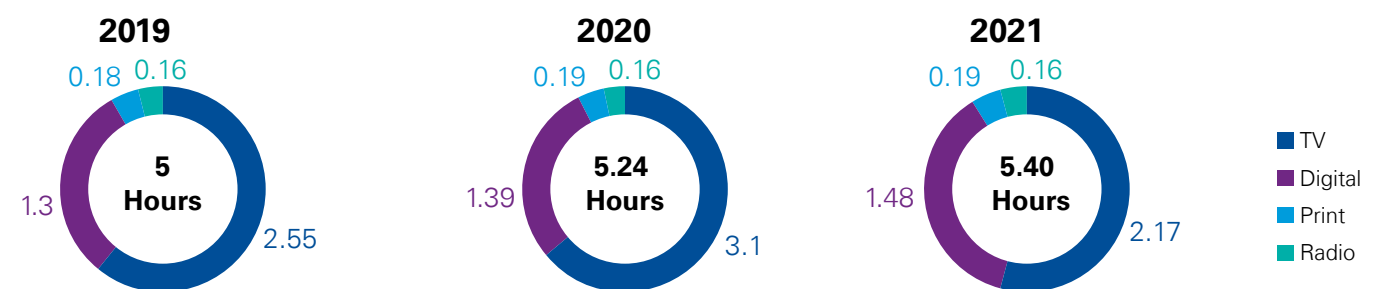
The pandemic and the subsequent lock-down has thrown up some emerging trends:

- Platforms such as Amazon Prime Video and Netflix witnessed more than 60 per cent growth in subscriber base in April 2020.³¹
- TV sales saw a surge in sales during the lockdown with a 35-50 per cent growth in May 2020.³²
- Cable and direct-to-home (DTH) operators across India have witnessed a 15 per cent³³ drop in subscriptions

due to closure of commercial establishments such as hotels, reverse migration and financial stress among low-income groups

The trend of increased digital media consumption is expected to continue even in FY21 with a large percentage of the population working from home and limited sources of entertainment during the lockdown due to closure of theatres.

Average time spent daily on digital media to increase post COVID-19³⁴



Direct-to-OTT releases - its economics

In the current situation, with uncertainty around reopening cinemas halls, Direct-to-OTT release has provided production studios an option to monetise their inventory at a reasonable return on their investment.

Although with Direct-to-OTT release ROI is lower compared to a film which goes through an entire film life cycle from theatrical release to release on TV and OTT platforms. The bigger concern is with big-ticket films that have big budgets and stars.

Direct-to-OTT releases - its sustainability

Although many movies are having Direct-to-OTT, the mode is probably more suited for small to medium budget movies and not for big budget movies like *Sooryavanshi*, *83*, *Radhe* not only due to the entire viewing experience but also because the subscription rates for these platforms continue to be one of the lowest in the world³⁵ and that a subscription is shared by multiple people. Also, the potential for increase in subscription rates in the Indian market is limited.

Direct-to-OTT releases – global trends for Indian market to replicate

Industry players across the value chain are impacted due to COVID-19 pandemic; newer trends and business models are emerging which could change the tide for the film industry. Recently, in US, AMC — the world's biggest theater chain and NBC Universal, production studio, entered into an arrangement for release of the studio's movies on paid video on demand within three weeks of its theatrical release and the revenue earned shall be shared between AMC and NBC Universal.³⁶ The studio can continue to keep its movie at the multiplex beyond the stipulated period in addition to it being available on television, tablet, or phone.

The OTT platforms in India mostly use AVOD and SVOD subscription models; however, Transactional VOD (TVOD) is a business model which is picking up globally for example Hollywood film '*Mulan*' released through the TVoD route, a trend which is expected to pick up in Indian market also as theatrical window for Indian movies may reduce in short to medium term.

31. Amazon and Netflix witnessed more than 60% growth in subscriber base during lockdown: Velocity MR Study, Financial Express, 20 May 2020

32. Lockdown helps to revive TV market after two years; 2-3 times surge in demand for large screen, The Economic Times, 16 June 2020

33. How lockdown led to a significant drop in DTH and cable subscriptions, Best Media Info, 20 May 2020

34. India Time Spent with Media 2020, eMarketer, 12 May 2020

35. Industry discussion conducted by KPMG in India 2019-20

36. Universal & AMC Theatres Make Peace, Will Crunch Theatrical Window To 17 Days With Option For PVOD After, Deadline.com, 28 July 2020 accessed on 5 September 2020

The script ahead - Indian cinema 2.0

Segments (in INR billion)	FY20	FY21P	FY22P	CAGR % FY20 – FY22P
Theatrical revenue				
India	122.1	27.4	115.4	-2.8%
Overseas	16.7	2.5	17.5	2.5%
Other streams				
Cable and satellite rights	19.2	9.6	18.8	-1.0%
Music rights	3.9	1.5	3.5	-5.1%
Digital rights	10.9	16.3	17.9	28.5%
In-cinema advertising	10.6	3.7	9.0	-7.8%
Total	183.3	61.1	182.2	-0.3%

Source: KPMG in India's analysis, 2019-20

The Indian box office performance in FY21 and onwards, would hinge on reopening of cinema halls which is expected in second half of FY21 with seating restrictions; the recovery will be gradual and may take at least three to four quarters before occupancy normalizes. In line with box office collections, in-cinema advertising, C & S and music rights will see slow recovery over next two years.

Digital rights in FY21 will see huge surge due to plethora of digital film releases and this trend will continue till cinema halls reopen. Further, with an increase in OTT platforms, subscriber counts and direct-to-OTT films, the segment will continue to grow in double digits.

While the ambiguity over the future remains, the industry will have to reinvent itself through innovations to business models, production methods and leverage on its digital capabilities to build in greater resilience.



OOH

Segment size (in INR billion)	FY 16	FY 17	FY 18	FY 19	FY 20	FY20 decline over FY19	CAGR (FY 16-20)
India	25.5	28.6	32.0	33.6	31.1	-10%	7%

Source: KPMG in India's analysis, 2019-20

Complete standstill of operations from mid-March 2020 resulted in advertisers revoking contracts and in reduction of overall spends.

Expected favorable impact on account of elections and cricket world cup in H1FY20 did not materialize due to lesser spending by advertisers. However, H1FY20 performance was largely in line with H1FY19 primarily led by Entertainment (OTT), FMCG and Real estate sectors.

The revenue contribution from airport segment continues to be highest at 27 per cent in 2020, followed by other transit media like trains, buses, etc.(13 per cent) and 5 per cent from mall media. The balance 55 per cent was contributed by other traditional outdoor media like buildings, hubs, etc. and street furniture, including roadside hoardings, billboards, bus stop hoardings, etc.

The OOH industry has witnessed 7 per cent Compounded Annual Growth Rate (CAGR) over the last five years, growing from INR 25.5 billion in FY16 to INR 31.1 billion in FY20.

FY20, however, witnessed a decline in OOH revenues, primarily due to a slowdown of the Indian economy in H2FY20 and the impact of the lockdown imposed in March.



Restrictions on commuting and social gathering affecting the OOH segment

The OOH segment is expected to decelerate in FY21 with events getting cancelled and corporates pulling back their ad spends amidst the lockdown. As a result, the events industry is estimated to have suffered INR 30 billion³⁷ losses in the first two months of lockdown which is expected to continue due to restrictions on movement imposed post the lockdowns.³⁸ Most consumers have shown preference to remain indoors for their health, safety and avoiding non-essential travels. This, coupled with closures

of recreational facilities such as shopping malls, multiplexes and public parks has diverted the interest of consumers towards in-home entertainment.

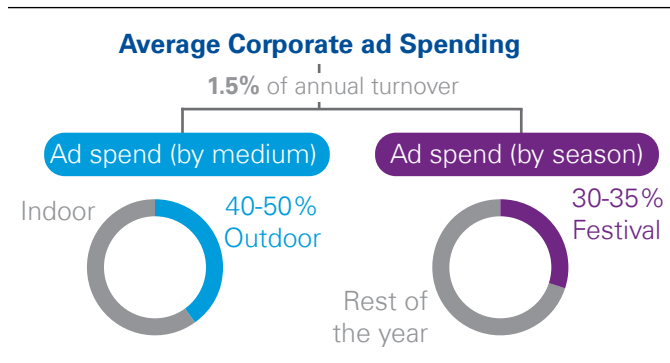
Many hoarding sites around the country have found no takers and are blank, leading to revenues losses. Few are being used to raise awareness regarding COVID-19.³⁹ Product launches, brand promotions, conferences, exhibitions, government programmes and entertainment events have been either cancelled or postponed.

37. Loss To Event Sector In India Pegged At Rs 5,000 Cr With No Respite In Sight, Business World, 13 April 2020

38. Live events industry sustains near Rs. 3,000 crore losses, The Economic Times, 19 March 2020

39. 1,200 hoardings in Mumbai to display coronavirus info, Times of India, 16 March 2020

Corporates slashing their ad budgets to affect events⁴⁰






COVID-19 has also cast a cloud over the upcoming festive season, which includes *Dandiya* in Gujarat, *Durga Pooja* in West Bengal, Diwali and New Year celebrations. Restrictions around social gatherings, sustained work-from home for large corporates and the grim public sentiment are all expected to be having an adverse impact on the advertising revenue for the OOH sector.

Social distancing norms compelling innovations in delivery models

With outdoor events expected to be subdued in the near term, OOH players are exploring online or virtual live events to reach consumers. Events such as concerts and stand-up comedy shows are being held online. However, there is still a lack of clarity in terms of monetisation, revenue sharing, and digital infrastructure.



Monetisation of online events is still a challenge

	Physical Events	Online Events
Event admission/entry 	<ul style="list-style-type: none"> Organizers can control the number of people entering the gates. Revenue earned is in proportion to the number of tickets sold. 	<ul style="list-style-type: none"> Restrictions can be placed on number of screens admissible. However, it may not be possible to limit the number of people joining in as one screen can be shared by multiple people.
Revenue Sources 	<ul style="list-style-type: none"> Typically, Brand Placements, stalls, and hoardings account for a sizeable chunk of revenues. 	<ul style="list-style-type: none"> Online events will have to forego revenue earned from physical stalls. This revenue loss can be offset by brand placement in event script and expense in background decoration. Sponsors can also send push notifications, live product demos and chats through mobile event app.
Consumer Interest 	<ul style="list-style-type: none"> The main attraction of attending a physical event is to meet like - minded people and the vibe of the place. 	<ul style="list-style-type: none"> May or may not get replicated with viewers joining from remote places.

40. OOH industry expects 40% of annual revenue from festive season, Best Media Info, 18 September 2018

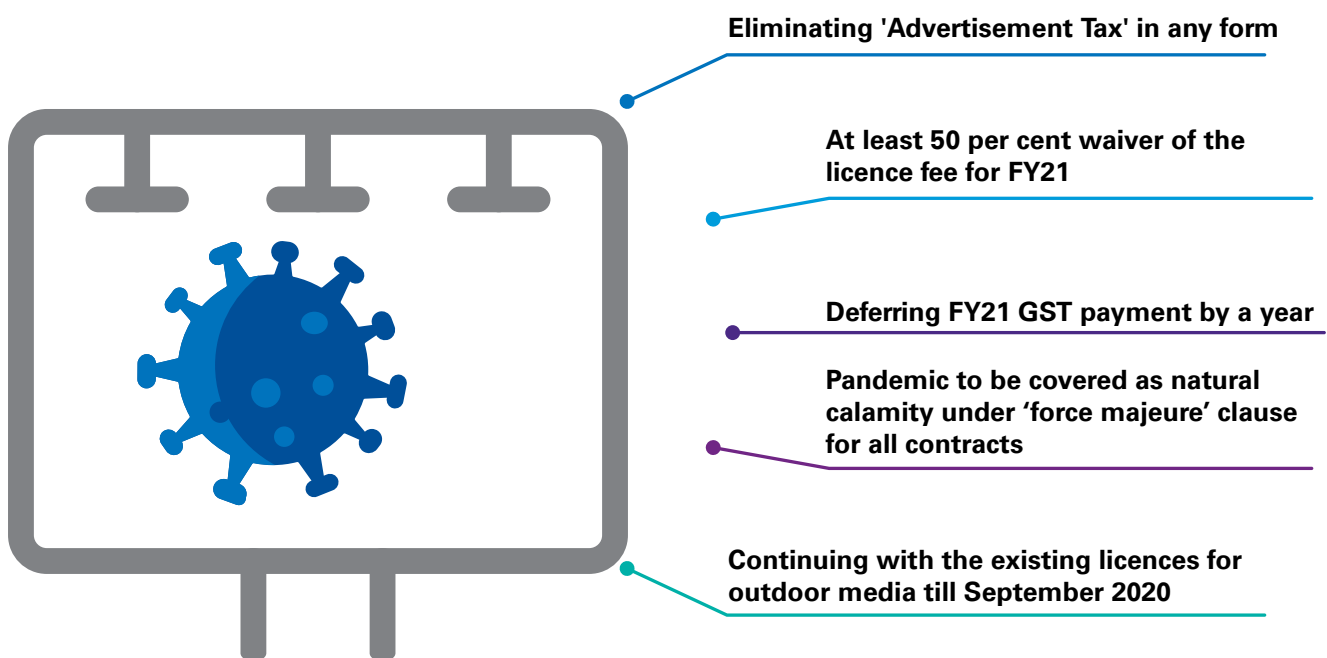


OOH industry stakeholders have appealed for financial relief

In Mumbai, one of the worst pandemic-hit cities in the country,⁴¹ a Bombay high court adjudication has already directed the municipal corporation to waive licence fee on hoardings for March to May 2020.⁴² The directive also discourages any action against media owners for not paying licence fees during the lockdown.⁴³

The Municipal Corporation of Greater Mumbai has also agreed to pay the printing charges worth INR seven to eight million for 1,250 hoardings in the city that were used to display awareness campaigns on COVID-19.⁴⁴ Other cities may consider adopting similar measures to ease the financial burden on OOH players.

Measures to minimise the COVID-19 impact on OOH segment⁴⁵



OOH recovery depends on pandemic recovery and return to normalcy

Segment Size (in INR billion)	FY 20	FY 21 P	FY 22 P	CAGR (FY 20-22)
India	31.1	16.0	28.3	-4.6%

Source: KPMG in India's analysis, 2019-20

OOH in India has emerged as one of the worst COVID-19 affected industries. On account of the lockdown imposed due to COVID-19 in Q1FY21, and closure of malls, cinemas, transport means, etc., the first half of FY21 was a complete washout in terms of OOH spends. This is expected to be followed by marginal recovery in the second half of FY21 as the lockdown eases and normalcy is assumed in operations by the companies along with festive season kicking in and the Indian Premier League. Therefore, OOH revenue in FY21P is projected to add up to only about 50 per cent of FY20 revenue.

OOH industry is expected to stabilize close to pre-pandemic levels in FY22. Further, many brands which had postponed their campaigns on account of -19 are expected to run them in FY22, which will support the recovery. Growth of OOH post FY20 is also expected to be supported by entry of new clients from Health, Education, Technology and Used Automobile sectors.

41. 10 cities account for half of India's active Covid-19 infections, Hindustan Times, 17 July 2020

42. 1-month fee relief for Mumbai hoarding owners, Media4Growth, 08 April 2020

43. Relief for Mumbai OOH as HC issues interim order on license fee for May, Media4Growth, 26 May 2020

44. 1-month fee relief for Mumbai hoarding owners, Media4Growth, 08 April 2020

45. Severely impacted by Covid-19, OOH industry appeal for financial relief, The Economic Times, 28 April 2020

Road to recovery: Slow but steady

The consumers will take some time to embrace outdoor consumption models again, especially in areas worst hit by the outbreak. A lot will depend on when the vaccine for COVID-19 is made available.

Cinemas are expected to open in the second half of the year with limited capacity; normalcy may return only by quarter one of FY21. In the long-term, there could be an increased number of films having a direct-to-OTT release or the TVOD model may emerge stronger, especially for the small to medium-budget films.

The other segments of the OOH sector may see some tail winds due to the increased competition in the Indian e-commerce space with Jio attracting large strategic investments from global tech giants like Facebook and Google to take on Amazon and Walmart in India. The Automobile sector, real estate, retail are all expected to be growth drivers paving the way for recovery.

The pandemic could also pave the way for innovation, technological advancements and outreach solutions, wherein consumers turn to virtual live events and new delivery models to stay connected. Building innovative experiences in 'out of home' could be a key to combat increased competition and mindshare from 'in-home' entertainment options.



Industry perspectives

Cinemas are working on new measures to ensure customers safety once theaters reopens. The early trends from other countries that have already reopened cinemas, are extremely encouraging. We believe our market will behave in a similar fashion, audiences will come back to cinemas as soon as new films start releasing. Occupancy, average ticket price, F&B spends and advertisement revenues are expected to normalize rather quickly. In our opinion, direct to streaming releases should be seen as aberration, it may not be sustainable in a long run, especially for mid-size and big budget movies. That said, we do see more movies being produced to meet the increased demand from streaming platforms.



Kamal Gianchandani
CEO,
PVR Pictures

The film exhibition sector will be amongst the last to open up under the post pandemic unlock process. In the meanwhile some films have skipped the theatrical window and gone ahead with a direct to digital release, the bigger projects have maintained a hold on their release and are awaiting clarity on how the audience respond when the theatres are ready to receive them again. As far as new productions go, producers are not making haste in making new films announcements, even though certain films have recommenced shoot, the content supply chain will bear out the impact of higher production costs and fewer projects in the next few quarters. The film studios are reworking their content strategy with an increased focus on content suitable for digital delivery.



Shibasish Sarkar
Group CEO (Content, Digital &
Games), Reliance Entertainment

The movie industry across India has been severely impacted due to the COVID-19 pandemic but when cinemas are able to reopen safely, it's clear that audiences will return as the cinema experience simply cannot be matched at home. New Hollywood movies will likely release quite soon after cinemas in tier I and tier II markets reopen. This should be followed by regional language movies in their respective markets and finally Hindi movies across the country, with a fairly fast and robust recovery.



Senthil Kumar,
Co-founder,
Qube Cinema Technologies

The Indian film industry has been hit significantly by CoVid-19 pandemic on multiple fronts right from production to consumption. However, the supply-side content value chain and demand side ecosystem has moved swiftly from big screen and adapted to digital platforms thereafter. In the current scenario, while the production cost is expected go up driven by new safety norms and insurance costs; most of the studios are swiftly adopting newer technologies and processes to produce compelling content in the new normal.



Pradeep Dwivedi,
Chief Executive Officer,
Eros India

COVID-19 has severely impacted the entire Cinema value chain in an unprecedented way. Cinemas have remained temporarily shut since March 2020 and the losses faced by the Industry are huge. However, globally cinemas have reopened in many countries and the response has been good. The latest Christopher Nolan's movie 'Tenet' which has released in cinemas, internationally, has exceeded expectations. Similar response is expected to pan-out in India as well once Cinemas re-open. While movie shootings have restarted, the movie content pipeline is currently limited since production was on hold for an extended period. The full recovery of the film industry will be gradual till the content pipeline is replenished and the audiences start feeling safe going to cinemas. Thus, we are confident that the situation will come back to pre-COVID-19 times but it may take some time.

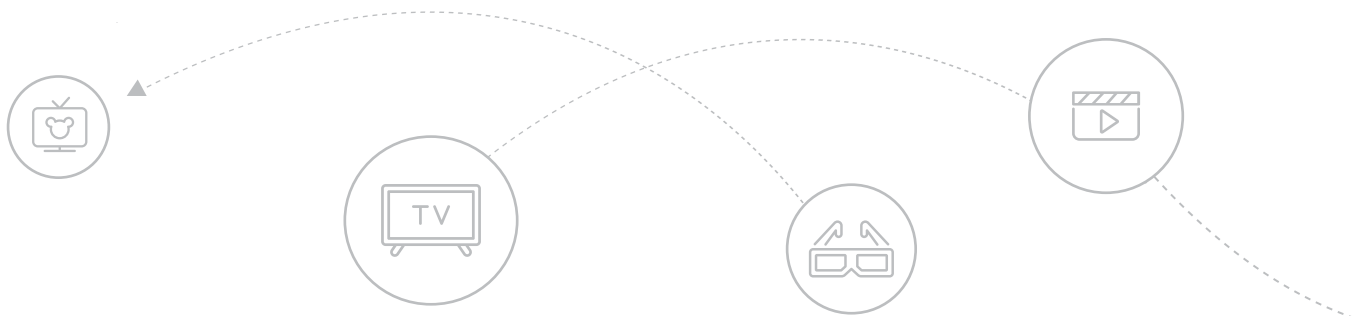


Kapil Agarwal,
Joint Managing Director,
UFO Moviez

Theatrical business, a 42 billion dollar industry globally, represents nearly 2/3rd of all revenue streams for film pre Covid. Theatrical experience remains the most premium consumer experience as also reflected in ATP per capita in any market for a piece of content. As theaters reopen & pandemic fades, theatrical consumption will recover over a period of time. However, the near term absence of this window will result in attempts at evolving business models like TVOD. SVOD will see a ramp up with all available content including regional. In the south market with strong fandom recovery could be comparatively faster when situation improves. Meanwhile if the film industry can attend to supply side constraints it can clearly make a play with OTTs at new business models that will combine TVOD & SVOD.



Ajit Andhare,
COO,
Viacom18 Studios



5

Online gaming

Coming of age





Online gaming

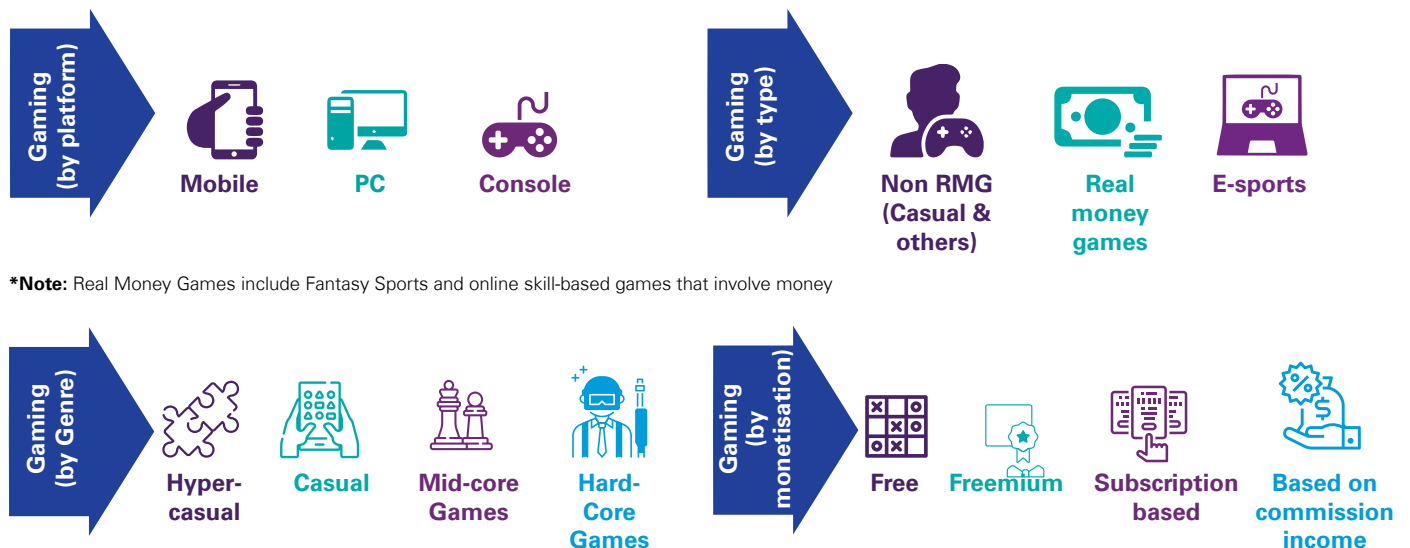
Coming of age

The online gaming segment in India continued to be driven by a rapid growth in mobile gaming users and an acceleration of the same on account of COVID-19, and a deeper integration of payment options which partly helped the subscription part of monetisation. While casual games continued to attract majority of the online gamers, mid-core to hard-core games with multi-player setups witnessed a surge in uptake in FY20.

Online Fantasy Sports (OFS) also witnessed strong growth during the year on the back of marquee cricket

events such as IPL, ICC World cup. While card games including rummy and poker remained popular in non-fantasy real money gaming, there has been significant traction in the adoption of other non-fantasy real money casual games including cricket, live trivia and quizzing apps. Increased adoption of multi-gaming platforms made it convenient for users to access a wide range of games on a single platform. The rise of professional gamers in India also provided a huge boost to the e-sports segment.

Classification of online gaming



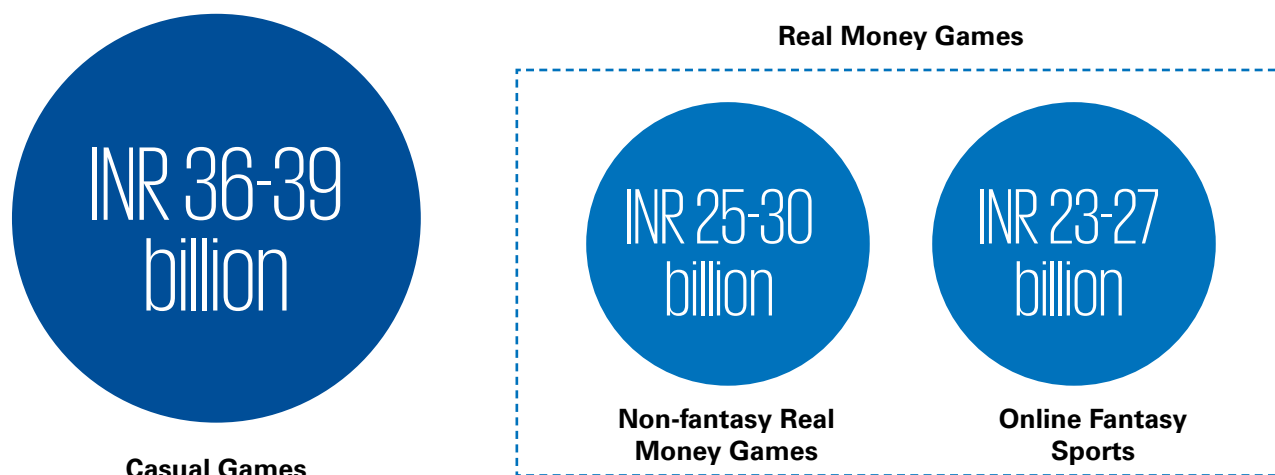
***Note:** Real Money Games include Fantasy Sports and online skill-based games that involve money

Historical estimates of online gaming market in India

In INR billion	FY16	FY17	FY18	FY19	FY20	FY20 growth	CAGR (FY16-20)
Segment size	27.6	32.4	43.8	62.0	89.9	45%	34.4%

Source: KPMG in India analysis, 2020, based on primary and secondary research

Estimates of the market size in FY20 based on the type of games



Source: KPMG in India analysis, 2020, based on primary and secondary research

Online gamers in India

In million	FY18	FY19	FY20	Growth (% , FY18-FY20)
Number of gamers	269	300	365	16.5%

Source: KPMG in India analysis, 2020, based on primary and secondary research

As of July 2020, the total online gamers have crossed nearly 400 million in India. As India is a mobile-first country, more than 90 per cent of the online gamers in India play mobile games.¹

Casual games are most popular genre in India as a majority tend to play casual games, owing to their 'Free to Play' nature. India is among top five mobile gaming markets by user base in the world. In 2019, around 5.6 bn mobile gaming apps were downloaded in India - the highest in the world and representing nearly 13 per cent of gaming apps in the world.

The lockdowns induced due to the COVID-19 pandemic further accelerated the uptake of online gaming as people had more time at hand with limited entertainment options at their disposal. As a result, the gaming industry witnessed a dramatic increase in active users and engagement levels during the lockdown.

Casual games such as Ludo King and non-fantasy sports real money casual games including card games, live trivia and quizzes witnessed the strong uptake during the lockdown as they attracted new users who were discovering newer gaming options. While OFS witnessed strong growth on the back of IPL in FY19, postponement of IPL and decline in live sporting events negatively impacted the platforms in the first quarter of FY20.

1. KPMG in India analysis, 2020, based on primary and secondary research



Key underlying trends and themes

Limited presence of game titles from Indian studios among top games in India

Among top 10 mobile games by downloads in India in CY19, only Ludo King by Gametion Technologies is from India whereas other nine games are from outside India.² Similarly, among top 10 mobile games by consumer spend in India in CY19, Teen Patti by Octro and Teen Patti Gold by Moonfrog Labs is from India while others are from outside India.³ This highlights the fact that Indian game development needs to further evolve to create global IPs that have the potential to attract gamers as well as potential monetisation.

Monetisation is evolving, slowly but surely

Based on our interactions with developers and publishers, popular online games like Ludo King, World Cricket Championship (WCC), have witnessed an uptick in monetisation across all streams of revenue.⁴ Monetisation by advertisements and in-app purchase varies across genres of casual games.

While arcade and word-based games earn 80-85 per cent of overall revenue from advertisements, actions games like PlayerUnknown's Battleground (PUBG) earn nearly 60-65 per cent of revenue from in-app purchases.⁵ While advertisements continued to have a higher contribution in revenue, particularly for the casual gaming category, there were green shoots indicative of increase in consumer spends on online gaming.

Some of the Ad formats that are gaining traction include:

- Playable ads allow a user to play a demo version of the game which is followed by a call to action for downloading the game
- Rewarded videos are popular among gamers with nearly 82 per cent of mobile gamers in APAC preferring this method⁶ as it allows the user to control when and whether they want to watch the ad
- Brand placements in games, though relatively new and expensive, is also being experimented. Chupa Chups has advertised across popular games like Angry Birds and Amiga Zool in this format.⁷
- Other trending ad formats include interstitial ads and native banners.

PUBG: the game that changed India's habits

The Battle Royale multi-player game PUBG Mobile was launched in India by Tencent in March 2018. Tencent undertook a series of marketing activities including a first ever TV commercial for a mobile game shown across different Hindi and English channels, multiple tournaments at college, city and national level, influencer marketing, etc. to increase the virality of the game and ensure widespread adoption of game. The adoption was further enhanced by providing social elements such as voice chats as well as conducting tournaments in local languages.

As a result, the game was able to achieve a monthly active user (MAU) base of 23-30 million with nearly 13 million daily active users (DAUs) in the second half of 2019, a year after launching the game in India. In a country that is known to be unwilling to pay for games, PUBG has been able to achieve monthly revenues of USD7-8 million every month between May and August 2019 by selling virtual items to Indian consumers.⁸ While India revenues for PUBG look pale in comparison to global revenues, the game has been able to get Indians to pay – a shift in behavior which is considered to be a major positive for the Indian gaming industry. In addition, the game has generated a significant user base for mid-core games in the Indian market in a short time frame. The success of PUBG has made the gaming ecosystem realize that India is ripe for monetisation.

The government of India, in September 2020,⁹ banned the mobile version of PUBG citing a threat to national security. While there are alternatives available in the same genre, it remains to be seen whether they can replicate the popularity of PUBG, as also the In-app purchases (IAP) monetisation potential that the game had been able to unlock.



2. State of Mobile 2020 – Top App & Company rankings (Combined iOS and Google Play), App Annie, 2020, accessed on August 10, 2020

3. State of Mobile 2020 – Top App & Company rankings (Combined iOS and Google Play), App Annie, 2020, accessed on August 10, 2020

4. KPMG in India analysis, 2020, based on primary and secondary research

5. India Online Gaming: Seeing paradigm shift- Offers massive playing arena, BofA Global Research, 06 July 2020, accessed on August 10, 2020

6. Mobile Marketing Ecosystem Report 2020, India, 2020, accessed on August 12, 2020

7. Mobile Game Ads in 2020: From Rewarded to Advergaming, Smartyads, October 2019, accessed on August 12, 2020

8. Tencent's PUBG Mobile makes over \$7 Mn a month in India. Can it sustain?, Entracker, August 17, 2019, accessed on August 10, 2020

9. 118 Chinese apps banned in India including PUBG Mobile, September 2020, accessed on September 4, 2020

The needle has started to move on consumer spends in online gaming in FY20 (and beyond, given the acceleration due to COVID-19). This growth in consumer spending is driven by the following factors:

- The integration of UPI on Google Play in FY20 along with an increase in penetration of digital payment instruments has reduced the friction for purchase
- Improvement in game economies and introduction of sachet pricing to cater to a wider Indian audience
- Gaming gaining greater acceptance as a means of entertainment and greater willingness to pay for a better gaming experience.

Non-Fantasy Real Money Games (RMG) continue to flourish

Non-fantasy real money games continued to grow over FY20 and beyond; and witnessed the addition of newer formats. Card-based games i.e. Teen Patti, Rummy and Poker continue to lead the segment due to their social connect and loyal user base. Among card-based real money games, Rummy commands largest share followed by Poker.¹⁰ Real money based casual games have started to gain traction with Nazara's WCC Rivals Cash Tournaments (WCC game in real money format) and multiple quizzing platforms like Baazi Now and Zupree venturing into this space.

Major real money game platforms (other than fantasy sports)

Platform	Registered user base
Paytm First Games	45 million+ (as on December 2019) ¹¹
MPL	40 million+ (as on March 2020) ¹²
Rummy Circle	40 million+ (as on July 2020) ¹³
Junglee Games	30 million+ (as on January 2020) ¹⁴
A23 (formerly Ace2Three)	16 million+ (as on August 2020) ¹⁵
Adda52.com	2 million+ (as on April 2020) ¹⁶

RMG offers users a platform to play, where gamers can find like-minded people. The business models revolve around 'Free to Play' and 'Pay to Play'. Platforms are encouraging users through promotional cash in their wallets, with a natural evolution of a user from a free to a paid user, over a period of time.

The platform charges a commission on the total money pooled in for the game and remaining amount is distributed as the prize money. For instance, some of the leading rummy platforms charge 8-10 per cent of pool money as commission whereas, in online poker games, the platforms charge a 4-5 per cent commission,¹⁷ owing to the faster turnarounds seen in poker games. Consumer spends form majority of the revenues for

real money card game operators,¹⁸ with advertisement revenues accounting for a very small portion of the total revenues.

The demographics vary widely across non-fantasy RMG vs. fantasy RMG. The same is a key determinant of the channels and strategies that platforms utilize to target the above audience sets.

The average age of user playing online rummy is between 30-45 years whereas that of user playing Poker is 18-25 years.¹⁹



10. KPMG in India analysis, 2020, based on industry discussions

11. Year in Review, Paytm First Games Gamestats 2019, accessed on August 12, 2020

12. The New Playtime: The Secret To MPLs Massive Mobile Success, Forbes, 9 April 2020, accessed on August 12, 2020

13. Rummycircle.com, accessed on 25 August 2020

14. Junglee Games CEO Ankush Gera reveals how he took his startup into the 'bootstrapped unicorn' club, YourStory, 22 January 2020, accessed on August 12, 2020

15. Ace2three' transforms the online rummy experience with a brand new identity as 'A23', PR Newswire, 25 August 2020, accessed on August 28, 2020

16. Adda52 witnesses growth of 12% in Daily Active Users amid Lockdown, BW Disrupt, 1 April 2020, accessed on August 12, 2020

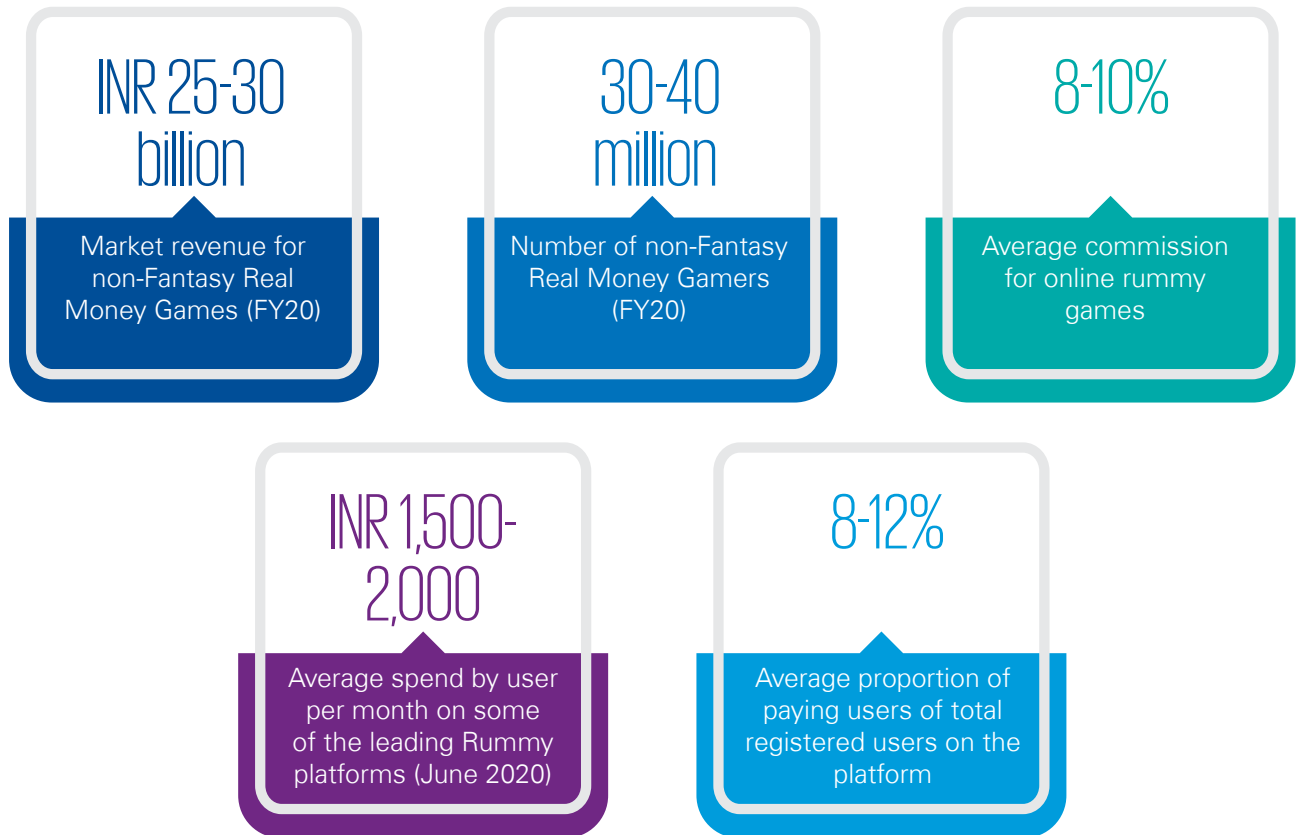
17. KPMG in India analysis, 2020, based on industry discussions

18. KPMG in India analysis, 2020, based on industry discussions

19. KPMG in India analysis, 2020, based on industry discussions



Key statistics around non fantasy RMG²⁰



Multigaming platforms like MPL and WinZO offer real money games apart from casual games. Within real money games, apart from popular card games and fantasy sports, platforms are also adding the element of real money gaming to mid-core games increasingly. In order to cash in on the popularity of PUBG, WinZO introduced free-to-enter online PUBG mobile tournaments on its platform in ten regional languages where users can win prize money of up to INR10 million in March 2020.²¹

MPL, in the recent months, has added titles like Free Fire and Rogue Heist where users can face off against other for real money prizes.²² It has also added the real money game WCC Rivals to its offerings in February 2020.²³ These offerings have expanded the target audience for the real money games by attracting a different set of users. We also understand from our industry interactions, that both fantasy and non-fantasy RMG are a bigger draw at these multi-gaming platforms, as compared to the casual games. A significant portion of the engagement and a majority of the revenues on such platforms, are attributable to RMG.

20. KPMG in India analysis, 2020, based on industry discussions

21. WinZO bring PUBG MOBILE online tournaments in 10 regional languages for Indian gamers, MobilityIndia, March 20, 2020, accessed on August 12, 2020

22. MPL launches India's first indigenous shooter game, Rogue Heist, LiveMint, May 20, 2020, accessed on August 12, 2020

23. MPL adds WCC rivals to its cricket game collection ahead of IPL 2020, United News of India, February 29, 2020, accessed on August 12, 2020



Skill Gaming in India: The Coming of Age Story



Bhavin Pandya

*Co-Founder & CEO,
Games24x7*

Online Gaming in India has come a long way from being a privilege of the select few with access to the internet at their workplaces and the affluent with home internet connection in the early 2000s, to a mass phenomenon

driven by the growth of technology infrastructure. Seven numbers tell the real story of the rise and rise of online gaming in India.

450+ million
smartphones

650+ million
mobile broadband
subscribers

17x growth in
data usage in the
last five years

**Lowest (\$0.09
per GB)** data cost
globally

89% of the
total gaming
revenue comes
from mobile
games

At **5 billion+**
India has the
highest games
download
globally

~USD700mn
revenues
generated by
Real Money Skill
Gaming in India
(2019)²⁴

The pursuit of entertainment drives gaming growth

What started as a digital delight of the elites soon became embedded in the daily entertainment routine of 365+ million Indians. The base of Indian gamers is now democratized to become the third largest in the world and growing at a strong CAGR of 30%+. Today, 90% of the total gaming revenue comes from players older than 25 years²⁵ While 50% of India's 1.3bn population are under 25 years,²⁶ 60% of India's gamers are under 25 years old.²⁷

With this significant demographic tailwind, skill gaming is poised for robust growth. The online gaming industry is estimated to achieve revenues of USD ~2 billion by FY22, with more than 55 per cent contribution coming from skill-based games. These skill-based games like fantasy sports, Rummy, and Chess require training, attention and intelligence of players.

24. Games24x7 management estimates

25. Games24x7 management estimates

26. United Nations Statistics Division – Demographic and Social Statistics (2018).

27. Statista – November 2019

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

Back in the day, hyper-casual games with the very basic game design were in vogue, and gaming companies were monetising through in-app advertising. But after a point, there was no real engagement because the same games were being played again and again. To keep that business model going, one had to keep producing newer content and then live in the hope that more and more users would play on their platform and click on these ads.

Over time, a few companies realised that the only way to capitalise on the increasing popularity of the skill gaming industry was to provide gaming as a service – by charging a nominal fee for providing them immersive and engaging entertainment experiences on the gaming platform. The evergreen nostalgia of skill games extends the category beyond mere transactions and lead to a highly loyal and deeply engaged user base resulting in superior monetisation potential. Due to the multiplayer nature of evergreen games like Rummy, the network effect compounds over a period of time leading to repeat usage and customer stickiness.

Shaping the Future of Gaming in India

As an early entrant in India's booming real money skill gaming segment, Games24x7's steadfast focus on building hyper-personalised experiences is the single biggest reason for the company's leadership position in the gaming industry in India. We have focussed on using data science and analytics to understand user needs and then using technology and artificial intelligence to deliver well-rounded awesome gameplay experiences to each player across all our gaming platforms. Our skill game platforms RummyCircle is the market leader in the skill gaming industry in India, and My11Circle (a fantasy sports app) is one of India's top 3 fantasy sports platforms in India (among 140+ fantasy sports platforms). We will also start offering board games like carrom soon.

Our experience at Games24x7 revealed that we had to increase the lifetime value and revenue per user to be able to build a sustainable business model. For us, the delivery of a hyper-personalised game playing experience was critical for success. We are constantly endeavouring to understand player behaviour. In today's day and age, consumers communicate with you

through their taps and their clicks on your product. At Games24x7, we use that clickstream and other data that is being generated by our players, very diligently in our ideate, create, experiment, analyse cycle – the entire process of creation.

We have made relevant technology choices that can enable us to scale horizontally. Our machine learning-driven hyper-personalisation tools have fueled our healthy growth. In terms of advanced technologies, we have invested in homegrown platforms and off-the-shelf platforms that have helped us transition from a data-first to a model first company. For instance, a homegrown marketing automation tool allows us to handle a much larger player base, run experimental personalised campaigns, serve bonuses, and promotions in an automated manner.

Gamified Life

We believe that skill gaming will become highly competitive with an increasing number of companies aspiring to gain share of customer engagement and wallet. For instance, over the last few years, online fantasy sports has seen significant growth to touch ~100 million players generating annual revenue worth USD 320-340 million,²⁸ with companies diversifying beyond cricket to offer sports like soccer, kabaddi, basketball, among others. The E-sports market too is a promising opportunity as it is estimated to touch 20 million players by 2021.

Most of the excitement in India is around skill games that are played for money. While many casual games are being downloaded from the various online stores, their ability to monetise in India is still limited, as the In-App purchases only account for a small proportion of the total monetisation of casual games.

For now, skill gaming with games like rummy, fantasy sports, maybe even e-sports are coming of age and will continue to reign for the next few years. Companies that understand player behaviour, identify valuable trends and insights to form hypotheses, pre-empt what players want and cater to their needs in a personalised manner, will stand out. And that is why we at Games24x7 believe that gaming could be India's next success story on the global stage.

28. The business of fantasy sports, KPMG in India, July 2020

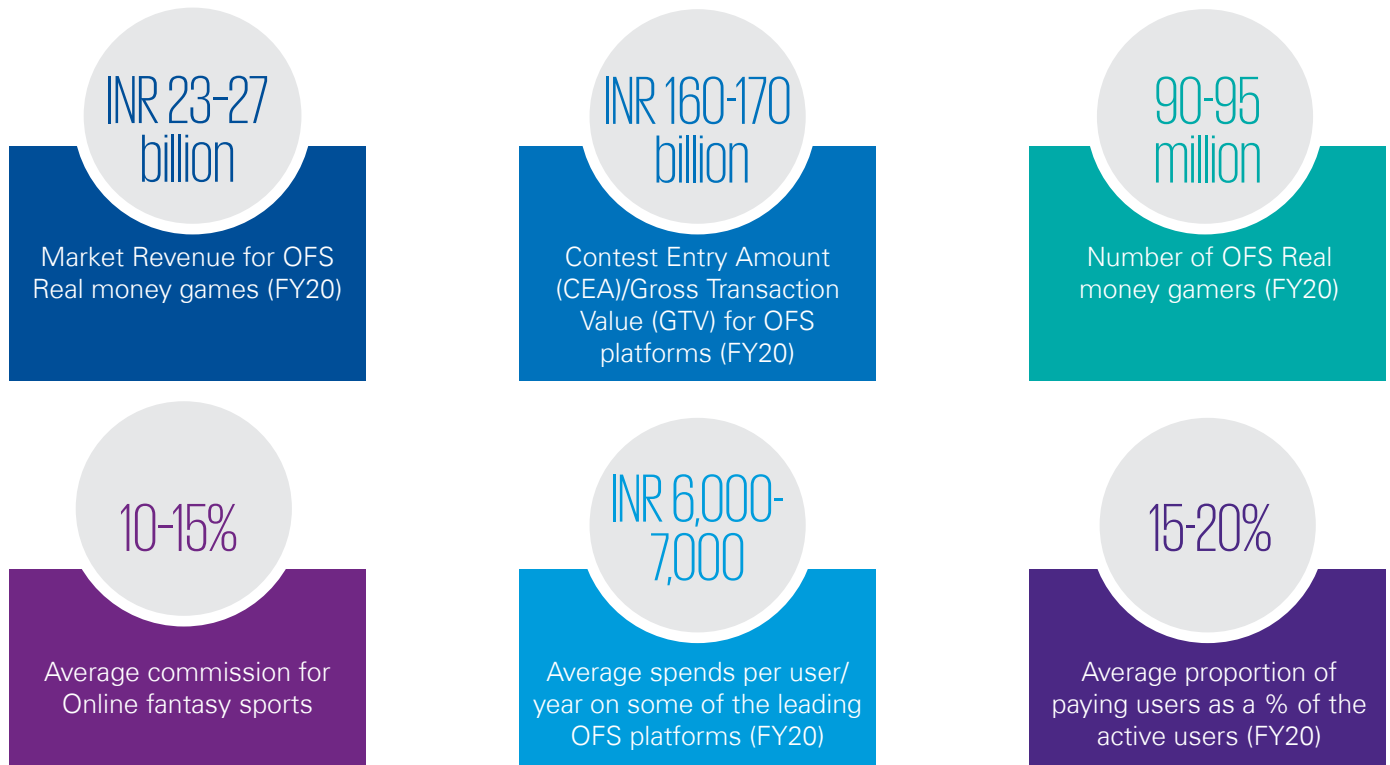


Online fantasy sports (OFS) – rapid adoption continues

Online fantasy sports is one of the most important sub-segments in online gaming in India, due to the high transacting user base, with the OFS contributing 25-28 per cent of the overall online gaming revenues in India in FY20.

The number of Fantasy Sports platforms in India was estimated to be 140+²⁹ in CY2019, however, the increase in competitive intensity and COVID-19 impact is likely to ensure that we see some form of consolidation in the near to medium term.

Key statistics around online fantasy sports RMG³⁰



The top players which include Dream11, MyTeam11, My11Circle, Halaplay and Mobile Premier League account for more than 90 per cent of the market, both in terms of users as well as the Contest Entry Amount (CEA).³¹

The growth in the OFS transacting base has resulted in an exponential growth of the Contest Entry Amount (CEA) for the industry. Cricket continued to dominate and constituted about 85 per cent share of the overall CEA for the sub-segment³² with the ICC Cricket World Cup 2019 (CWC 19) and IPL being the major contributing factors for this rapid growth in the CEA in FY20.

The rise of multi-gaming platforms

The gaming industry has started to witness an increase in multi-gaming platforms that try to cater to the diverse entertainment needs of gamers with a mix of casual, real money and fantasy sports games available on the same mobile app. While some of the games available

on multi-gaming platforms are developed by in-house teams, platforms also collaborate with other gaming studios and serve as a distribution channel for their popular games.

Mobile Premier League (MPL), for example, has on-boarded a popular cricket game called 'WCC Rivals' from Nextwave Multimedia. Such collaborations benefit both the parties and enables multi-gaming platforms to offer more games to their captive audience. In addition, these platforms allow users to compete for real cash in popular games like PUBG, Free Fire, etc. which otherwise are not available in a real money format.

Since multi-gaming platforms offer real money games too, they are unable to distribute games via the app stores and need to spend incrementally on marketing to create awareness for the product. MPL, Paytm First Games and WinZO are among the popular multi-gaming platforms operating in the country that have been able to achieve a significant user base.

29. The business of fantasy sports, KPMG in India, July 2020, accessed on August 12, 2020

30. KPMG in India analysis, 2020, based on primary and secondary research

31. KPMG in India analysis, 2020, based on industry discussions

32. The business of fantasy sports, KPMG in India, July 2020, accessed on August 12, 2020

Major Multi-gaming platforms:

Platform	Number of game titles	Registered user base
Paytm First Games	300+ (as on August 2020) ³³	45 million (as on December 2019) ³⁴
MPL	40+ (as on April 2020) ³⁵	40 million (as on March 2020) ³⁶
WinZO	70+ (as on April 2020) ³⁷	20 million (as on April 2020) ³⁸

Source: KPMG in India analysis, 2020, based on primary and secondary research

Paytm First Games has organized multiple free to play game and e-sports mobile tournaments on its platform. It organized a free to play Ludo tournament by name – ‘Ludo Lakhpati’ for five days between 1 May 2020 and 5 May 2020 with prize money of INR1 lakh every day.³⁹ The company has also been focusing on e-sports heavily, which we talk about in the next section.

Multi-gaming platforms rely heavily on data analytics to provide relevant gaming content to users and micro-target users for different games in order to ensure high retention levels. Casual games form a significant portion of offerings on these platforms and a newly acquired users tends to play free games on the platform. However, over the longer-term lifecycle of the users, the operators rely heavily on the real money gaming particularly, card games and fantasy sports segments to generate revenues.⁴⁰

E-sports – The rising star

The e-sports eco-system in India is fast evolving with traction being seen in sponsorships, media rights and advertisements of e-sports tournaments.⁴¹ Currently, e-sports tournaments in India mostly comprise of PUBG and online cricket game tournaments. This is, however, expected to change in times to come as more titles become popular.

E-sports has not only driven a significant increase in professional players for online gaming in India but also seen a surge in audiences with nearly 14 million e-sports viewers across different modes of access like TV, OTT and multi-gaming platforms as on 2019 in India.⁴²



Indian e-sports teams have gained prominence with their performance at the world stage^{43,44}

Orange Rock

Orange Rock, one of the top e-sports teams in India, finished second in the recently concluded global tournament ‘PUBG Mobile World League 2020 Season 0: East’

Celtz, the Indian PUBG Mobile team, who is the current PUGB Mobile Pro League (PMPL) South Asia champions have found an investor in Galaxy Racer e-sports, a UAE-based organisation

Team Celtz

33. Paytmfirstgames.com, accessed on 25 August 2020

34. Year in Review, Paytm First Games Gamestats 2019, accessed on 23 August 2020

35. What Is MPL? How To Download MPL App That Gives Cash For Playing Your Favourite Games?, RepublicWorld, 8 April 2020; accessed on 25 August 2020

36. The New Playtime: The Secret To MPLs Massive Mobile Success, Forbes, 9 April 2020, accessed on 25 August 2020

37. How focusing on Bharat helped gaming startup WinZO notch up 20M users in 1 year, YourStory, 23 April 2020, accessed on 25 August 2020

38. How focusing on Bharat helped gaming startup WinZO notch up 20M users in 1 year, YourStory, 23 April 2020, accessed on 25 August 2020

39. Paytm First Games announces free-to-play Ludo tournament with cash prize, Times of India, 30 April 2020 accessed on 22 August 2020

40. KPMG in India analysis, 2020, based on industry discussions

41. KPMG in India analysis, 2020, based on industry discussions

42. Newzoo Analytics, accessed on August 15, 2020

43. Orange Rock finishes second overall at PUBG Mobile World League 2020 Season 0: East, The Bridge, August 18, 2020, accessed on 25 August 2020

44. PUBG Mobile: Galaxy Racer Esports partners with Team Celtz, Sportskeeda, July 3, 2020, accessed on 25 August 2020

At the same time, India is witnessing interest from foreign e-sports teams who are looking to set-up shop here. Fnatic, a global e-sports team, has shown interest in setting up a facility in India and has announced a nation-wide talent hunt for a player that will receive a professional contract with the squad.⁴⁵

The supply and consumption of e-sports streaming has also started to see a rapid surge in India, in-line with the growing success of Indian teams at the world stage. Globally, YouTube collaborated with Activision Blizzard in January 2020, for exclusive streaming of its titles like Call of Duty and Overwatch.⁴⁶

To cater to this growing opportunity in India, Loco, a hyper-casual gaming and quizzing platform, added game streaming and e-sports broadcasting to its offerings in April-20.⁴⁷ To ensure adequate supply of streaming content, Loco has also entered into arrangements with Fnatic, a global e-sports team and Red Bull for its e-sports properties. Loco attracted 5.8 million viewers for the event 'Gaming For Good' organized in April-20⁴⁸ and has seen a six-fold increase in daily active users on the platform in a month recently.⁴⁹

Paytm First Games has also teamed-up with Esports Players League (ESPL) for hosting mobile e-sports

tournaments in India.⁵⁰ It also partnered with Riot Games for Teamfight Tactics mobile e-Sports tournament held between 17 June 2020 and 21 June 2020 wherein 512 Indian gamers competed for a prize pool of INR75,000.⁵¹

As consumption of e-sports content starts to witness a greater increase, there is expected to be a greater interest for the streaming and broadcast rights for e-sports tournaments. Multiple video streaming platforms like YouTube, Voot, Disney+ Hotstar, MX Player, Sony LIV, etc. have already started to add e-sports content to their offerings. For example, Nodwin and Sony LIV had partnered up to live stream the International 2019 DOTA 2 E-sports tournament⁵² and the ESL India Premiership Fall Season 2020 will be exclusively broadcast on Disney+ Hotstar.⁵³

E-sports in India, however, needs to contend with multiple challenges in terms of community building and infrastructure requirements. Since the e-sports gaming ecosystem in India is relatively under-developed, there is a dearth of big publishers in the country with Tencent being the only well-known publisher for most e-sports tournaments in India. In addition, there is a lack of gaming academies in the country that can help budding gamers develop their skills.⁵⁴



45. The top Indian esports business developments in June 2020, Esports Insider, July 3, 2020, accessed on 25 August 2020

46. YouTube signs exclusive streaming deal for Activision e-sports like Call of Duty and Overwatch, The Verge, January 24, 2020, accessed on 25 August 2020

47. Pocket Aces' Loco upgrades its product offerings – Introduces game streaming and esports broadcasting to its app, Media Brief, April 1, 2020, accessed on 25 August 2020

48. India's Own Twitch: Game Streaming Startup Loco Partners Global eSports Giant Fnatic, News18, June 17, 2020, accessed on 25 August 2020

49. Local gaming app Loco makes a pivot into fast growing e-sports. It must fight YouTube, ETPrime, August, 2020, accessed on 28 August 2020

50. Paytm First Games teams up with ESPL for mobile esports tournaments in India, VentureBeat, 14 April, 2020, accessed on 25 August 2020

51. Paytm First Games partners Riot Games for e-sports tournament, Times of India, 10 June 2020, accessed on 25 August 2020

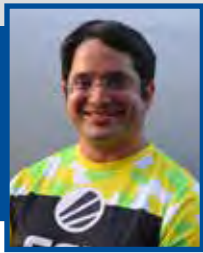
52. Nodwin, Sony LIV partner up to live stream the International 2019 DOTA 2 E-sports Tournament in India, FirstPost, 19 August 2019, accessed on 25 August 2020

53. ESL India Premiership is back with Fall Season 2020, BusinessWorld, 28 August 2020, accessed on 30 August 2020

54. KPMG in India analysis, 2020, based on primary and secondary research



Future of Esports in India Decoded



Akshat Rathee

*MD & Co-Founder,
NODWIN Gaming*

Esports in recent years has shown a rapid growth globally. The rapidly growing market touched the billion-dollar mark in 2020. The global esports market in 2020 made up to 973 million USD in total revenue and has garnered 450 million esports fans across the globe. When compared with the 2.2 billion active gamers of the world, esports has a huge room to fill. The industry had its global appeal since inception, because of which esports at the moment places itself above traditional sports like NHL and MLB, which have geographically contained audience. The 2014 League of Legends Finals was watched by 27 million unique viewers as compared to the 15.5 million viewers during Heats-Spurs Finale series. While world esports grows, many countries followed suit and started to grow alongside and even surpass big players in the industry. One such country is India.

India in the past couple of years, has emerged as the hotspot for mobile esports. Even though the market in India is in its nascent stage, the statistics go above and beyond many of its competing markets. With over 1.3 billion people, 50% of the population falls under the age group of 0-25 years, making it one of the youngest populations in the world. Indian gamers constitute up to 365 million across mobile, PC and console which is projected to reach 440 million by 2022. In the year 2019, India alone amounted 13% of the total game downloads worldwide with mobile games in the forefront.

Countries across the globe have varied preferences when it comes to esports and gaming. The US, for example, is a lover of console gaming where prominent game titles are Call of Duty and Fortnite. Europe, on

the other hand, is where PC gaming and esports are prevalent. CS:GO, LoL and Dota 2 comes in as the most preferred esports titles in the region. India at the same time conquered the spectrum of mobile esports with PUBG MOBILE. Two of the most important factors that played a role in making India the face of mobile esports are affordable internet connectivity and affordable smartphones coupled with the foundation laid by a tech-hungry young population. Cheaper internet and smartphones led to mobile gaming and later on got extended to mobile esports.

India had a gradually developing esports ecosystem dominated by PC gamers before the smartphone boom. Professional teams and players relied on a very small number of national tournaments and cafe challenges around the year. PUBGM comes along and paves way for a well-structured framework of esports with brand integrations, talent programmes, ladder system for tournaments and huge prize money. And along with PUBG MOBILE, several mobile titles like CODM and Free Fire garnered immense popularity among the Indian masses. In 2019 alone, Indians downloaded 5.6 billion mobile game applications to make it a world record.

When mobile gaming transitioned to mobile esports, the quintessential element of esports was tapped upon by NODWIN Gaming, which we call the "watching experience". Esports quickly rose to this mega spectator sport where you rush into arenas filled with thunder sticks and placard wielding fans, watching your favourite gamers play right in front of you and have a more tangible fan-idol experience.

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The incredibly high numbers also have to do with the lockdown situation where esports entertainment was the only available live sports action. For now, packed indoor stadiums and huge venues have become passé with players carrying forward the spirit of sportsmanship online. All Indian and international esports events have gone fully online. Thus, resulting in a spike in an online viewership like never before. Online viewership for tournaments like PMCO and PMPL this season crossed 100 million in total. The little getaway time of the lockdown allowed the youth of the country to try their hand in the professional circuit. The best example of participation would be the 1866% increase in registrations for the ESL India Premiership by NODWIN Gaming held in June 2020. This was the highest spike in the history of India's longest running esports tournament. The psychology around esports has rapidly shifted from "leisure activity" to "active entertainment source" and "career option". As social distancing and stay-at-home mandate got everyone bad, socializing online over games became a more convenient getaway to take out the lockdown blues, have fun and stay engaged.

And when there is content, there is always a media platform to distribute it. In addition to YouTube, other OTT and digital content platforms like Hotstar and Airtel Xstream maximised their esports content in the last five months for the millennial's shifting interest of entertainment form. While we talk about OTT services and catering to a target group, it has to be emphasized that esports in India lately has become all-inclusive. The growing interest from rural India with regions such as Tamil Nadu, Karnataka and the Hindi belt giving us some amazing gaming talent. The vast and diverse cultural, regional and geographical spread of India has helped in the creation of a range of unique and engaging gaming content for the audience from every part of the country. Regionalisation of content took esports beyond the big metro cities and resulted in the penetration of a much bigger audience base.

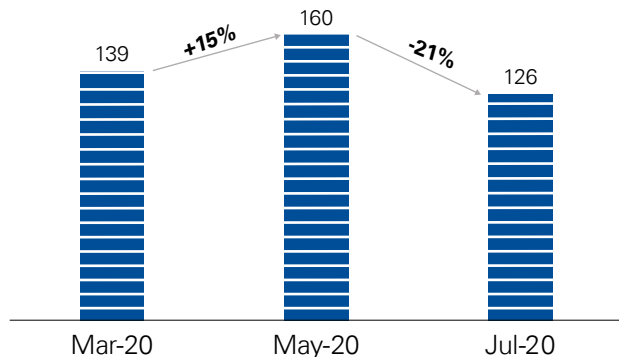
The odds are in favour to say that esports will be the future of entertainment in India actively spearheaded by the mobile division. This is primarily due to the uniqueness and competitiveness of this market and how the esports ecosystem is shaped to perfectly fit the social structure of a big diverse nation.



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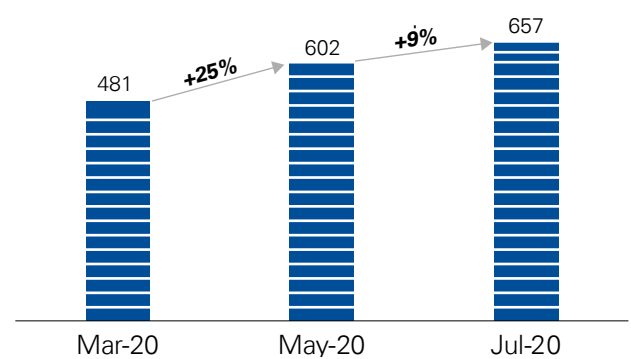
COVID-19 – Providing tailwinds to an already growing segment

Total downloads for top 100 games in India on Google Play (million)



Source: Newzoo Analytics accessed on 20 August 2020

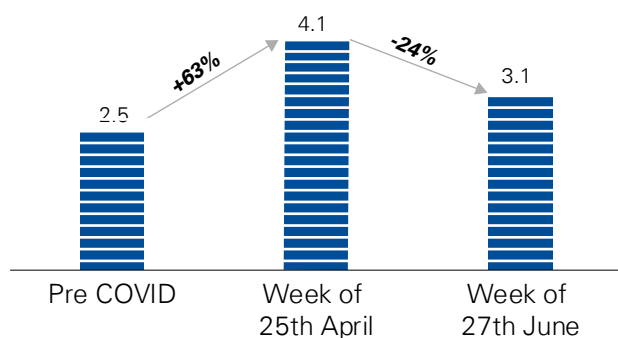
Total monthly active users* (MAUs) for top 100 games in India on Google Play (million)



Note: These are cumulative MAUs and not unique users

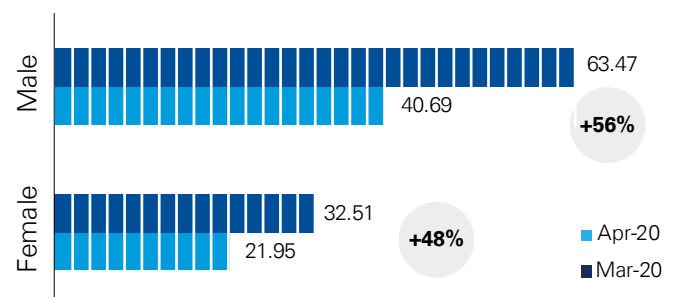
Source: Newzoo Analytics accessed on 20 August 2020

Average weekly time spent on mobile games (in hours)



Source: Crisis Consumption – An insights series into TV, smartphone and audiences (10thEdition) by Nielsen, BARC, July 2020

Total time spent on online gaming in billion minutes, by gender



Source: COVID-19 and its impact on digital media consumption in India, Comscore, April 2020

Key Takeaways:

- Increase in downloads and users** - The total monthly downloads for the top 100 games in India on the Google Play store peaked at 160 million in May 2020. The MAUs for the top 100 games on Google Play in India have consistently increased, from 481 million in March 2020 to 657 million in July 2020.
- Increase in engagement levels i.e. time spent per user** - The weekly time spent per user on gaming on smartphones, surged by 62 per cent from pre-COVID levels to reach a peak of 4.1 hours in the fourth week of April. However, as India began to unlock, the weekly time spent by the smartphone users on online gaming declined to 3.1 hours in June 2020; still 20 per cent higher than the levels before the pandemic.
- The young and female demographic show strong growth** - The 15-24 year age group spent the most amount of time on online gaming in April-20 with the highest surge of 73 per cent m-o-m growth in terms of time spent among all age groups, as they likely had the most time at hand with schools and colleges shut. The total time spent on online gaming by the female demographic saw an impressive growth of 48 per cent from March 2020 to April 2020.⁵⁵

55. COVID-19 and its impact on digital media consumption in India, Comscore, April 2020, accessed on 25 August 2020

The game production value chain was less disrupted

Despite the pandemic, gaming content creation has not suffered unlike other forms of entertainment like television and films which are largely outdoor driven and more vulnerable to disruptions on account of lockdowns and social distancing norms.

Game development, however, has been resilient with studios across the world adapting to a work from home environment. For instance, U.S.-based game developer Riot Games, famously known for the game League of Legends, implemented a staged remote working approach and had 92 per cent of its campus staff working from home by mid-March.⁵⁶ Similarly, Indian companies like Lakshya Digital were quick in implementing and adopting to work from home arrangements in the aftermath of the pandemic.⁵⁷

Monetisation likely to see a boost

Leading gaming players witnessed a meaningful increase in consumer spending over the last few months. While WinZO witnessed their average transaction sizes grow from INR35 – 40 pre lockdown to INR75 – 80 post lockdown in April-20, Paytm First Games saw transactions and average transaction sizes go up by 60 per cent in the same time frame. Established companies like Nazara and Gametion saw a five and ten-fold increase respectively for in-app purchases during the same timeframe.⁵⁸

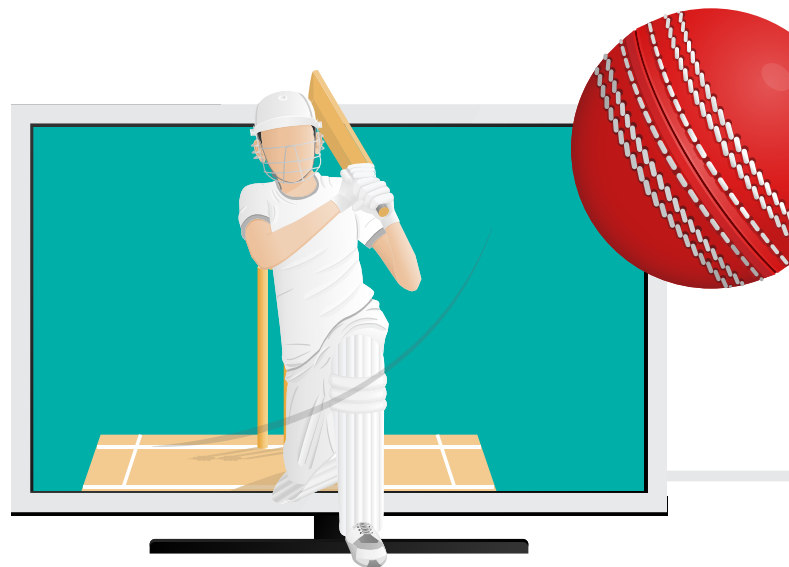
This boost in monetisation, could potentially play out over the long term as well, with habit formation taking place, and would help the segment partially mitigate the challenge of low monetisation in the years to come.

COVID-19 brings OFS to a complete halt, but the return of IPL a positive

The COVID-19 pandemic, and the resultant global lockdowns resulted in a near complete cancellation/postponement of major sports tournaments / events across the world resulting in an adverse impact on the OFS industry in India.

Our industry interactions have indicated that Q1 FY21 was adversely impacted with the Indian Premier League (IPL) not being held in the April to May-20 window, as the IPL constitutes about 35-40 per cent⁵⁹ of the industry revenues.

Further, the impact of postponement of major global Football leagues, Indian Cricket and the Euro 2020, resulted in a depressed Q1 FY21, with the CEA being only 10 to 12 per cent of Q1 FY20 CEA.⁶⁰



56. How Riot Games Is Tackling The Coronavirus Crisis, Forbes, 20 March 2020, accessed on 25 August 2020

57. Coronavirus impact: Indian game art creation companies are more busy than ever, Money Control, 22 April 2020, accessed on 25 August 2020

58. Will The Great Lockdown Unlock Monetisation For India's Gaming Startups?, Inc42, April 30, 2020, accessed on 25 August 2020

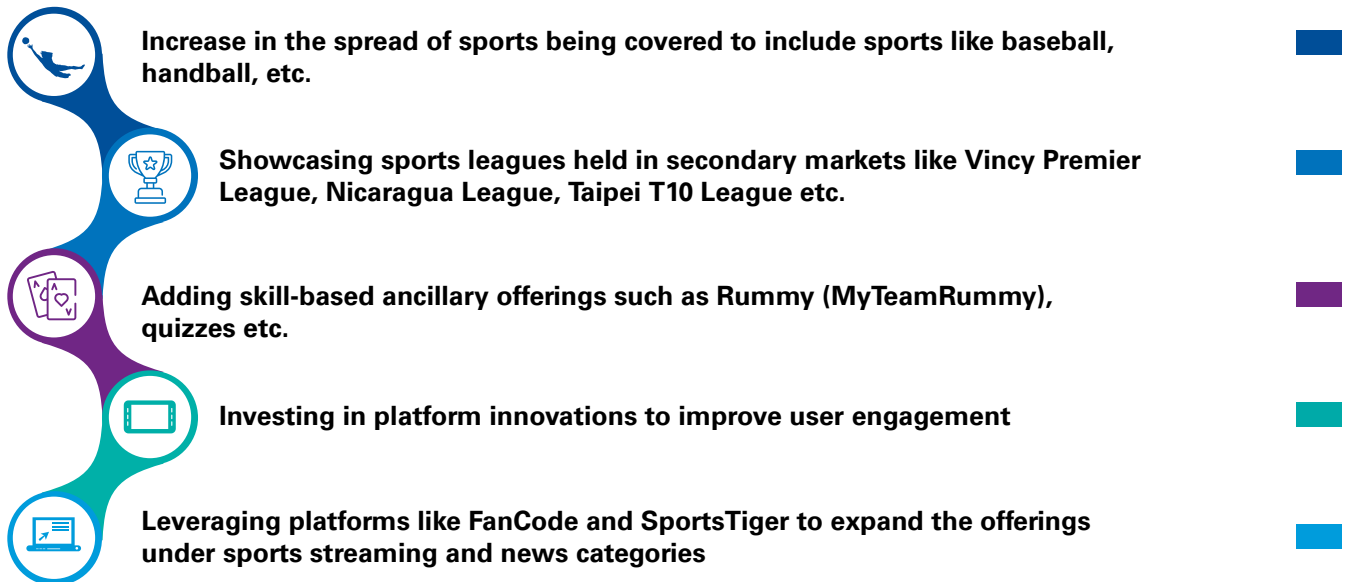
59. KPMG in India analysis, 2020, based on industry discussions

60. KPMG in India analysis, 2020, based on industry discussions



The OFS operators in India have been proactive in their actions to combat the challenges posted by this force

majeure, by employing multi-pronged strategies⁶¹ to ensure continued user engagement.



With the return of international sport from May/June 2020 onwards, Indian sports fans are likely to witness non-stop sporting action for eight to nine months from September 2020 onwards, including the IPL. This would help to partially offset some of the revenue loss that occurred in Q1 FY21.

Further, with global events like the Euro 2020 postponed to FY22, as well as the ICC Cricket calendar also likely to see a packed FY22 owing to rescheduling of cancelled bilateral Cricket series; it is not inconceivable that the OFS sub-segment sees a 'V-shaped' recovery from H2 FY21 onwards. Indeed, based on our industry interactions, we expect the overall CEA to decline by only 20-22 per cent⁶² in FY21.

Non-Fantasy Sports Real Money Games get a fillip

The pandemic induced lockdown benefitted the non-fantasy RMG segment with a growth in new users coming on board, both on card based as well as multi-gaming platforms. The lack of live sports meant that some fantasy sports users also tried their hand at non fantasy real money gaming during the lockdown; this cross-over though was small as the target user base for both segments is different.⁶³

It was observed across some key card based RMG platforms that the average spends/user/month have actually declined post the lockdown, while the overall GTV had increased in real terms. The same is due to the following.⁶⁴

- A large number of users signed up for these RMG platforms once the lockdown started, and a significant proportion of them were free users or users with very little spends. The same pushed the average spends/user down
- However, the overall GTV increased as spends got redirected from fantasy gaming, which was practically shut owing to no live sports on offer

Evolution of gaming as a means for virtual social interaction

The lack of social interactions in a prolonged lockdown started to trigger massive demand for platforms that enabled virtual socialising. 'Houseparty', a video chat app that empowered users to participate in shared gaming experiences, became immensely popular among millennials and Gen Z during the lockdown.⁶⁵

61. KPMG in India analysis, 2020, based on industry discussions

62. KPMG in India analysis; 2020, The business of fantasy sports, KPMG in India, July 2020, accessed on August 25, 2020

63. KPMG in India analysis, 2020, based on industry discussions

64. KPMG in India analysis, 2020, based on industry discussions

65. Video conferencing app downloads top 62 million as people stay indoors due to Covid-19 pandemic, Hindustan times, March 31, 2020, accessed on 25 August 2020

Similarly, casual gaming platforms with multi-user gameplay generated significant interest and witnessed strong user uptake. Tambola, a popular party game by Octro, witnessed a 200 per cent surge in users in a period of four months ending July-20 as users explored online avenues for socializing.⁶⁶ Ludo King, one of the most popular multi-player online game in India, added the capability for voice chat and sharing of e-greetings in August-20 to further enhance the ability to socialize on the platform.⁶⁷

While some regulatory clarity is there around RMG, challenges remain

In the last few years, there has been some clarity that has emerged around RMG, especially around OFS, with the Punjab and Haryana High court,⁶⁸ and the Bombay High Court⁶⁹ ruling that Dream11's format is a game of skill and not a game of chance.

However, the debate around laws and regulations for the online gaming industry was in the news again in

the second half of 2020. In July 2020, the Madras High Court highlighted that a comprehensive regulatory framework by a regulatory body was necessary for the online gaming industry to curb illegal activities and suggested that the government should regulate and monitor such virtual games.⁷⁰ The court was concerned that real money games like rummy which have seen significant growth during the lockdown negatively impacted the fragile financial situation of unemployed youth who were getting addicted to games in order to win cash prizes.

The court referenced the ban on online rummy (and other games of skill) imposed by the Telangana government in 2017⁷¹ and suggested that the Tamil Nadu government should also set up a legal framework to regulate online gaming.⁷² The high court has observed that state and central governments can pass laws to ban games like online games that involve money across the country.

	OFS	Rummy	Poker	Teen Patti
AP & Telangana	Not allowed	Not allowed	Not allowed	Not allowed to be offered in Real money format online across India
Nagaland	License needs to be obtained	License needs to be obtained	License needs to be obtained	
Assam	Not allowed	Not allowed	Not allowed	
Odisha	Not allowed	Not allowed	Not allowed	
Sikkim	Restricted to Gaming parlors	Restricted to Gaming parlors	Restricted to Gaming parlors	
Gujarat	Allowed	Allowed	Not allowed	

Note: Other states which are not mentioned allow the above formats of RMG

Source: KPMG in India analysis, 2020, based on secondary research

An uncertain regulatory environment with multiple states taking different stands is likely to present itself as a challenge for the real money gaming segment.

66. Apps hit the jackpot with online Tambola, Business Line, July 12, 2020, accessed on 25 August 2020

67. Ludoking launches voice chat updates and share e-greetings, easypresswire, August 1, 2020, accessed on 25 August 2020

68. The Skill element in Fantasy Sports games, Nishith Desai Associates, accessed on July 24, 2020

69. Fantasy sports gaming is not gambling, Nishith Desai associates, July 2019, accessed on August 10, 2020

70. Madras HC suggests law to regulate online games such as Rummy, Outlook, July 24, 2020, accessed on 25 August 2020

71. Telangana government's new ordinance amends the gaming act to ban online rummy, Scroll.in, June 18, 2017, accessed on 25 August 2020

72. Madras High Court suggests a law to regulate online games such as rummy, Financial express, July 24, 2020, accessed on 25 August 2020



Online gaming – Projected performance

In INR billion	FY20	FY21P	FY22P	FY21 growth over FY20	FY22 growth over FY21
Industry size	89.9	98.5	142.7	9.5%	44.8%

Source: KPMG in India analysis, 2020, based on primary and secondary research

In million	FY20	FY21P	FY22P	FY21 growth over FY20	FY22 growth over FY21
Number of gamers	365	436	510	19.5%	17.0%

Source: KPMG in India analysis, 2020, based on primary and secondary research

Mobile games will continue to dominate the gaming market in India, owing to ~97 per cent of the internet base being wireless. The growth for the online gaming segment is projected to outpace all the other segments of M&E industry in India, and is likely to be driven by:

- Growth in online gamers and active users in the next 2-3 years
- Monetisation per user is expected to improve with consumer spends increasing due to a behavioral shift caused by games like PUBG, as well as increased ad spends coming in due to greater engagement
- Real Money Games are likely to witness growth in consumer spends as newer formats like casual money real games attract a wider audience to this segment
- Fantasy Sports, though likely to decline by 20-22 per cent in FY21, is expected to witness a sharp growth in FY22 as sports come back
- Technological interventions such as AR/ VR, analytics on gamer data, interactive streaming, etc. will continue to innovate & improve the gaming experience & will further help in industry growth.

Conclusion

Gaming remains one of the fastest growing segments for the media and entertainment industry and is expected to benefit in the long run from the acceleration in consumption. Monetisation is likely to follow the increase in consumption with a lag as the fundamentals remain strong for the industry.

The segment would need to work around regulatory uncertainty, distribution challenges and improvement in the game economy to suit Indian audiences to ensure that gaming outpaces all the other segments in the near to medium term.

Industry Perspectives

The Indian fantasy sports industry has come a long way from 10 operators in 2016 to 140+ in 2019 and 20L users in 2016 to 9Cr+ sports fans playing fantasy sports currently. This growth has primarily been fuelled by the developments in the Indian sports sector - the emergence of multiple sports, leagues, formats; and India's rapidly improving digital infrastructure. Dream11's Title sponsorship of IPL 2020 is a testament of how a digital fan engagement platform like fantasy sports is becoming integral to real-life sporting events. Fantasy Sports is bringing sports leagues and fans closer to each other by creating meaningful engagement.



Harsh Jain
CEO & Co-Founder,
Dream11 & Dream Sports

Gaming as an entertainment medium has grown rapidly during Covid-19 pandemic. Inherent need for people to socialize along with large number of concurrent users on game platforms during times when social distancing norms are to be followed, has led to evolution of games as community platforms. Gaming has also entered into the living rooms and has become a way of family entertainment.



Manish Agarwal
CEO,
Nazara Technologies Ltd.

Gaming ecosystem has evolved considerably during last year with new & localised content for Indian gamers and emergence of esports streaming & hybrid apps. Games have also entered on OTT platforms wherein they are deployed as engagement tools with some monetization opportunities. Such new crossovers will further grow the gaming habits in India



Anuj Tandon
CEO,
Yoozoo Games India

The gaming industry has changed rapidly over the last 3-5 years in India. Gaming has gained wider acceptance as a mode of entertainment and as a result has attracted more consumer spends over the years. The adoption of newer digital payment mechanisms like mobile wallets, UPI, etc. coupled with sachet-pricing and the use of data sciences have been critical elements for games to draw a larger share of the consumer's entertainment wallet. An increasing willingness among gamers to pay online for entertainment is likely to drive growth for years to come.



Saurabh Aggarwal
CEO, Octro

E-sports, as a category, is poised for massive growth in India. This is evident from the multiple platforms starting to emerge alongside growing interest from international players in an evolving ecosystem that will be driven by growth in the number of professional gamers in India.



Mr. Roland Landers
CEO, All India Gaming Federation
(AIGF)

Deeper penetration of digital payments has been the catalyst of growth for the gaming industry. Real money games, in particular, have immensely benefited as digital payment mechanisms like UPI made purchases friction-less and drove greater consumer spends on games. The future growth in the real money games segment, though, is likely to be driven by new innovative games that can be legally qualified as skill-based games.



Ankush Gera
Founder and CEO,
Jungle Games

Fantasy Sports platforms have been severely affected during the pandemic as sporting events have either been postponed or cancelled. There has been a massive drop in active users between March to June due to the lack of engagement options. While some operators have added multiple hyper casual games, we have added sports quiz to engage our users while ensuring the user experience remains centered around sports. However, with live sports activity commencing from June, we are expecting active user base and engagement levels to catch-up quickly.



Saurabh Chopra
Co-Founder and CEO,
BalleBaazi

The E-sports value chain is nascent in India. Without an ecosystem approach to this, no single player or team will really be able to create long term value. Two key factors for esports growth: a) a streaming platform that provides streamers with the right creator stack to ensure greater interactivity with their audience and various revenue options to monetize their unique skills (direct to consumer and advertising); and b) Esports organisations need to mature and provide value to advertisers and consumers. Post this, many teams will become viable and the road to becoming a streamer will become clearer and more commonplace than ever before. These are all rapidly happening in India and are not too far in the future



Anirudh Pandita
Founder,
Pocket Aces

There is a fine balance between simplicity and depth in a game – it is simple to get a new user on the game and casual games have done well on getting users onboard. However, once the user is familiar, depth in gameplay is needed to keep the gamer engaged and monetize better. This depth in gameplay can empower developers to tap into in-app purchases with the purchase of virtual goods fast changing into a habit for gamers of the new generation. This spending habit among new generation gamers is expected to drive massive growth for the gaming industry in India.



Keerti Singh
Co-founder and VP - Growth,
Hitwicket

The challenge of sideloading the game still exists as everyone doesn't know how to side load and people still need to understand that downloading an app from another platform is not illegal. However, this friction is less within a single multi-gaming platform. Referral of users does help in wider adoption of the platform as it allays the worry of sideloading.



Paavan Nanda
CEO,
WinZO



6

Animation, VFX and post- production:

Expanding its global footprint





Animation, VFX and post-production:

Expanding its global footprint

Animation

The Indian animation industry continues to grow on the back of demand of 2D and 3D content from television (TV), OTT platforms and advertisements, both in the digital and TV space. Over the years, there has been a gradual shift from a purely services-driven model to one which includes development of their own IP. Further, many Indian studios have successfully launched their own animation shows internationally via OTT platforms. This has led to an inflow of work to Indian studios from international platforms and is likely to increase further in the coming years.

The animation services and IP production segments in India have been adversely impacted by COVID-19 induced lockdown since many studios were forced to

switch to a work from home model overnight and hence faced operational challenges. However, after the initial few weeks, companies were able to transition to the new normal and have focused on developing their own IPs and new content in addition to the existing pipeline of projects.

Animation industry – Current market size

The Indian animation industry registered a growth of 13 per cent in FY 20, with revenues amounting to INR 21.8 billion¹. While animation services continue to have a larger portion of revenue pie, the animation IP production is gradually catching up, growing at a CAGR of 12 per cent during FY15-20².

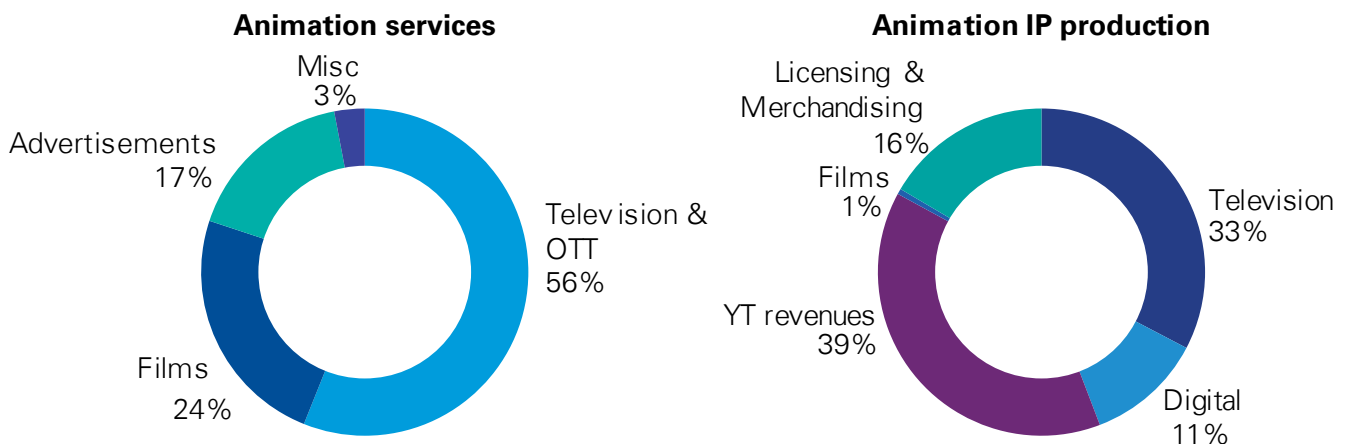
Animation industry's performance

Segment (in INR billion)	FY 16	FY 17	FY 18	FY 19	FY 20P	FY20 growth	CAGR (FY16-20)
Animation services	8.5	9.1	9.8	10.7	12.6	17.4%	10.3%
IP Production	5.7	6.3	7.2	8.6	9.2	7.5%	12.7%
Total	14.2	15.4	17.1	19.3	21.8	13.0%	11.31%

Source: KPMG in India analysis, 2020 based on primary and secondary research

1. KPMG in India analysis, 2020 based on primary and secondary research
2. KPMG in India analysis, 2020 based on primary and secondary research

Break-up of India's animation market - by segments in FY 20



Source: KPMG in India analysis, 2020 based on primary and secondary research

The animation services and production market in India continued to gain traction in FY20 due to growth in demand for animated content by OTT platforms, increased demand for domestic TV shows and non-entertainment sectors like ed tech and gaming showing an increased interest in animated content.

Key themes:

Growth in OTT demand: The rapid growth of consumption of OTT platforms has given animation content producers an avenue to capture both the domestic as well as the international market. With platforms like Netflix promoting content specific to a certain region and culture, but having a global appeal, there have been success stories from India like Mighty Little Bheem, a spin-off of Chhota Bheem, which have driven viewership.

Animated content based on Bollywood franchises:

One of the key trends which has been emerging over the past few years is the focus on animated IP content which is influenced by Bollywood film franchises. Content creators see this as an opportunity to build on an already existing brand which has a fan following and increase the life of the brand as well as its monetisation potential. FY20 saw two such Bollywood inspired animated IPs like Fukrey Boyzzz which was launched in October 2019 on Discovery Kids and Golmaal Jr. which was launched in May 2019 on Sonic. Fukrey Boyzzz led an increase in viewership by 60 per cent in the afternoon slot and 84 per cent in the evening slot for the Discovery Kids channel.³

There has been an increase in the proportion of domestic animated content as compared to foreign content over the last few years, accounting for almost 40-50 per cent of the total animated content⁴. This strategic shift has stemmed from the rationale that local content is likely to resonate more with Indian audiences.

Sony Yay has 100 per cent content which is from domestically owned IP, while other channels like Cartoon Network, Nickelodeon, Sonic are also increasing their share⁵, with Viacom18 launching its 8th IP last year⁶.

Increased demand from non-entertainment sectors:

In addition to traditional clients of the animation sector, there has also been a spurt in interest from gaming studios and ed tech companies which are looking at newer ways to connect with audiences and increase their engagement across platforms. Byju's is an ed-tech platform which is focusing on delivering interactive learning to students which includes the use of animated content as a teaching tool.

Change in YouTube policy for kids' content: The primary reason for lower growth of IP production segment in FY20 was the reduction in revenues of IP content developers from YouTube on account of a change in its policy, which restricted companies from showing targeted ads on Kids content.

3. 2019: How did Indian animated IPs fair?, Animation Xpress, Sharmindrila Paul, December 2019

4. KPMG in India analysis based on industry discussions

5. KPMG in India analysis based on industry discussions

6. KPMG in India analysis based on industry discussions



The change was sparked by the company's prior violations of the US law Children's Online Privacy Protection Act (COPPA). Hence, in September 2019, YouTube sent notices to content creators notifying of the proposed change.

After the implementation of the policy change in January 2020, content creators were mandated to mark any video on their channel as made for kids based on certain criteria e.g. educational material for pre-school kids, animated content directed at kids, children's songs, etc.

Post January 2020, for kids' content YouTube has turned off comments, live chats, notifications and other community features and does not serve personalised ads based on users' viewing history.



This has impacted the advertising revenues of most of the animation companies adversely. Going forward, the expected growth in revenues from this segment, therefore is marginal⁷.

Policies and key Government initiatives undertaken:

On the policy front, Government of India has undertaken some initiatives to aid the growth of the animation sector with the proposed National Centre of Excellence for Animation, Gaming, Visual Effects and Comics

industry across the country and an in-principle approval for the same from the Government⁸. The launch of the DD Kids channel by the Government is also underway and is expected to launch within the year.⁹

COVID-19 impact on the animation industry: Studios shifting to a work from home model

The animation services and IP production segments in India have been adversely impacted by COVID-19 induced lockdown. With offices closed, most of the animation studios were forced to transition to a work from home model to continue operations.

Some of the immediate challenges faced by animation studios were low internet speeds and bandwidth for employees at home, setting up the IT infrastructure including laptops, hardware and enterprise software for transitioning to the work from home model and data security issues which disrupted workflows. Further, for companies which do not own IPs of the animation projects, there were some restrictions on accessing client files from homes of employees and hence, faced some obstacles.

For large global animation companies, the response to the pandemic has been consistent. Walt Disney has asked all employees to work from home, Pixar has shut down its Emeryville location following county restrictions and DreamWorks is doing the same with a large proportion of their employees¹⁰. Indian companies like Green Gold, Graphiti, Reliance animation etc. also have shown a similar response¹¹

Animation – Projected market size taking into account COVID-19 impact

Segment (in INR billion)	FY20	FY 21P	FY 22P	FY21 decline over FY20	FY22 growth over FY21
Animation services	12.6	9.8	13.0	-22.4%	33.2%
IP Production	9.2	6.4	7.6	-30.0%	18.1%
Total	21.8	16.2	20.6	-25.6%	27.2%

Source: KPMG in India analysis, 2020 based on primary and secondary research

There was a moderate impact of COVID-19 on the animation industry in India which is expected to result in a ~26% reduction in revenues in FY21. It is expected

to recover in FY22 and see a revenue growth of ~27% driven primarily by increasing domestic and international demand for animated content.

7. YouTube's New Kids Content Policy Is A Step In The Right Direction, But It's Not A Cure-All, Mashable, Jan 2020

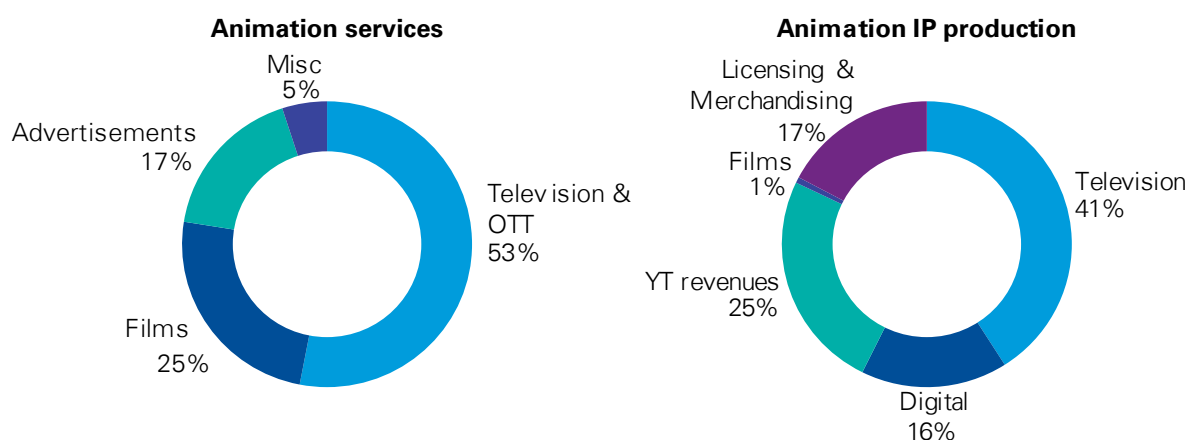
8. KPMG in India analysis based on industry discussions

9. KPMG in India analysis based on industry discussions

10. How COVID-19 is affecting Animation, VFX and Game Design industries, Vancouver Animation School

11. KPMG in India analysis based on industry discussions

Break-up of India's animation market - by segments in FY 22



Source: KPMG in India analysis, 2020 based on primary and secondary research

Potential impact of COVID-19 on the animation industry

Key long term themes	Key challenges faced
<p>Leaner cost structure: Many studios are likely to permanently allow a part of their employee base to work from home which will reduce infrastructure costs such as rent and electricity without compromising on productivity. Many companies observed a higher or equal productivity in their employees post the initial transition period as compared to pre-COVID-19 levels and have now settled to the new normal of working from home. However, a complete shift to this model is not envisaged as a lot of learning and development for newer employees takes place through being physically present in the studio and observing work of experienced professionals in the organisation.</p>	<p>Disruption of operations: In the short term there was a negative impact on operations since animation studios could not immediately transition to full service post the implementation of the lockdown. For the larger studios, the transition period was around two to three weeks, while for smaller studios, it was one to one and a half months.</p> <p>Although animation is largely collaborative and creative work, the use of remote access to files stored on cloud and video/ audio-conferencing software for team meetings helped to smoothen out the workflows post the transition period.</p>
<p>Increased focus on own IP development: Animation studios are likely to focus more on developing their own content in addition to carrying out services based outsourced work. This is likely to make these studios more self-sustaining while diversifying their revenue streams in future</p>	<p>Shutdown of smaller animation studios: There are many small animation studios with an employee base of 10-30 which currently operate in India, which are likely to be shut down on account of the COVID-19 pandemic. This will give rise to a large number of freelance artists entering the market.</p>
<p>Increased international business: Outsourcing work to India from international markets is expected to increase over the next few years as many countries have started to shift work out of China.</p>	

Conclusion

The animation sector in India is on a growth path, with significant leaps being made in domestic content production. While the impact of COVID 19 on the sector has been adverse, it is likely to emerge stronger post the return to normalcy with growing demand for animated content from OTT platforms and increased focus on original content development by animation studios. However, there are some areas where policy level intervention is required especially for smaller studios which are under capitalised and face cash flow issues. This is likely to aid in easy access to working capital and will help in development of the overall sector¹².

12. KPMG in India analysis based on industry discussions

VFX and post-production

The Indian VFX industry and post-production segment continues to thrive on account of significant increase in complex and high-quality work coming from international markets. Globally, with the advent of OTT platforms, VFX has seen growing interest with increase in production budgets which has allowed content developers to invest increasingly in high quality VFX. Further, with the success of the Baahubali franchise, domestic movie producers, especially in the regional markets like South India have increased their focus and willingness to spend on VFX content in films.

The VFX and post-production market has been significantly impacted on account of the COVID-19 pandemic and the lockdown imposed since the segment

is correlated with the movie business, which has seen postponement of shooting schedules and delay in completion of projects. Post return to normalcy, this segment is expected to recover sharply, however, on account of pent up demand from audiences and a higher focus on VFX in TV series and movies.

VFX and post-production industry – Current market size

India's VFX and post-production industry was pegged at INR79.5 billion in FY20 having grown at a 16.1 per cent over FY19.¹³ The primary growth drivers for the VFX market in India in FY20 were increased budget allocation of film producers to VFX and high demand of VFX driven shows and movies from OTT platforms.

VFX and post-production industry's performance

Segment (in INR billion)	FY 16	FY 17	FY 18	FY 19	FY 20	FY20 growth	CAGR (FY16-20)
Total VFX and post-production	39.0	46.9	56.8	68.4	79.5	16.1%	19.5%

Source: KPMG in India analysis, 2020 based on primary and secondary research

Key themes:

Increase in movie budgets and allocation to VFX:

As the production budgets of movies have been increasing over the last few years till the beginning of the lockdown, films are seeing greater investments into VFX. Further, the screen writers and directors are now more open to writing scripts which have VFX focused content. Over the last 10 years, the budget allocation to VFX for Indian films has nearly doubled¹⁴.

Increasing scope of VFX in domestic projects: The year 2019 saw Indian film studios using VFX across various genres including action, drama, periodic films, biopics and science fiction. Saaho and Sye Raa Narasimha Reddy released in 2019 were two high budget Telugu movies which had a heavy usage of VFX. Saaho had a total of 73 VFX shots in a three-minute action sequence¹⁵. Sye Raa Narasimha Reddy had about 3500 VFX shots and nearly 17 studios were involved in the film's VFX project¹⁶.

Increasing demand from OTT platforms: The VFX content has seen a shift from films to TV and OTT shows over the last few years, with OTT content demanding a higher level of attention to detailing as compared to movies and is more stringent with deadlines.¹⁷

The ability of Indian studios to develop specific capabilities and compete with their foreign counterparts on both price and skills is likely to continue to enable them to cater to the demand for highly skilled and labour intensive VFX and post-production jobs.

This has cemented India's place in the international market as one of the key outsourcing locations.

13. KPMG in India analysis, 2020 based on primary and secondary research

14. KPMG in India analysis based on industry discussions

15. Saaho VFX Breakdown By Glimpse VFX, vfxexpress, November 2019

16. 'It was no joke to do 3500 VFX shots for Sye Raa Narasimha Reddy', The Hindu, November, 2019

17. An insider's look at the VFX industry in India with BOT VFX, Foundry, July 2019

Increasing demand from international markets:

Domestic VFX productions are becoming a selling point for big budget Hollywood movies with significant amount of work delivered on movies like Jungle book, Spider-Man: Far from home, Avengers Endgame etc. This has in turn resulted in continued demand from Hollywood, which is helping drive the growth. Indian studios are also increasingly seeing their international pipeline expanding to countries like the U.K., Japan and other south east Asian countries. Further, there is a prevailing anti-China sentiment which is likely to see outsourcing work shift away from Chinese animation and VFX studios. Oscar-winning studio Framestore has announced that it is likely to open a full-service visual effects studio in Mumbai in 2020. It is likely to expand its team to 500 with local as well as foreign experts who would execute large scale international VFX projects¹⁸.

Policies and key Government initiatives undertaken:

On the policy front, Telangana recently announced the implementation of the animation, VFX, gaming and comic (AVGC) policy. This will include the setting up of Image Towers which will house animation and VFX studios, training centres and other shared services for this sector.^{19,20}

COVID-19 impact on the VFX industry: Significant disruption in the short term

The VFX industry being closely correlated to the movie production industry was significantly impacted on account of the COVID-19 pandemic and the lockdown imposed thereafter.

Live action film shoots were forced to shut down, which delayed the production schedule of several movies both domestic and international. Since VFX and post-production work typically begins after the shooting of the movie, the pipeline of projects was severely impacted.



Some of the challenges which impacted operations were lack of access to high-speed internet at employees' homes, legal restrictions on accessing client files from homes of employees and setting up of IT infrastructure for the transition to the work from home model, which had to be done overnight.

VFX and post-production - Projected market size taking into account COVID-19 impact

Segment (in INR billion)	FY20	FY 21P	FY 22P	FY21 decline over FY20	FY22 growth over FY21
Total VFX and post-production	79.5	33.1	56.3	-58.3%	70.0%

Source: KPMG in India analysis, 2020 based on primary and secondary research

There was a significant impact of COVID-19 on the VFX and post-production industry in India which is expected to result in a ~58% reduction in revenues in FY21. It is expected to recover in FY22 and see a revenue growth

of ~70% driven primarily by increased demand for live action movies and increased proportion of VFX in movies²¹.

18. Framestore VFX will open in Mumbai in 2020, Post perspective, Dec 2019

19. Rs 1,000-cr Image Towers for animation, VFX, gaming industry to be ready by 2021, BusinessLine, November 2019

20. Telangana's AVGC policy most progressive: Aashish Kulkarni, Telangana Today, November 2019

21. KPMG in India analysis, 2020 based on primary and secondary research



Potential impact of COVID-19 on the VFX and post-production industry

Key long term themes	Key challenges faced
<p>Leaner cost structure in the long term: Many studios are likely to shift to a work from home model with a lower proportion of employees being asked to work from office locations. This is likely to save infrastructure costs like rent and electricity.</p>	<p>Disruption of operations: For most of the VFX studios, the transition period to the work from home model was around one to one and a half months²². The use of remote desktops, cloud storage and audio/video-conferencing tools helped them settle into the new normal post the transition period.</p>
<p>Increased demand for VFX: There is likely to be an increased volume of VFX projects post-lockdown since an increasing number of production houses are expected to resort to Chroma shooting and pre-visualisation. Producers are likely to spend more time on pre-visualising movie sequences on devices to aid the planning process and spend minimum time on the set²³. This is expected to spark a significant recovery in the VFX space with a larger portion of the total movie budget being allocated to VFX and post-production studios.</p>	<p>Reduced pipeline of projects in the short term: There was a significant impact on domestic VFX studios across the spectrum on account of lockdown since production schedules for live action films were delayed and several new films which were expected to commence shooting were postponed indefinitely. Hence, in the short term, there was a 50-60 per cent impact on the revenues for most of the VFX and post-production studios.²⁴</p>
<p>Renegotiation of commercials: There is likely to be renegotiation in the commercial terms of VFX projects in the longer term as the cost of operations have increased for most of the domestic studios in the short term²⁵. Further, with a higher scope of work for VFX studios, the dependency on VFX studios is likely to see a traction, opening doors for them to charge a premium for their services. Post return to normalcy, there is expected to be a pent-up demand for movies, which would also increase the pipeline of work for VFX studios.</p>	<p>Shutdown of smaller VFX studios: There are several small VFX studios in India, which are likely to be shut down on account of the COVID-19 pandemic which will give rise to a large number of freelance artists entering the market.</p>

Conclusion

On the back of technological know-how and an experienced workforce, the VFX and post-production segment in India is considered as a strong contender in the global market. The Indian VFX industry is at an inflexion point and a sharp recovery is expected to be seen in this sector over the next 2-3 years²⁶. While COVID-19 is expected to significantly impact revenues of the sector in the short term on account of the sector's dependence on live action films, its recovery is expected to be strong in one to two years.

22. KPMG in India analysis based on industry discussions

23. Films look at special effects, animation for production during covid times, Livemint, July 2020

24. KPMG in India analysis, 2020 based on primary and secondary research

25. KPMG in India analysis based on industry discussions

26. KPMG in India analysis based on industry discussions

Industry perspectives

Although there is likely to be a short term impact of the COVID 19 pandemic lockdown on the animation sector in India, the next two to three years are likely to see positive changes for the sector with companies shifting their focus from China for outsourcing of animation services and new business opportunities coming from countries in Asia, Latin America and Europe.



Rajiv Chilaka
Founder & CEO,
Green Gold Animation Pvt. Ltd.

The lockdown on account of the COVID 19 pandemic has had an impact on revenues for the animation industry, however, many studios are taking this opportunity to build new content and IPs for the future. The industry has quickly adapted to the challenges and devised workflows to facilitate work from home and ensure deliveries are not impacted. With the demand for VFX and Virtual Productions is expected to go up in the near future, the animation and VFX industry is likely to see a significant recovery.



Munjal Shroff
Director & COO, Graphiti,
Co-chair FICCI Animation, VFX,
Gaming and comics (AVGC) Forum

We expect the demand from OTT platforms for animated content to increase in the near future. Platforms like Netflix are increasingly looking to acquire good quality kids' content since most of their current content is focused on the 13+ age group.



Tejonidhi Bhandare
COO,
Reliance Animation

The key challenge in the Animation and VFX sector in India is the lack of widespread focus on the narrative & storytelling aspects in the education of Animation and VFX students. While software training and tech-workflow proficiency is essential, what is critical for the student is the ability to understand the application of those technical skills in telling a story. Further, with 360 Virtual Reality and Virtual Production becoming increasingly mainstream in content creation, the necessity for an Animation & VFX professional to understand the narrative aspects of content creation is irrefutable. There is no reason why education in Screenwriting & Editing should be any less important for an animator or VFX artist than any of the softwares that they learn.



Chaitanya Chinchlikar
Vice President,
Whistling Woods International

One of the encouraging trends in the business that we have worked towards at Cosmos-Maya is that animated content in India is simultaneously offered to Pay TV channels and OTT platforms which helps in reducing burden on any individual platform and complements viewing while giving us content creators an opportunity to offer the best creatives. Having successfully executed this for 500+ half hours across 7-8 shows, across various Pay TV & OTT partner combinations, we know this trend is already established & are confident that this successful model in the Indian market which allows for increased brand exposure and is likely to continue for the next 4-5 years at least.



Devdatta Potnis
SVP Revenue and corporate
strategy, Cosmos Maya



Kids content is driving growth for TV and OTT platforms in the post COVID world, with an increased focus on domestically produced content which is more relatable to Indian audiences. Platforms like Netflix are following the strategy of sourcing local content which has a universal appeal and making it available to international audiences.



Jayakumar Prabhakaran
CEO
Toonz Media Group

Transition to work from home post the lockdown was challenging in terms of physically shifting workstations, adding software tools to ensure that effectiveness does not change and also ensuring data safety and confidentiality, however, post the initial few weeks, employee productivity has increased and artists have become used to the new normal of working.



A K Madhavan
Founder and CEO,
Assemblage Entertainment

There has been a paradigm shift in the global VFX space in the last few years. Leading VFX companies such as DNEG rely on a global production model to deliver cutting-edge creative work, and this market experience and expertise will open up new avenues and carve new paths for global collaboration for the Indian VFX industry.



Merzin Tavaría
Creative Director & General
Manager,
DNEG India | Co-Founder,
Prime Focus

The VFX industry, being closely linked to the movie industry, has been significantly impacted by the COVID 19 pandemic and subsequent lockdown. However, many studios are using this lockdown period to explore other creative avenues such as virtual production, producing their own IPs and monetizing via digital platforms.



Pete Draper
CEO
Makuta





MUSIC

Playing the blues



Music

Playing the blues

Until COVID-19 halted its momentum, the Indian music industry had been growing rapidly, benefitting from the evolving listening habits of India's young internet-savvy population coupled with increased mobile and internet penetration. The Indian music industry ranked 15th in the world in terms of revenue in 2019¹.

In FY20, revenues for the overall industry climbed 15 per cent year-on-year to INR19.07 billion. The industry's compounded annual growth rate (CAGR) stands at 14.9 per cent between FY17 and FY20².



Historical performance of the Indian music industry

Particulars (in INR billions)	FY16	FY17	FY18	FY19	FY20	FY20 growth	CAGR (FY16-20)
Size of music industry	11.0	12.6	14.4	16.6	19.1	15.0%	14.8%

Source: KPMG in India's analysis based on primary and secondary research.

FY2020 at a glimpse

Taking a closer look at the breakup of revenues within the industry, digital platforms have contributed the largest share to the music ecosystem.

This was strengthened by the fact that an Indian consumer has been estimated to spend 19.1 hours/week³ listening to music on digital platforms as compared to the global average of 18 hours/week.



Public performance was the second largest contributor to the industry revenue owing to the increasing awareness regarding the legitimate use of music amongst the masses.

Synchronisation business got a boost in terms of revenue due to increased advertisement spends. This was further substantiated by the fact that the Indian synchronisation business which previously ranked seventh in terms of revenue during 2019 was polled to sixth⁴ in 2020. The contribution of physical sales has declined in accordance with its historic trend and has narrowed down to 5 per cent⁵ in 2020.

1. IFPI Global Music Report 2020

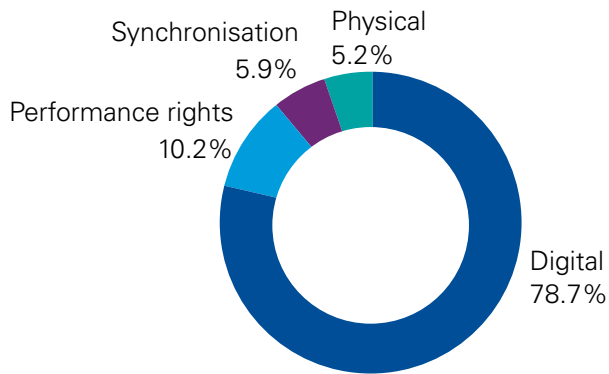
2. KPMG in India's analysis 2020 based on primary and secondary research

3. IFPI Digital Music Report 2019

4. IFPI Global Music Report 2020

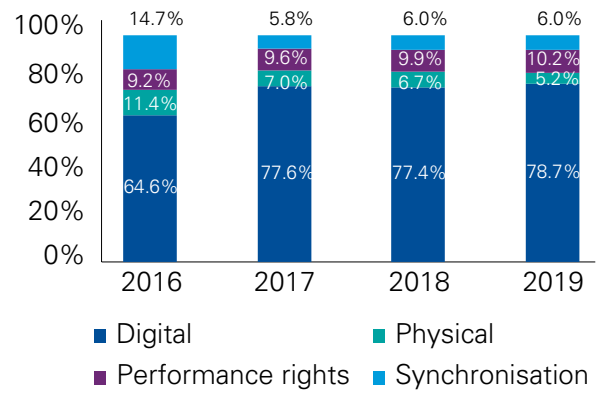
5. IFPI Global Music Report 2020

Indian music industry revenue by format



Source: IFPI Global Music Report 2020

Revenue share over the years



Source: IFPI Global Music Report 2020

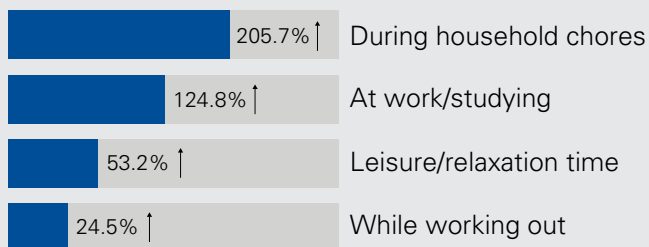


Key insights on the new normal

COVID-19 pandemic has severely impacted the lifestyle of people around the globe. KPMG in India conducted a survey to gain insights on the upcoming trends in the music consumption habits before and after the COVID-19 pandemic owing to the travel restrictions. The survey respondents comprised of around 2000 users aged between 15 to 72 years across India.

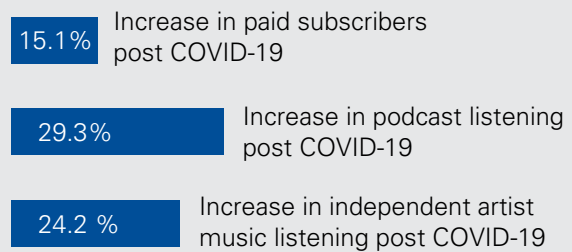
Trends like adoption of new listening habits and amplified consumer confidence in venturing out for entertainment purposes like live events, concerts etc. keeping social distancing norms in mind, increased streaming of content propositions like podcasts and independent artist music were visible from the survey responses⁶.

Adoption of new listening habits due to COVID – 19



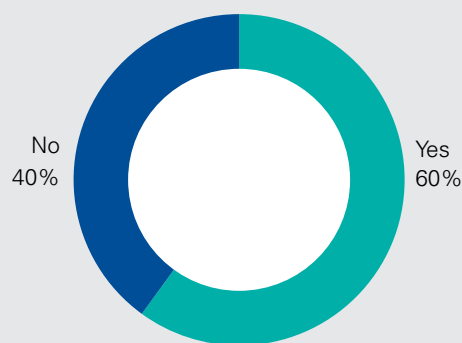
Source: KPMG in India's survey of the music industry 2020

Key trends emerged due to COVID-19



Source: KPMG in India's survey of the music industry 2020

Consumer confidence in going out for entertainment purposes (Live events, concerts etc.) following social distancing norms



Source: KPMG in India's survey of the music industry 2020

6. KPMG in India's survey of the music industry 2020

Emerging trends

Public performance/ live events in existential crisis

Before the pandemic struck, public performance and live events accounted for 10.2 per cent of the total industry size⁷. The lockdowns and social distancing norms have caused organisers to put off or cancel public performances and live events; and this is unlikely to improve until the virus is defeated. The disruption of this business has further reduced the opportunity to build popularity owing to lack of adequate space for promotion of new music. Additionally, the economic downturn of other industries like food and beverages and retail have had a knock-on effect on the public performance and live events space.

The industry has been forced to innovate new monetising avenues in order to protect the value of their assets (artists) in such torrid times.

Artist – fan live interaction sessions and taking live events online are among the steps public performance players are taking to counter the revenue loss. Online events, however, often cannot adequately replicate the acoustic value of live events and fail to make up for the loss in revenue.



User engagement paving the way for growth

The digital ecosystem has been one of the major contributors to the Indian music industry's revenues over the last few years. User engagement applications have been one of the major growth drivers coupled with the estimated demographic dividend of 1.84 billion monthly overlapping active users (Tik tok, Instagram, and Facebook) as of July 2020.⁸

The dynamic landscape of the Indian music industry has led to the emergence of copyright infringement issues, e.g. certain user engagement applications had unlicensed music available on their platforms. While the rights were owned by prominent record labels in India, these platforms had sought shelter under the 'safe harbour provisions' of their business locations in order to protect themselves from liabilities.

This unethical use of music rights has led to a loss of revenue for the industry. To curb this immoral practice, prominent user engagement platforms and record labels have forged partnership for promoting the use of licensed music on their platforms; to name a few, Facebook has signed a global licensing deal with Saregama⁹ and IPRS¹⁰.

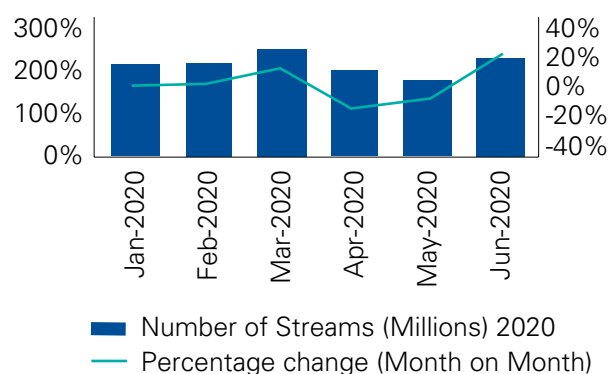
Jumpstarting of music economy

COVID-19 had stalled the development of new content and production/ postproduction activities which were pre-planned for release during this time. This led to a dearth of new music content that has precipitated a decline in streaming activities.

Now, with the global economy gradually coming out of hibernation, there has been a course correction of streaming activities to pre-lockdown levels, paving the way for a revival in the music economy on account of new releases of movies and music on digital platforms. New music content catalogues should help drive the user engagement activities.

For instance, our review of Spotify Charts (Top 200) for the period January 2020 to June 2020, we noted that streaming activities in May 2020 (191.83 million streams) declined from March 2020 (270.08 million streams). This decline can be largely attributed to the absence of new music content. Further, the industry is witnessing a rebound in the streaming levels for June 2020 (streams being 250.09 million¹¹).

Streaming trends: (Top 200)



Source: Spotify charts: Top 200 (India)

7. IFPI Global Music Report 2020

8. KPMG in India's analysis 2020 based on primary and secondary research

9. Saregama strikes global licensing deal with Facebook, www.exchange4media.com, June 03, 2020

10. Facebook strengthens its music library with IPRS deal, www.tech.economicstimes.indiatimes.com, July 20, 2020.

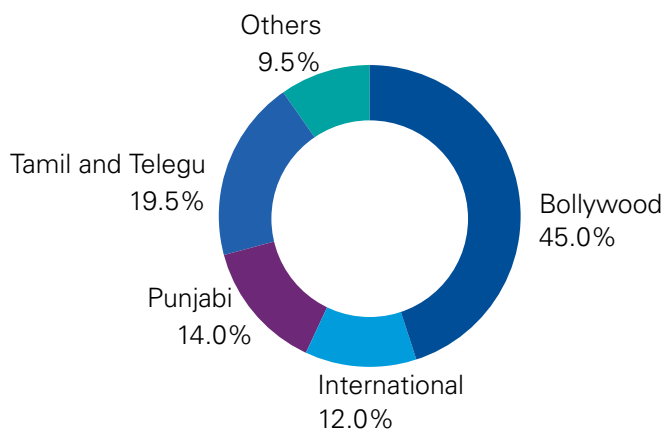
11. Spotify Charts: Top 200 (India): <https://spotifycharts.com/regional>, July 02, 2020



Changing soundtracks: Developing a non-film music ecosystem

The Indian music industry is transitioning to a non-film music ecosystem from the traditional film ecosystem. Over the years, the industry has been witnessing a decline in the share of consumption of film music from around 60 per cent in 2016 to about 45 per cent¹² in 2020.

Genre-wise music consumption, FY20



Source: KPMG in India's analysis 2020 based on primary and secondary research

This reflects the changing listening habits of India's young demographic that consumes a wide variety of music and chooses from a plethora of options available on digital streaming platforms. This shift in consumption patterns has surfaced due to the rapid growth of digital streaming platforms on the back of increased penetration of wireless internet users (696.36 million as on December 2019).

The industry is also witnessing an increase in the consumption of non-film music due to the lack of new film content during the lockdown phase setting the stage up for independent artist music which witnessed an uptake of 24.2 per cent¹⁴ post COVID-19 to take the forefront further leading to a gradual shift from a film-oriented ecosystem to an artist dominated one.

Synchronisation business feels the pinch

The M&E sector predominantly depends on advertisement spends from sectors such as FMCG, e-Commerce, automobile, financial services, and real estate as a part of their monetisation model.

COVID-19 has resulted in sharp cutbacks in advertisement spends. The focus now has changed from growth to survival mode, as consumers scale back discretionary spending. This has severely impacted the Synchronisation model. The advertisement market could see a fall of about 10 to 12 per cent¹⁵ on the broadcasting front.

Advertisement sentiments are likely to pick up in the coming months, considering the gradual unlocking of the economy along with the festive season and the IPL. The advertising spend appetite is at its peak during the festive seasons like Ganesh Chaturthi, Diwali, New Year, along with the IPL. The occasions account for around 40 to 45 per cent¹⁶ of annual ad spends, providing a much-needed boost to the struggling advertisement ecosystem.

The world may change but music remains constant

The pandemic has significantly altered consumption habits. Before the pandemic, music was most often consumed while commuting, relaxing at home, at social events, or at pubs, restaurants etc. COVID-19 has confined most people to their homes, which in turn has changed their music consumption patterns.

More people are now listening to music while engaging in household activities like cleaning and cooking (increased by 205.7 per cent post COVID-19) and there has been a spike in home workout music (increased by 24.5 per cent post COVID-19) consumption¹⁷.

In these difficult times, music has been a source of significant therapeutic value.

12. KPMG in India's analysis 2020 based on primary and secondary research

13. "Indian Telecom Services Performance Indicator Report" for the Quarter ended Oct – Dec 2019, www.trai.gov.in, June 30, 2020.

14. KPMG in India's survey of the music industry 2020

15. Coronavirus impact: Both ad volumes and spends will increase in festive period, say experts, www.moneycontrol/new.com, June 05, 2020.

16. Indian Premier League could bring back feel-good ad spends coinciding with festive months, www.economicstimes.com, July 22, 2020

17. KPMG in India's survey of the music industry 2020

Emergence of podcasts on streaming platforms

Increased penetration of the internet and availability of digital content has given consumers a plethora of choices at any given time. One small but fast emerging segment is podcasts, which also witnessed an uptake of 29.3 per cent¹⁸ in its consumption post the COVID-19 pandemic. India is already the third largest podcast listening market and it is expected to be valued at INR 176.2 million by 2023 growing at a steady CAGR of 34.5 per cent.¹⁹ The greatest value proposition offered by streaming platforms today is user experience coupled with systematic algorithms to curate or personalise lists of content for the user through machine learning. In this landscape, podcasts offer an effective value proposition in the streaming industry and help increase user engagement. Podcasts have also opened new avenues for brand collaborations in turn boosting advertisement revenue. This leads to increased listenership, paving the way for transition from freemium to premium in the long run.

Challenges to the Indian music industry growth story

The higher streams- lower monetisation paradox

Digital streams are rapidly growing, on account of high youth engagement coupled with aggressive smartphone and internet penetration across the country.

The Indian streaming market consists of 200 million²⁰ unique Monthly Active Users (MAU's) out of which over 1 per cent²¹ are paid subscribers.



The return on investment from digital ecosystems is disproportionate to the costs incurred which include music video production and recording costs to name a few. After COVID-19, the cost of production has risen, as social distancing norms have increased the time taken to complete filming of a music video because of reduced staff availability and increased working hours.

In India, music is generally seen as a free commodity which is majorly due to the availability of music on freemium platforms. This skews the comparison between subscription and freemium models in terms of streaming activity on digital platforms. The industry needs to take initiatives for educating the consumer base and changing the perception of music as a free product.

Music not a monetising factor for public performance

Revenue from public performance licenses consists of the royalty paid by concerts, food and beverage outlets, retail outlets, malls, etc. that have obtained rights from recorded labels to play their music. The Indian music industry faces a major problem in protecting their licenses as often establishments fail to acquire licenses for playing music. A 22.7 per cent²² jump in revenue from 2019 to 2020 in this segment indicates that attitudes are rapidly changing. However, only 5 to 6 per cent²³ of businesses purchase public performance license.



18. KPMG in India's survey of the music industry 2020

19. Podcasting Trends in India 2019-20, www.medium.com, February 07, 2020

20. India's streaming music market is now 200 million strong – but hardly anyone's paying for it, www.thenextweb.com, February 07, 2020.

21. Discussion with Industry Participants

22. IFPI Global Music Report 2020.

23. Discussion with Industry Participants



Piracy: a lasting thorn

In the modern age, piracy has emerged as one of the major challenges that the Indian music industry faces. The piracy rate stands at an enormous 67 per cent²⁴ in India. Though this is a slight improvement from last year's 76 per cent, it is still more than twice the global average of 27 per cent²⁵.

Piracy has found new avenues to expand within the music ecosystem moving from the physical ecosystem to cyberspace. It is further fueled by methods such as stream ripping which is used to download songs from music sites for free.



From an Indian standpoint, the fight against piracy has proven to be a Sisyphean task, considering the heavy legal expenditure involved. Despite legal action, pirated websites often reappear under a different domain name. This also makes it difficult for legislative authorities

to keep up with them and take appropriate remedial actions. The Indian government has been stepping up efforts to check piracy by establishing cyber cells across states. The country is also gradually building its capabilities to fight piracy in a more comprehensive manner and in doing so is learning from effective methods used by countries like China.

China's methods of battling piracy have proved to be one of the most effective in recent times. It had a takedown rate of 97 per cent²⁶ despite having the highest piracy rate of 74 per cent²⁷ globally as compared to India with a piracy rate of 67 per cent²⁸ and takedown rate of only 37 per cent in 2019. This was possible due to the implementation of SWORD Net Action administrative plan by the Chinese Government which invited complaints from all music labels' and copyright owner's against piracy for immediate action.

The way forward

The Indian music industry is likely to gain momentum on its growth trajectory recording a compounded annual growth rate (CAGR) of 4.7 per cent between FY20 and FY24, which is a major setback due to the onset of the COVID-19 pandemic.

Projections for the music industry

Segment Size (in INR billions)	FY20	FY21P	FY22P	FY21 decline over FY20	FY22 growth over FY21
Size of music industry	19.1	14.3	16.6	-25%	16%

Source: KPMG in India's analysis 2020 based on primary and secondary research.

Growing listenership, ability of audiences to listen non-film music, and innovation on the content offering front by the music streaming segment may witness a steady growth in the consumption of licensed music which will reduce piracy and could see a visible shift in the paid subscription ecosystem from an advertisement driven one.

Synchronisation segment may witness a rebound in its growth due to uptake of advertisement revenue across the media and entertainment sector, which is likely to embark pace considering the onset of the festive season and the return of IPL.

24. IFPI Digital Music Study 2019

25. IFPI Digital Music Study 2019

26. IFPI Digital Music Study 2019

27. IFPI Digital Music Study 2019

28. IFPI Digital Music Study 2019

Conclusion

The Indian music industry has recorded strong growth in recent years, with the proliferation of digital platforms and performance rights. However, the COVID-19 pandemic has stalled its momentum in FY21. The industry is expected to take three years (FY23) to return to its size in FY20 .

The restrictions caused by nationwide lockdowns resulted in disruption of film making activities which further led to absence of new music content over the digital streaming platforms. However, the availability of diversified catalogue of music coupled with ability of young population to consume non-conventional music witnessed a steady growth of the non-film music ecosystem.

Technology played a pivotal role in continuity of businesses, which were severely disrupted by the restrictions on economic activities. The COVID-19 pandemic acquainted people with the value of technology more than ever as can be visible by the growth in the listenership base on the digital streaming platforms due to evolving listening habits of the consumers. However, uptake in listenership has not contributed to the industry revenue owing to a low base of paid subscribers in the music ecosystem.

Public performance segment stumbled from its steady growth path and was forced to forfeit its revenue for the first two-quarters of FY21. The segment improvised and innovated new monetising avenues in form of virtual streaming and artist-fan live interaction sessions to safeguard the value of its assets (artists).

COVID-19 could ultimately represent the interlude that prompted the Indian music industry to innovate and find new growth avenues to fulfill its long-standing dream of becoming one of the leading music markets.



Sound check: new digital audio consumption trends in 2020



Vinodh Bhat

*Co founder, President and Chief Strategy Officer,
JioSaavn*

We will all look back on 2020 as the year that collectively transformed our daily routines, including digital audio streaming. Work-from-home playlists are replacing commuting tunes, relaxation is taking priority over party anthems, and podcasts are inspiring new learning and discovery. Throughout this upheaval, digital audio has remained a constant in sound-tracking our new lifestyles.

There's a growing need for screen-free time and now more than ever, listeners everywhere are turning to audio for information, entertainment, or simply a lift in spirits. We have gathered insights from JioSaavn listeners as they navigate a new normal. Here's a snapshot of what the digital audio climate looks like at the moment.

1 - New routines demand new streaming habits:

With listeners spending more time indoors, all activities — childcare, working, cooking, cleaning, socialising (virtually!), and exercising — are taking place at home. Digital audio is a powerful companion, taking users through key moments in their day. And even though these moments now look different, listeners continue to lean on the power of audio streaming. Streams for cleaning playlists are up by 6 per cent every week and cooking by 20 per cent. Playlists related to home workouts are growing at an average of 17 per cent weekly. As parents find themselves tasked with keeping children entertained and educated while remaining safely indoors, they turn to digital audio for help. Kid-friendly content, like nursery rhymes and music, are topping charts and seeing a 155 per cent growth.

2 - Everyone needs a #throwback to simpler times:

Listeners everywhere are nostalgic for the years gone by, and their choice of content reflects this mood. People are looking to get their minds off the confusing environment, and familiar music provides that necessary comfort.²⁹ Research suggests that we are bound to the music we heard as teenagers more than anything we'll hear as adults—a neural connection that remains just as strong over time. This might explain why our largely Millennial and Gen Z user base is overwhelmingly listening to playlists dedicated to hits from the 80s and 90s. There has been a 520 per cent growth in throwback hits over the last few months.

3 - Relaxing is the need of the hour: Digital audio is deeply intertwined into our lives. As we take a step back and readjust our day to prioritise wellness, it's natural that our choice of content follows suit. Over the last few months, users have been focusing more on mental health. Party anthems and EDM playlists are out (for now) and softer 'chill' music is in. Users are seeking tranquility, and a 16 per cent growth in spiritual playlists reflects their new behavior. While many of these material increases into new categories can be attributed to lockdowns, more people are ingraining digital audio into their life moments and consumption patterns mirror their needs.

4 - Podcasts are gaining popularity: As listeners spend more time on digital audio streaming apps, they are discovering the informational, educational and entertaining benefits of podcasts. Listeners have been relying on podcasts for rich, in-depth narratives packed

29. Why do we love the music we heard as teenagers? <https://slate.com/technology/2014/08/musical-nostalgia-the-psychology-and-neuroscience-for-song-preference-and-the-remembrance-bump.html>, August 12, 2014

with actionable tips, new learning and compelling stories. News podcasts have experienced a 245 percent growth. JioSaavn's own Podcast Channel for news about the pandemic, All About Corona, is growing by 14 per cent every week, and multiple podcasts in the channel bring in reliable and useful updates about the pandemic. Podcasts related to parenting are popular too, as everyone tries to juggle work and childcare in an uncertain climate. Many aspirational young adults have also used the extra free time to sharpen existing skills and discover new interests to advance their careers.

Through the mundane and the insane, digital audio has consistently carried our users through significant moments in the day. The JioSaavn team has been iterating our strategies in real-time based on our users' evolving streaming preferences and behaviors. It has always been a central important tenet for us to meet our listeners where they are - whether it's with more day-long music playlists to get them through a new routine or contextual podcasts to address a life need. In a time of uncertainty, we are receiving a clear signal that digital audio has been, and continues to be, the go-to, always-on companion in our users' daily lives.



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

Industry perspectives

The recorded music eco-system will be badly impacted by Covid-19. A low paid subscription base in the music streaming eco-system will add to the misery. Also adding to our woes are the proliferation of “short-video sharing social networking apps”. A number of these apps are yet to license music content used on their platforms from member companies. A ray of hope is the royalty rate negotiations with radio broadcasters, our hope it will be on par with market dynamics, keeping in mind the size of the private radio broadcast industry and the recorded music industry in India. Public Performance revenues will be a near wash out.



Blaise Fernandes
President & CEO
The Indian Music Industry

The world is more connected than it's ever been, hence, it's a time primed for the extraordinary growth of music listenership. Technology has now made discovery so easy that virtually any song from any artist, from any region, in any country, from any genre could be the next big song. The artist first economy is now a reality and eating definitively into the film music pie that has been the dominating art form for decades now. Non film music of all kinds across regional, pop, hiphop are now becoming the new norm & social and digital media are allowing for quantum leaps in reach & engagement like never before. I'm fairly confident that the growth of our music industry will be aggressive, while being consistent over the foreseeable future.



Devraj Sanyal
Managing Director & CEO
Universal Music Group

The increase in internet enabled mobile phone penetration augurs well for consumption of music via streaming platforms. With this there is an increase in engagement with music in multiple languages. While Film music will continue to rule the landscape, there is also an opportunity to grow Non-Film music across languages in the Country and give an impetus to growth of the music eco – system in these markets.



Rajat Kakar
Managing Director
Sony Music Entertainment India

Whilst COVID-19 has been a speed breaker, the music business is like a SIP. Growth is undeniable as touch points to the consumers increase and the real fuel for sustainable growth will be paid music subscriptions in the digital area. That's when path to profitability will come by for everyone in the value chain.



Mandar Thakur
COO
Times Music





Radio

Static on the airwaves



Radio

Static on the airwaves

In FY20, the radio industry was significantly impacted by a macroeconomic slowdown and nationwide lockdown in third week of March 2020 due to COVID-19 leading to a decline of 11.1 per cent¹ over FY19. Such a slowdown continued to impact consumption, causing corporates to lower or withhold advertising spends. The situation further aggravated when a sudden lockdown announced by the Government of India resulted in advertisers canceling confirmed and ongoing ad campaigns mid-March onwards. Additionally, this year saw a shift in

advertising spend to TV and digital space which had an adverse impact on radio industry.

In terms of the overall advertisement share, radio advertising contributes 8-9 per cent¹ internationally, whereas in India, it has remained constant at around 3-4 per cent¹. As at end of March 2020, 381 FM radio stations¹ are operational in 107 cities. A snapshot of key players in the industry is below:

Radio Network	Entertainment Network India	Sun	Reliance Broadcast Network	Music Broadcast	DB Corp	HT Media	Others
No. of channels	73	67	58	39	30	22	92
No. of cities	63	62	58	39	30	15	74

Source: KPMG in India analysis, 2020, based on primary and secondary research

Radio industry grew at a CAGR of 6.68 per cent¹ for five years, from FY15 to FY19. However, contraction in the radio industry by 11.1 per cent¹ in FY20 relapsed industry size back to FY17 level.

Historical performance: Radio

Segment size (in INR billion)	FY16	FY17	FY18	FY19	FY20	FY20 growth	CAGR (FY16-20)
Size of radio industry	22.7	24.0	25.9	27.5	24.5	-11.1%	1.5%

Source: KPMG in India analysis, 2020, based on primary and secondary research

1. KPMG in India analysis, 2020 based on primary and secondary research

Key challenges faced by the radio sector during FY20 were:

- Central government ad spends were curtailed in and around May 2019 due to code of conduct on advertising during the election and did not pick up much after that. Further, overall negative economic sentiments have led to lower advertisement spends from real estate, BFSI, e-commerce and media & entertainment category.
- Due to slowdown and growing potential for digital usage, radio industry saw a significant dip in volume which led to reduction in inventory utilisation. Legacy stations are now operating at 60-75 per cent¹ down from 70-75 per cent¹ in previous year and newer stations operating at 35-40 per cent¹ down from 45-50 per cent¹ in the previous year.
- Further, weak demand has put pricing under serious pressure. The industry estimates of ad rates varied across cities from over INR40-50 per second¹ in the metros to INR12-15 per second¹ in certain tier 3 cities. Further, ad rates varied across languages from over INR45-70 per second¹ in English/Hindi to INR15-25 per second¹ in regional.

COVID-19 – a new normal

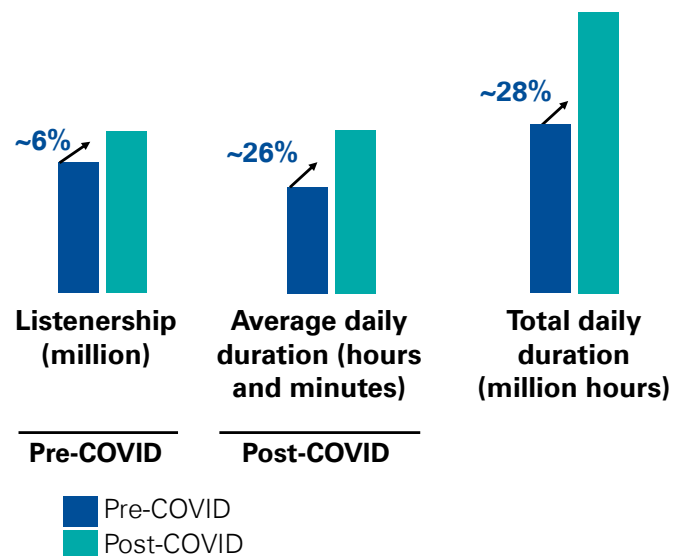
The immediate lockdown announced on 23 March 2020 sent the entire country into a sudden state of shock and uncertainty, leading companies to slash discretionary spends and preserve cash. Since, advertisements and marketing spend are primarily discretionary in nature, media companies were the first to bear the brunt. Consequently, radio companies reported negligible advertising revenues during the months of April 2020 and May 2020 with a slight recovery in June 2020².

- **Revenue decline:** Radio industry first felt the impact of COVID-19 by mid-March 2020 when various advertisers either pulled back on campaigns or cut their ad spends. Radio stations revenues nosedived by ~85-90 per cent² during April 2020 and May 2020. While, lifting of lock down saw advertisers come back to radio advertising in June 2020, ad revenue was estimated at ~70 per cent² of pre-COVID level.
- **Boost in listenership:** While, the revenues contracted, there was an expansion in radio channel listenership. In an independent survey conducted by the Association of Radio Operators (ARO),

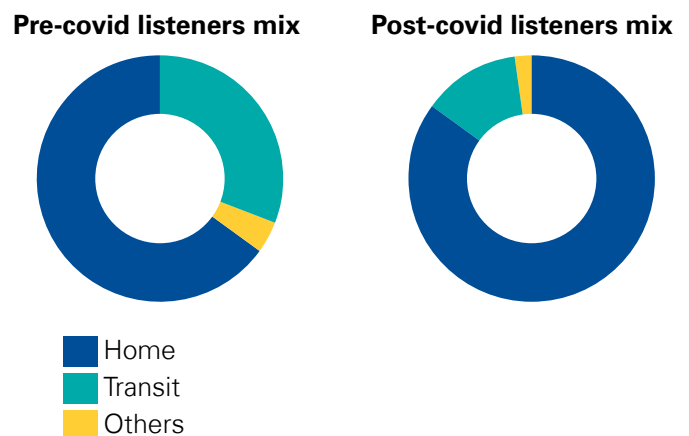
In an independent survey conducted by the Association of Radio Operators (ARO), total daily duration increased by ~28 per cent³, supported by significant increase in average daily duration per listener and slight increase in number of listeners.



Work from home led to an increase in mix of home listenership from 65-85 per cent⁴. Additionally, limited outside activities due to lockdown norms resulted in increase of average time spent on radio.



Source: AZ Research PPL survey, April 2020



Source: Independent survey Toluna, April 2020

1. KPMG in India analysis, 2020 based on primary and secondary research
 2. KPMG in India analysis, 2020 based on primary and secondary research

3. AZ Research PPL survey, April 2020
 4. Independent survey by Toluna, April 2020



- **No significant disruptions in operations:** No significant technological challenges ensured smooth transition from studio to work from home without any major disruptions. Hence, most of the radio channels were operational throughout the lockdown and content remained updated.

Digital wave - challenge or opportunity

India is now the second largest smartphone market globally, with a user base of ~500 million⁵. Significant strides in the telecom industry with affordable smartphones, affordable data and availability of diverse content, have made smartphones and digital media platforms (accessible through smart phones) a preferred mode of consumption of media for the masses. With the growing usage of digital audio, video and social media platform by consumers, digital advertising market continues to grow as advertisers redirected their ad spends towards digital media from traditional formats.

To stay relevant to their listeners and keep pace with the growing digital economy, radio players have continued to innovate their business strategy to increase their presence in the digital space and come up with ways to position the segment with a full range of digital offerings for advertisers.

To increase its presence in digital space, few initiatives taken by radio operators are:

- Continuous innovation in content that can be published on digital space and evolution of radio jockeys (RJs). Their role has evolved from captivating the listeners through narrative and music to being media influencers. RJs, with the help of social media, are now able to interact with a much wider audience base and share their views.
- Strategic partnerships with digital players for licensing their content to multiple platforms, including OTT players, music streaming applications, etc. For instance, Radio City and Big FM's collaboration with Spotify⁶ for commercial content partnership, where

Spotify users will have access to their content. Red FM's collaboration with Penguin India (English trade publisher) is looking to launch a new podcast 'Hooked on books'⁷. Big FM forays into live web radio space with the launch of BRO – Big Radio Online!⁸ Radio industry is entering into a new world where the synergy between radio and digital is imperative in the 'new normal', these digital offerings sees the network take the next big step towards becoming a platform-agnostic audio entertainment company, reaching out to its audience through multiple touchpoints.

Such integration with digital helped radio operators with monetisation opportunities and additional revenue streams. Further, to cope with competition and bounce back to pre-COVID level, radio industry is focusing on providing holistic (360 degree) solutions to its clients instead of just selling airtime. This includes understanding marketing challenges from clients and providing an appropriate solution which combines various components such as radio, on ground, digital (i.e. publishing videos and podcast on social media, YouTube etc.) and other media, for instance print and television.

Big players such as Radio Mirchi claim that revenue from such holistic 360-degree solutions contributes one third of total revenue⁹ and expects it to grow even further.

Globally, the United States of America is the world's largest radio market with ~50 per cent of global radio revenue¹⁰. Despite having a greater reach in audience, radio players in America are facing disruption and losing ground to digital. Radio's share in the total advertisement spending slipped in last 2 years (2018 and 2019) due to negative pricing trend and continued decline in engagements. Interestingly, at the same time, ad spending on the internet in the U.S. is soaring and this is currently pegged more than half of the total advertisement spending. To compete with growing digital giants, strategic partnerships with tech companies have been the key source of developing a robust portfolio of assets and integrated solutions that help advertisers to get most engaged audiences through targeted reach. In the United Kingdom, certain radio players are investing heavily in digital broadcasting to reach full potential in the digital age and launching digital audio advertising products to attract advertisers.

5. Tech insight by techARC, 30 January 2020

6. Digital integrated with Radio is the 'new normal' for the sector, exchange4media, 29 May 2020

7. Red FM, Penguin India launched new podcast 'Hooked on books', The New Indian Express, 19 May 2020

8. Big FM forays into live web radio space with the launch of BRO, exchange4 media, 26 June 2020

9. Entertainment Network India Limited – Earnings conference call for Q4 FY 2020, 22 June 2020

10. Is the radio broadcasting industry in the U.S. dying? Televisory, 21 November 2020

Key themes

Consolidation

Post the expiry of the mandatory lock-in period, the radio industry has witnessed consolidation such as HT Media Limited acquired 51 per cent stake in Next Mediaworks Limited and Music Broadcast Limited ('MBL') acquired radio division of Ananda Offset Private Limited (Friends FM)¹¹ in FY19. Additionally, MBL also decided to acquire radio business of Reliance Broadcast Network Limited (RBNL) to expand its geographical presence to 79 stations spanning 69 cities, but the deal has not consummated due to delay in approval from government and Ministry of Information Broadcasting approval¹².

Owing to significant decline in business due to the pandemic, while big players are losing money, certain small and medium radio players are struggling to survive and facing heavy liquidity issues. Hence, radio players have been indicating to pursue the inorganic route to grow and consolidation is likely to help in getting more operating leverage.

However, lower success rate of consolidation due to delay in approval from government authorities will be a big challenge in front of radio operators.

Absence of widely accepted measurement system

The measurement system continues to be a challenge for the industry. Lack of robust listenership measurement system has been a roadblock for the industry players to attract high quality advertisers to invest in radio.



While, different stations have resorted to different ways to measure their audience (such as data provided by Radio Audience Measurement (RAM) by TAM media Research or independent agencies and surveys developed by industry players to track listenership), lack of a unified listenership measurement system continues to be a challenge. Association of Radio Operators in India ("AROI") and Media Research Users Council ("MRUC") have been undertaking initiatives, but it remains a work in progress.

Regulatory challenges

Key regulatory challenges faced by the radio sector are:

- Phase III auction held in FY17 drew a tepid response due to higher reserve prices. The government may seek remediation measures such as lowering the reserve prices, benchmarking reserve price with advertisement potential of the cities or revenue share model to reduce the cost burden on these radio channels.
- The radio industry is lobbying with the government to provide more autonomy in broadcasting news. Presently, private FM radio broadcasters have to carry the AIR news bulletins on 'as is' basis, in an unaltered form, restricting the free speech in the process and restricting content differentiation to attract new listeners. Additionally, the commercials which are broadcasted along with new bulletins are also carried out on 'as is' basis. Since radio broadcasters take pride in their unique style for content creation, more autonomy in broadcasting news will help them establish their own credibility and independence and help them to capture a wider audience.

Digital radio technology

To increase efficiency in operations and spectrum usage, the government should consider auction of remaining channels of Phase III by permitting use of any technology (analog or digital or both). Freedom in usage of technology will help in facilitating smooth transition to digital radio broadcasting. Digital radio broadcasting allows broadcasting three to four channels on a single-frequency carrier with better audio quality while current analog mode broadcasts only one channel on a given frequency carrier. This is also in line with the TRAI recommendation in order to transition to digital radio technology.



11. HT Media acquires 51 per cent stake in Radio One parent Next Mediaworks, livemint, 24 April 2019

12. Music Broadcast Limited- Earnings conference call for Q4 FY 2020, 26 May 2020



Road ahead

The first quarter of FY21 has been extremely daunting for the radio industry as most of the key players witnessed ~75-85 per cent¹³ decline in their top line. During nationwide lockdown in April 2020 and May 2020, advertisers decreased advertisement spends due to lower consumer demand, resulting in decline in radio industry inventory utilisation by ~80 per cent¹².

However, the radio industry saw some recovery in inventory utilisation at ~60 per cent¹² of pre-COVID level in June 2020 on relaxation in lockdown norms. Radio industry expects this recovery to continue as the festive season comes closer and more of lockdown easing happens.

Given the COVID-19 situation, radio operators are expecting to close FY21 with 50 per cent¹² decline in revenues. Further, radio operators are anticipating ~40 per cent¹² growth in FY22, driven by government and political spending on election scheduled in FY22 and significant increase in corporate and media and entertainment industry spends to achieve a strong market position.

However, given the macroeconomic situation and fierce competition from TV and digital media, radio operators are expecting very slow recovery to the pre-COVID levels. Due to pending clarity on next round of phase III stations, we have not considered any growth from launch of stations not yet launched in below projections.

Radio is among the oldest and last free-to-air medium with relatively large reach and hence, continues to be an important medium. For now, it has been able to survive despite stiff competition from digitalisation. Given the challenges faced by the industry around measurement and high gestation period, holistic reforms in government policies and outlook are much needed to save this industry before the time runs out.

Projected size of the radio industry

Segment size (in INR billion)	FY20	FY21P	FY22P	FY21 decline over FY20	FY22 growth over FY21
Size of radio industry	24.5	12.3	17.2	-49.9%	39.9%

Source: KPMG in India analysis, 2020, based on primary and secondary research



12. Music Broadcast Limited– Earnings conference call for Q4 FY 2020, 26 May 2020

13. KPMG in India analysis, 2020 based on primary and secondary research

Industry perspectives

Solutions business has emerged as a critical component of the transformation strategy of Radio Mirchi. Given the need for integration with digital under new normal, Radio Mirchi is ahead of its competitors. Solutions business is not only solving the advertisers' problems but is also changing the outlook of radio in the media industry, resulting in bringing on new advertisers who earlier were not ready to use radio as a medium.

Our model of creating engaging video content and presence on multiple platforms has helped advertisers in enhancing brand visibility and reach the ultimate consumer.



Prashant Pandey
Managing Director & CEO,
Entertainment Network
(India Limited)

Amid the COVID-19 crisis, the radio industry has seen a drastic impact. This indeed is a testing time but looking at it from an optimistic perspective, it is opening new opportunities. According to a recent study by AROI, average daily time spent listening to radio increased by 23 per cent during COVID-19, which has reinforced the reach and power of radio. Big FM is betting big on monetising this growth in listenership through its newly launched self-service platform "BuyAdsonBigFM.com" which facilitates brands and advertisers creating jingles for their ads, strategising media plans, placing order and transacting online without any distress. Though the radio industry is making efforts to bounce back from this crisis, relief from government in the form of license fees waiver, restoration of government spending and clearing of outstanding dues will be an important step towards recovery.



Asheesh Chatterjee
Chief Financial Officer &
Chief Business Officer,
Reliance Broadcast Network

COVID-19 has resulted in a major dent to the industry and the uncertainty still continues. The revival of the media industry is dependent upon overall economic recovery as one sector cannot boost the media industry. The year also witnessed competition from the new age medium, we have been able to amplify our own digital assets to provide 360-degree solutions to clients. RJs have been very creative in terms of creating content for radio as well as digital space to engage the audience and increase their participation. Digital collaboration has resulted in attractive holistic solutions to the advertisers at an attractive cost.



Rahul Namjoshi
Chief Operating Officer,
MY FM – DB Corp Ltd

No crisis comes with a warning or allows us a practice session, the businesses that will survive and prosper are those who have consciously been watching their bottom lines, have believed that cash is king and have been prudent in cost management. While crisis is often an opportunity to tighten our purse strings and force us to improve efficiency and productivity which may have got compromised during the days of plenty, this pruning and tightening helps only if the businesses are able to tide over the crisis.



Apurva Purohit
President,
Jagran Prakashan Ltd.

Themes





1

India's digital demography

A new homogeneity emerges

At its peak, COVID-19 required one-third of humanity or 2.6 billion people to be under one form of lockdown or the other¹. With so many of us indoors, digital – in all its formats and genres – became the preferred way for people to connect, shop, learn and entertain themselves. Therefore, not only were more people going online for longer periods of time, but they were also doing so for a greater variety of activities.

In the 2019 M&E report², we had projected that India would be home to a billion internet users by 2030. This was based on our assumptions that digital technology was going to be increasingly ingrained into our everyday lives and Indians would grow in their levels of engagement online over time. The outbreak of the coronavirus and its subsequent impact on our personal and professional lives has reinforced this hypothesis and bolstered its relevance.

COVID-19: The great amplifier

Many of our observations on India's digital demography are based on a nuanced understanding of aspirations, preferences and behavioural patterns of the online consumer.

With the experience of COVID-19, while the overarching themes remained prevalent, the underlying, more obscure trends in digital behaviour have been amplified.



1. More people under lockdown than were alive during World War II, Science Alert, 25 March 2020
2. India's digital future: Mass of niches, KPMG in India, 2019

For example, in our analysis last year, we had predicted that there would be “increasingly marginal differences in the rural-urban, male-female and even young-old profiles”³ of the digital user in India. These pronouncements have been borne out sooner than expected. A survey conducted by KPMG in India in July 2020 revealed the following⁴:



Bharat catches up on e-commerce: The disparity between Tier II and III cities on e-commerce is almost non-existent post the experience of the lockdown in India. These locations have willingly adopted digital channels and outpaced Tier I cities with a 2x rise in engagement.



Older and wiser: Respondents in the age bracket of > 51 years showed the highest jump in using online buying channels during COVID-19 lockdown thereby reducing the gap in digital connectedness with the other age groups. The digital on-boarding of this older demographic, which might ordinarily have taken a few more years to reach this level, has been greatly accelerated with COVID-19 and its associated requirements of social distancing.



Greater trust in digital payment mechanisms: Prior to COVID-19, Indians were making between 50-65 per cent of their e-commerce payments through the COD method⁵. Therefore, while Indians had moved online to discover, select and complete their purchases, digital payments had not kept pace. Now, 85 per cent of respondents in the survey reported a continued preference for contact-less modes of payments. Such a shift requires trust in the digital payments' infrastructure, which might have taken longer to build in a more normal scenario.



More similar than different: The growth in digital payments adoption has shown a considerable jump in the smaller cities and towns of India and revealingly, Tier III cities had the highest number of respondents who chose UPI/online wallets even when compared to shoppers in Tier I cities.



Moving from merely consuming to transacting online: The move towards cashless payments seems to have gained greater acceptance more generally in India, with the National Payments Corporation⁶ reporting the highest volume (1.5 billion) and value (INR2.91 trillion) of transactions through UPI in July 2020 since the interface was launched.

3. India's digital future: Mass of niches, KPMG in India, 2019

4. Time to open your wallet or not? KPMG in India, July 2020

5. Cash on Delivery: E-commerce's pain point, India Retailing, 27 August 2019

6. Digital payments shoot through the roof but fintech funding disappoints, Business Line, 05 August 2020



Our digital consumer archetypes

While digital adoption has accelerated among Indians, the four broad consumer archetypes that we outlined last year continue to remain applicable and relevant today. A summary of the characteristics of the four groups is given below:

Consumer archetype	Characteristics
Digital Sophisticates	<ul style="list-style-type: none"> • Wealthy, urban and tech-savvy • Mimics the preferences and behaviour of a global digital user base • High barriers to entry so only upward transition from Digital Enthusiasts possible.
Digital Enthusiasts	<ul style="list-style-type: none"> • Includes both the early adopters who have the propensity to spend as well as young users • Group with the greatest diversity and will include for example those who stream to the smartphone as well as to the big screen • Will also display more linguistic preferences and choose to consume in English, Hindi and a regional language.
Digital Mainstream	<ul style="list-style-type: none"> • Price conscious digital user who came online post 2016 • Almost entirely mobile-led digital access and consumption • Large non-urban and non-English speaking population.
Fringe	<ul style="list-style-type: none"> • Both low incomes and poor connectivity hamper their transition online.

India's digital trajectory post COVID-19

By virtue of this digital acceleration though, there have been two major shifts to India's digital trajectory:

- We now anticipate that India will be home to a billion digital users by 2028 compared to the earlier 2030. As a result of the many influences of the last few months, the path to the "digital billion" has been shortened by an estimated 12-24 months
- While initially through necessity during lockdown, in the medium to long term, this acceleration is being driven by the confidence, comfort and credibility of the digital experience that has grown significantly across archetypes. This has caused a faster upward progression of each of the cohorts – i.e. the Mainstream is likely to share many of the digital preferences and behaviour common to the lower end of the Enthusiasts.

When in 2018 there were an estimated 526 million broadband internet users⁷, as of the end of 2019, this figure had risen by 136 million to 662 million⁸, a growth of 26 per cent. The number of broadband internet users can be expected to rise considerably further in 2020 as a result of people having been homebound, but could flatten out towards 2028, as challenges with internet penetration are faced in remote areas and among the most economically vulnerable sections.

We do not foresee a material change in the composition (i.e. share of each archetype) in the digital billion in 2028 as compared to 2030; the Enthusiasts will emerge as the largest group in the digital billion but will do so two years earlier, for example. Similarly, the Sophisticates will remain in the minority even in 2028.

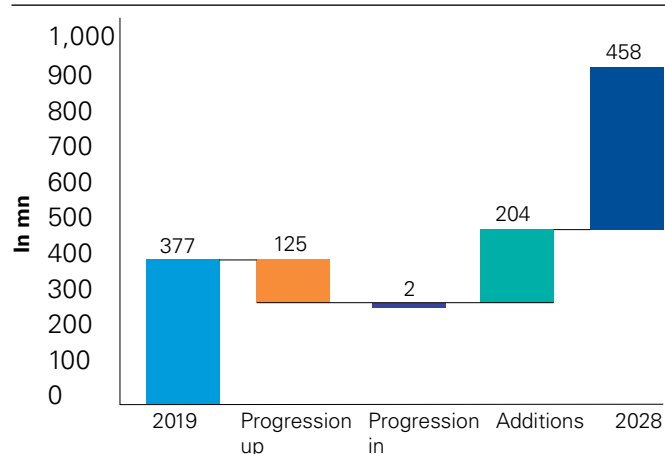
The addition of new digital users and a progression of consumers upwards into the next more sophisticated, engaged digital user group will continue to occur concurrently over the next few years, but at a more rapid pace thereby bringing forward the digital billion timeline from 2030 to 2028.



Current projections (2028)	In mn.	Share
Digital Sophisticates	52	5%
Digital Enthusiasts	526	49%
Digital Mainstream	458	43%
Fringe	5	3%
Total	1,071	100%

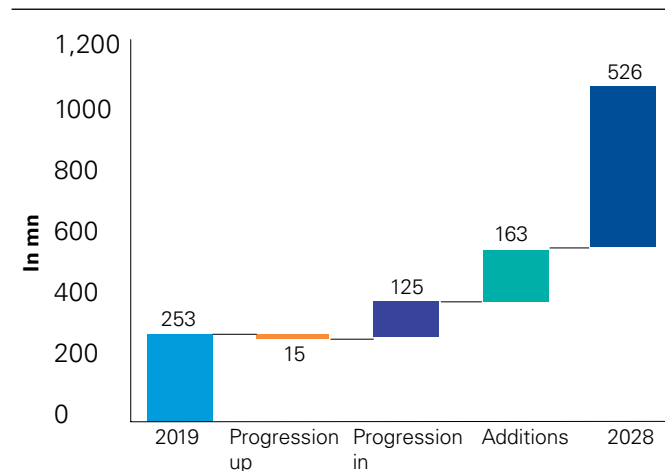
- There is likely to be a faster progression out of the Digital Mainstream upwards to the Digital Enthusiasts in a post-COVID-19 world. An estimated 125 million people are likely to shift from the Digital Mainstream to the Enthusiasts
- There will also be an addition of 204 million users into the Mainstream primarily on account of first-time users from smaller towns in India using their smart-phones to access the internet

Mainstream



- According to research there are also around 71 million kids between the ages of 5-11 years – part of Generation Alpha – who access the internet today using their parents' devices today⁹. With schools also shifting online, this propensity to use digital technologies is only set to increase over the years for this cohort
- The new addition of 163 million internet users into the Digital Enthusiasts category is likely to be a combination of this group as well as the previous, older, Generation Z. India is incidentally home to the largest population of Generation Z, who are the current young adults and teens¹⁰
- It is pertinent to note here that the digital consumer archetypes are based on household rather than individual income when it comes to analysing access, preferences and behaviour patterns on the internet.

Enthusiasts



7. TRAI December 2018

8. TRAI December 2019

9. IAMA/ Nielsen via The Times of India

10. Generation next: Meet Gen Z and the Alphas, Mccrindle



Progress is impossible without change

While the trajectory, composition and overarching themes of India's digital demography are consistent even in a post-pandemic reality, we outline a few of the structural shifts that have occurred in digital consumer behaviour over the last few months:



Indoor over outdoor for a while longer: Until a reliable, affordable vaccine is found, social distancing norms will likely remain a part of our lives. Lockdowns might become a recurring feature and people will, albeit grudgingly, develop the ability to stay indoors for extended periods of time. Digital technology should remain embedded in our everyday lives for some time to come



Bharat could lead in defining digital behaviour: Rural demand has shown unexpected resilience with sales of fertilisers, tractors and motorcycles all registering a growth within weeks of the unlock, which augurs well for rural prosperity. This is happening alongside an already deepening engagement with the internet for the rural digital consumer. Therefore, not only do we foresee a "new homogeneity" between the various segments – rural/urban, young/old etc. – but in fact the emergence of a vibrant digital consuming and transacting class from smaller town India



Less friction in digital payments adoption: The higher level of trust and confidence in going online post the experience of the pandemic is already apparent as more Indians choose cashless methods of payment. Consumers across the socio-economic spectrum will continue to turn to e-commerce as a preferred alternative across an increasingly wider variety of purchase decisions from travel, food, grocery etc. in due course. Digital payments will be fuelled not just by growth in conventional e-commerce but also by a whole new range of businesses that will now offer digital fulfilment options for their propositions.

COVID-19 has challenged many long-held beliefs about the way we live, work and play. Age, income and location will become even less of a barrier to digital conversance and India as a nation could transition more cohesively from passive, video viewers to legitimate digital mainstream consumers.



Why the future of digital is social



Umang Bedi
Co-founder, Dailyhunt

The COVID-19 pandemic may have siloed us, but not silenced us. Human beings are inherently social, and the internet has been our biggest ally. India's thriving digital economy is now *fait accompli*. Some businesses are because of it, but today, all businesses *depend* on it. What continues to fascinate me though is the social impact on people and their paradigm shift from a mere digital audience to a digital community of decision makers. As I reflect on 25 years of the internet in India, here is why I strongly believe that the future of digital is social.

Digital is the new milieu in which social communities thrive:

When social media platforms were introduced, they came with a singular purpose – as a communication channel for friends and family to stay connected. Then, digital platforms slowly started to dictate social behaviour. Today, digital communities dictate platform behaviour and demand dynamics for many industries. It is no surprise that these platforms have evolved into lucrative tools for varied businesses.

There is also a science behind why social media has pushed at the forefront of the consumer connect mix. It provides personalization, which is an ability to provide to

the consumer what he or she wants to see in an instant on demand. That happens when you marry the variables. First, is a very deep understanding of content. Whom we once targeted as content consumers, will only reciprocate today, depending on your acknowledgement of them as *content creators, curators and conversers* – seen in the birth of user generated content (UGC). It is a powerful tool that creators and marketers both enjoy. Not only does UGC serve as true validation of a brand's influence, it is also credible and is most optimal means to achieve organic content, engaged users and sustainable growth. Within UGC, short video is a thriving form and has a 'long' way to go in a vernacular behemoth like India, allowing for deeper and more fruitful connections between brands and people.

Second, is understanding the consumer on non-personally identifiable variables such as engagement—how they spend time and what signals they are passing on to you. Then, in real time, it is about having the digital tools to create a feed that can cater to their needs. Simply put, it is about delivering gratification to the user, who has an extremely small attention span and is most probably, even pressed for time.

Having managed both sides, I have learnt that the critical need is to understand content and adapt social media signals to improve retention in the context of digital communities. Especially against the backdrop of a multi-lingual nation with a young demographic and high aspirations.

A long tail strategy to bring brands aboard the digital Bharat bandwagon

The challenge here is to make it appealing to the next 500 million digital users in Bharat. I use Bharat because it is inclusive in all its diversity. Diversity marked by region, language, culture and today, even bandwidth. Some may argue the effects of a digitally enabled and connected society, but in effect, it is the very thread that holds Bharat's social fabric together. And businesses whose strategies are interwoven with this fabric are those that will live to tell the tale.

Bharat's deep diversity which has been further exposed in this pandemic has compelled traditional businesses to think digital and digital businesses to think social. It would be remiss for brands to continue to adopt a one-size-fits-all or blockbuster approach.

And why should they when a digital channel not only connects them to an audience of millions but when powered by social, allows them to understand what, where, when and how this audience consumes. Today, hyper connectivity means hyper localisation, and this translates into opportunity for brands that were otherwise forced to recede from overcrowded shelves or marketplaces. Much like sanitation drives, immunity vans and live pujas, social media strategies will have to be tailor-made to create spaces where people/communities can influence each other to derive value from a brand.

With the help of social media tools, user generated content and analytics, the time is ripe for brands to experiment with a long tail strategy, enhance their sales and optimize profits. After all, what was once the power of a brand is now shared equally by a burgeoning online peer network.

Innovating monetization:

While real world businesses are built on the foundation of sustainable revenue and profitable growth, digital businesses must develop the ability to control their own survival and destiny. Unlike traditional media, the digital medium is dynamic, interactive, and now propelled by the collective power of society. Hence, a lot of time needs to be invested to build out end-to-end, delivery-oriented businesses.

So how do we get digital players to accrue the benefits from a monetisation standpoint? Could collaborations as currently seen between OTT platforms and telcos help drive data consumption and bring in the money? Local language advertising to Bharat is already proving to be a winner with better reach and higher conversions kicking in for brands. Short form video will add more fuel to this fire as more and more brands become believers and see the power of the medium and the eventual results.

The next 25:

The times are elusive, but people's aspirations are not. Over two decades of the internet in India, and the nation is the better for it. It has empowered billions and improved how we live, interact, consume, and trade. But in order for our billions to realize their aspirations, they will have to be coopted into the digital ecosystem. Brands will have to build for communities and not audiences. And our progress here on will be dictated by our ability to catalyze this shift from just a digital to a truly social country.

2

The content supply chain

Disruption necessitates innovation?

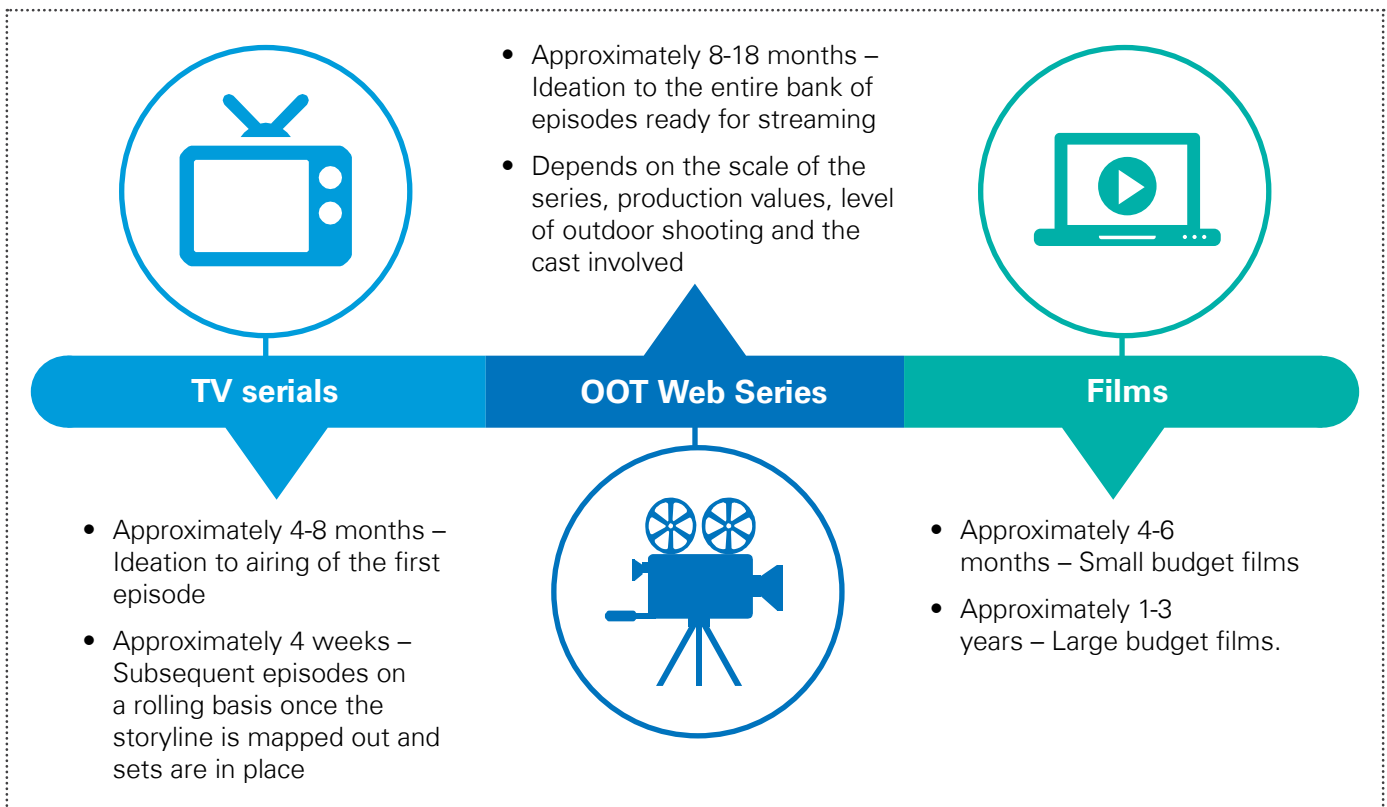
The current video content supply chain is typically a set of six overlapping phases which is broadly consistent across broadcasting mediums, including television, films and web-series, with each phase having its own set of complexities and importance in the value chain.

Bringing an idea to the screen



Indicative timelines

The timelines for content to be broadcast/distributed/streamed varies significantly depending on the end platform, the quality of content being created, and the genre of the content.



Though the content supply chain has evolved with increasing presence of technology, the core elements of the value chain continue to remain the same which has resulted in adding multiple complex layers and inefficiencies to the processes.

Multiple aspects of the processes are manual and require in-person involvement, which leads to inefficiencies in terms of costs and lead times.

Further, while there have been significant technology innovations, in the form of digital cameras, green screens, VFX etc., they are isolated in the distinct elements of the value chain and not integrated. High presence of freelancers and informal models has exacerbated these problems with pockets of high tech contrasted with high levels of manual intervention.

OTT video – winds of change

Proliferation of OTT platforms combined with their increasing hunger for original content appears to have triggered changes across both nature and quality of content and the existing content creation processes.

Quality of content

Unlike traditional TV channels, OTT offers varied stories across genres that are not limited by demographics or censors. Even certain traditional production houses that typically offered 'women-centric' content, are experimenting with a wide range of genres on their OTT platforms. Season-based web series, some of which are really popular in the west, are starting to find takers in India. Short duration content is also gaining traction, catering to the 'snackable' content audience.



Production processes and costs

OTT video platforms have impacted the timelines and costs of content creation in a major way. With the widely varying genre of stories being offered on OTT video platforms, along with shorter, binge-watch worthy seasons in place, necessitates that production houses stay agile and re-look at the way they ideate and create content, in order to turn around a gamut of stories for various platforms rather quickly.

To achieve this, the production houses need to build scalable operating models, expand their teams and streamline the content creation processes through adoption of technology so that delivery can be faster and more efficient.

Production houses are also experimenting with newer genres and are open to investing more on the quality content as well, thereby pushing up the production costs. The cost per episode of an OTT web series (ranging from INR30 lakhs to INR2 crore) is significantly higher than the per-episode cost (INR8-12 lakhs for a fiction series) of a TV soap on popular Hindi general entertainment channels (GECs)¹.

COVID-19 has disrupted content creation

The nation-wide lockdown to contain the COVID-19 pandemic brought Indian film, TV and OTT content production to a standstill, causing a major disruption in the typical video content supply chain and laying bare the current inefficiencies.



Small production houses majorly impacted, lack of original TV content

Typically, TV production companies are commissioned to make specific content and are usually paid on a per-episode basis. With content production stalled for close to three months, the production companies continued to incur fixed costs (albeit with putting some cost cutting measures in place) and have suffered significant losses. Further, as the content production for daily soaps is based on a dynamically changing storyline, taking the ratings into account, the broadcasters have a bank of only two to three weeks of episodes before they need to start airing re-runs of popular shows, especially non-fiction, which is something that major broadcasters had to start doing in April 2020, owing to the lockdown.

For small-to-mid-size media and production houses, COVID-19 has resulted in business continuity being a major challenge, and the pandemic overall has had a significant impact on sustenance of daily-wage earners in the industry.

OTT platforms less impacted

Compared with TV broadcasters though, the OTT video platforms have fared better given a larger content bank and greater adaption to remote post-production using technology, particular for international content. An example among the large OTT players, Netflix has already filmed the bulk of its content planned for release in 2020 and the post-production is underway, remotely, across the globe.²

Unlock processes are onerous




After three months of lockdown, the film and broadcast industry was allowed to resume production by a few state governments, including Maharashtra, West Bengal and Tamil Nadu (green zones)³. The approvals though, have come with several caveats.

1. Based on industry discussions

2. Binge-watch your way through COVID crisis: Netflix won't run out of shows, Brand Equity, 25 April 2020, accessed on July 24, 2020

3. Coronavirus Impact: Why film production firms continue to struggle to resume shoot despite relaxation of norms, Financial Express, 3 June 2020, accessed on July 25, 2020

Key aspects around the Standard Operating Procedures (SOPs) in place for shootings⁴

	<ul style="list-style-type: none"> • Social distancing – 6 feet physical distancing at shoot locations, recording studios, editing rooms etc.
	<ul style="list-style-type: none"> • Minimum cast and crew during the shoot
	<ul style="list-style-type: none"> • Rotational attendance - 33% of the crew allowed on sets based on their and their family's health status
	<ul style="list-style-type: none"> • Actor's real family members to be considered while casting
	<ul style="list-style-type: none"> • Visitors/audience not allowed on the sets
	<ul style="list-style-type: none"> • Disposing of the hard copy of scripts after every reading
	<ul style="list-style-type: none"> • Online/digital auditions
	<ul style="list-style-type: none"> • Healthcare setup including ambulances, doctors, nurses at the sets
	<ul style="list-style-type: none"> • Adequate provisions for gloves, masks, boots, PPE kits, etc.
	<ul style="list-style-type: none"> • Staggered call and pack up timings for different production units at a studio with multiple sets
	<ul style="list-style-type: none"> • Regular sanitisation of sets, make up rooms, vanity vans, washrooms, etc.

Some of these guidelines are temporary, but others are here to stay. This has implications for the standard operating procedures across the content supply chain, both in the short and medium term.

4. Preventive measures for Media production, Ministry of I&B, August 2020, accessed on August 25, 2020



Short term implications

Creative scripting and storytelling

- Scripts and content will need to be altered significantly and storytelling will probably need to be more creative

Potentially longer lead times

- Higher lead times for content delivery may be on the anvil - On an average, 75-125 people are required to shoot an episode of a serial or a web-series, which increases further if multiple locations are involved⁵. Even with these many people, it takes anywhere between eight to 16 months to prepare (from ideation to delivery) an OTT original series of eight-10 episodes.⁶ The new guidelines are expected to further reduce the already depleted crew strength (operating at 33 per cent strength⁷ only currently), resulting in longer lead times

Production cost implications

- Due to the new SOPs and hygiene requirements as well as costs related to COVID insurance, the cost of production is likely to go up by around 2-3 per cent in the near term.
- Broadcasters, however, are looking to re-negotiate content costs downwards with production houses, which is likely to result in a net decline in production costs by about 4-6 per cent in the remaining months of FY21⁸.

Medium term implications

Sustainable technological interventions

- If noteworthy technological interventions are made in the ideation and post-production processes, lead times could potentially come down for content delivery. Although, based on our industry interactions, the reduction in lead times is not envisaged to be significant, as the majority of time goes into the actual on ground shooting, which has limited potential for technology interaction.

Potentially better production quality

- The ongoing obstacles may lead to production houses, broadcasters and OTT platforms adopting technology across the value chain, which could also result in an enhancement of production quality

Production cost efficiencies

- Efficiencies may increase in terms of production costs as some processes in the value chain are likely to be carried out remotely.

However, there will be a learning curve as far as technology adoption is concerned, and the same would also result in upfront investments in terms of software and other cloud and remote working solutions across the value chain. Coming at a time when advertising revenues are drying up and the industry is staring at budget cuts, it will be challenging for the content value chain to immediately adopt technology along with its associated costs.

5. Coronavirus Impact: Why film production firms continue to struggle to resume shoot despite relaxation of norms, Financial Express, 3 June 2020, accessed on July 25, 2020

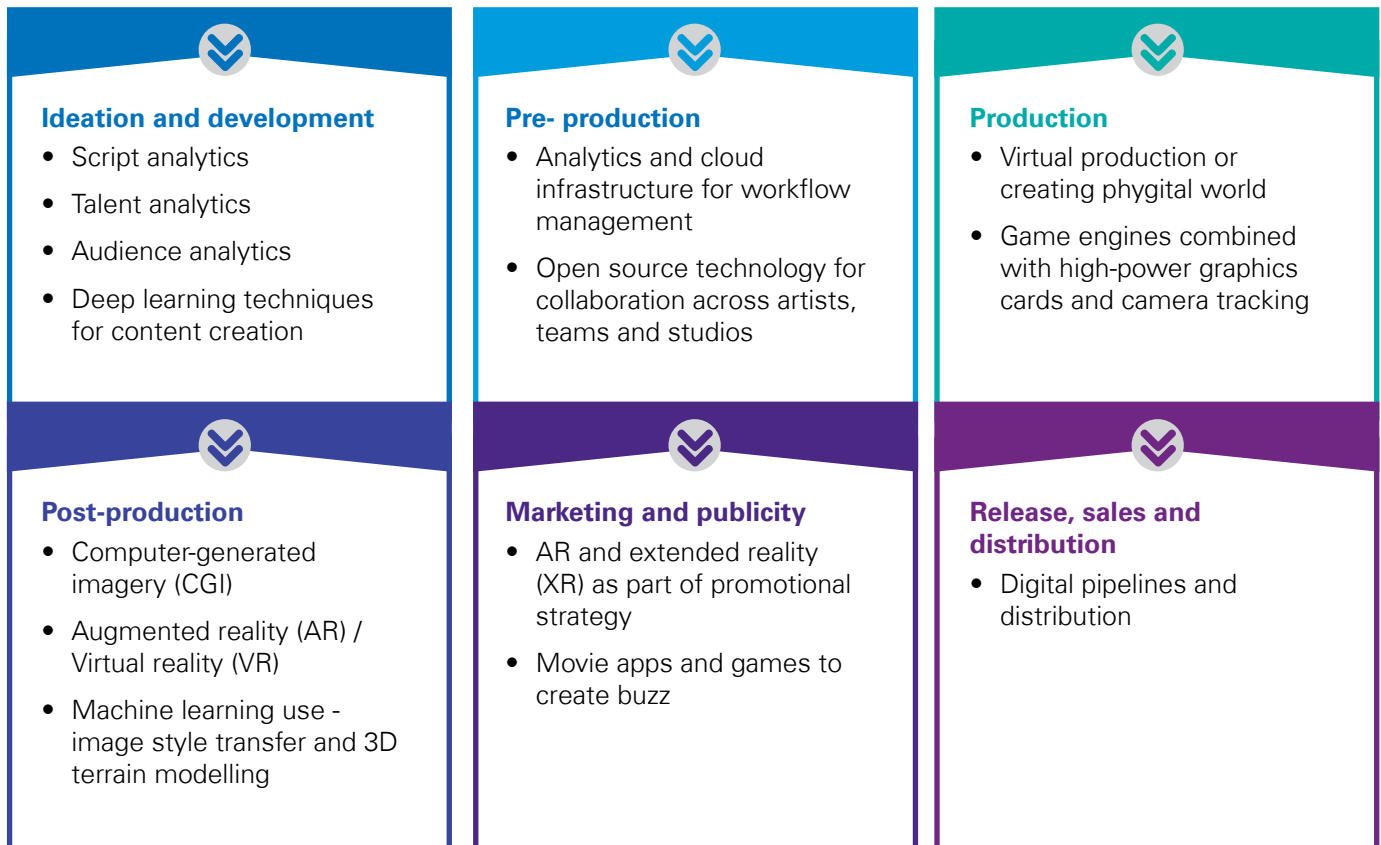
6. Covid-19 effect: Content production companies stare at large losses, Financial Express, 17 April 2020, accessed on July 25, 2020

7. More than a dozen Marathi telly shows resume shooting, Times of India, 2 July 2020, accessed on August 12, 2020

8. Based on industry discussions

The long-term impact of COVID-19 is likely to be around technology adoption

Shape of things to come



Adoption of remote collaboration tools and software

Based on industry discussions, we understand that the production houses in India which have filmed content before the lockdown are collaborating through apps, such as Frame.io, Zoom, Skype, among others to complete the post-production activities using various software.

Several software firms are testing and launching software for filmmaking processes. For instance, Pocket Aces is testing a software known as StudioBinder for writing and pre-production along with few post-production software such as Pix and MediaSilo.⁹

Though production houses are currently managing post-production processes remotely, they are constrained by the fact that there is limited sophistication around the use of technology for these processes. However, the pandemic is expected to bring about multiple changes, including production houses expediting the pace of technology adoption.

Cloud infrastructure set to play an important role

Cloud infrastructure is likely to be used extensively, as it will empower production houses to work actively across geographic locations in a holistic, collaborative way, especially for post-production processes.



Cloud infrastructure and open source technology (that enables one to connect multiple areas of the value chain and systems, allowing efficient flow of data) may also be used for collaboration across artists, teams and studios.

9. How long can OTT platforms continue to release fresh content in India amid the pandemic? Quartz India, 18 June 2020, accessed on August 21, 2020



Use of technology to generate content

OTT platforms have already started using technology to generate content. For instance, during shooting restrictions, platforms such as Amazon Prime, Netflix, Hotstar and Zee5 leveraged stock footage, i.e. movie or video snippets that can be used again when shooting new material. Stock & Found sold thrice the footage during the lockdown compared with the pre-pandemic period.¹⁰ This, however, is not likely to be a long-term solution.

In the long run, virtual production will gain prominence, from the mode of communication to core content production processes such as matching of computer and live action images.



An integrated virtual and physical production will emerge as the new normal. While the use of virtual production may result in additional costs in terms of adoption of such engines, it could help rationalise other operating costs in terms of travels, set rentals, etc., and enable content creators to make changes on the go. For instance, VFX can help create digital landscapes of a location, enabling planning of the content with HoloLens or mixed-reality smart glasses.¹¹

Video game engines that help create virtual environments with minimal on-set requirements from production teams, are another area that is likely to see traction. For example, Rebellion Studios – the film division of the U.K.-based firm Rebellion is planning to produce film content using its video game engine, wherein the camera work and lighting would be performed remotely, and actors would be motion-captured¹². This is expected to significantly reduce the post-production work as computer-generated images are created along with the live-action performances. The process, thereby, enables the creative team to focus only on the art rather than logistics. In another example, Eros International, an India-based entertainment firm, collaborated with Epic Games to enable Eros to use Epic's Unreal Engine.¹³

Analytics as an input to content creation

Even the initial stages of content creation, i.e. ideation and pre-production, may see extensive adoption of technology such as screen, talent and audience analytics, especially while researching an idea.

Technology interventions in post-production/filming

Another area of technological intervention may be required is in 'automatic dialogue replacement' where actors can remotely record replacement dialogue in a studio that can be dubbed over the live-action footage in another studio.¹⁴

Additionally, augmented reality (AR) and virtual reality (VR) are being adopted by various filmmakers to engage and communicate with the audience, to create a buzz around their upcoming content.

Lastly, production houses have started using AR and extended reality (XR) as part of promotional strategy. For instance, 'Video XR' is an innovative and disruptive technology where the user is made a part of the video that is used in the web or other mediums. For instance, Fox Star Studios and Excel Entertainment have used VideoXR for movies 'Sanju' and 'Gold' respectively¹⁵.

Technology adoption has its challenges...

A successful technological transformation requires a change in mindset – of thinking digital first in an industry that is informal by nature. Also, the informal nature of the industry may mean the workforce is not adept in using emerging technologies. Upskilling the workforce may, therefore, be one of the biggest challenges for content creators.

In addition to skill development or training, the associated costs, especially for small and medium domestic production houses and OTT platforms that may have limited financial resources in these times, may act as a hindrance to immediate technology adoption.

10. Video streaming drives demand for stock footage amid lockdown & shooting constraints, ET Tech, 4 June 2020, accessed on July 25, 2020

11. Why Hollywood movie-making may become more virtual in a post-coronavirus world, CNBC, 23 May 2020, accessed on July 28, 2020

12. Why Hollywood movie-making may become more virtual in a post-coronavirus world, CNBC, 23 May 2020, accessed on July 28, 2020

13. Eros International and Epic Games Collaborate to Develop and Harness Talent in the Creative Industry Across Eros Production, Businesswire, 3 June 2020, accessed on August

14. This is how the film industry is fighting lockdown, World Economic Forum, 24 May 2020, accessed on July 25, 2020

15. How eXtended Reality is Redefining Marketing Promotions for Movie Production Houses, Zephyrnet, November 28, 2019, accessed on August 3, 2020 17, 2020

...but it is the way forward

With a plethora of content on-the-go, binge-watching has become a standard. Unlike their counterparts – cinema and TV, OTT consumers have the option to watch anything anytime, i.e. content on-demand. Therefore, it is vital for the OTT players to provide carefully selected content for each user, which makes an agile content supply chain even more important.

While the content supply chain will definitely encounter challenges to adjust to the new normal, especially in terms of upfront technology costs and the learning curve for employees (both formal and informal in nature), one thing is certain that technology adoption across the content development chain is definitely the only way forward.



Made in India. Watched by the World



Monika Shergill
VP-Content, Netflix India

“In a living room.

The lady of the house is sitting at her dining table working on her laptop. She looks tired and is urgently typing. Her husband enters the room, carrying a plate of food. He looks at her and smiles.”

Maybe this is fiction or someone’s reality. This story could be set anywhere. Perhaps, in a bustling city like Bengaluru, a quaint town in France or the Upper East Side of New York. And yet, it will evoke the same emotions as it unravels and is viewed anywhere in the world. Stories are universal and they can come from anywhere and be loved everywhere, transcending culture, country and language.

We instantly gravitate towards stories because we often see ourselves reflected in them or they help us develop a shared understanding of the world. With the internet, art and culture is able to spread beyond the people or countries who created it. Stories can come from anywhere – from a grandmother’s lap, to tales shared across generations that capture our culture and values, from books across India to modern, disruptive themes that reflect the times we live in. All that matters is the raw emotional power of a great story, well told.

India is in a golden age of entertainment where world-class creative talent, boundless creative vision and a treasure-trove of stories come together in an unbelievable way. For centuries our country has been one of the major global centres of entertainment, culture and taste-making. It’s humbling to work with some of the finest creators and talent in the world as they tell new and unique stories from India. We know that if we

choose well and support artists and try to stay out of the way, people will do the best work of their lives.

In 2019 a beloved Indian character found its way to the world’s homes and won the hearts of millions of children. From Sydney to Sao Paulo to San Francisco, *Mighty Little Bheem* was watched by more than 27 million households worldwide making it the second most popular Netflix original kids series. From searches online looking up laddoos, to Mighty Little Bheem-themed birthday cakes, the series’ global popularity is evident with clips of the series on Netflix’s Kids & Family YouTube Channel attracting close to a billion views. In the United States, the series was the most popular international title in 2019.

The internet allows everyone to experience the best of Indian entertainment at the same time across formats including films and series. Wherever you live you can follow two gifted teens from Mumbai who pursue their dreams to dance in *Yeh Ballet*, watch the street flavours of Delhi that come alive in *Street Food Asia*, absorb the complex and layered drama in *Sacred Games* and the intertwined lives of a police officer and a gangster or empathise with a woman whose life changes overnight when she stumbles on a stream of money in her kitchen in *Choked: Paisa Bolta Hai*. These are but some of the stories that dazzle with a diversity of themes and inventive storylines.

We are investing INR 3000 crores across 2019 and 2020 in original and licensed content in India. We have announced over 50 Netflix original series and films which have been shot in over 20 cities across the country, including Delhi, Jaipur, Mumbai, Hyderabad, Lucknow, Kolkata, and Kochi.

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

We use the latest production and post-production technologies, such as Dolby Atmos and Vision so that we remain as true as possible to the creator's vision. We subtitle and dub our stories in more than 30 languages giving our members the chance to discover and relish content from different countries. Similarly, stories made in India can be watched by the world. Earlier this year, the licensed Telugu action drama film *Ala Vaikunthapurramuloo* not only featured in the Top 10 list on Netflix in India, but also in many other countries such as Bangladesh, Kenya, Malaysia, Maldives, Mauritius, Oman, Qatar, Sri Lanka and UAE.

We recognize that being part of the local creative community in India also comes with responsibilities - in particular the need to develop the talent pipeline and give new voices the chance to be heard. We've supported multiple writing and production workshops. For our slate in 2020, we are working with 12 women writers, 30 women producers and 8 first time directors. We are also working with incredible on-screen talent from pan-India. At Netflix, we're excited to be part of the creative wave in India and reflect more lives on screen.

We feel honoured to have a meaningful role in taking authentic stories from India to the world, in all their glory and build bridges between different cultures. *Period. End of Sentence*, a documentary short set in Uttar Pradesh, won an Oscar and *Sacred Games* and *Lust Stories* were nominated for International Emmys.

Today the future of entertainment has never looked brighter. The explosion of production across different formats has blown open the doors for new voices and given a platform to seasoned professionals to practice their craft. At Netflix we have strived to create a place where creative excellence and creative freedom are not in conflict. Being able to tell new stories and discover new storytellers is something that drives us every single day with the aim that the best Indian stories can be truly watched by the world. After all, storytelling goes to the heart of what it means to be human.



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

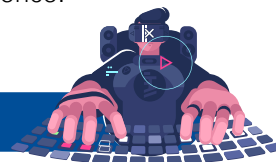
3 Gaming

A scalable opportunity for entertainment businesses

The Indian gaming market is one of the fastest growing gaming markets in the world and is also expected to be amongst the fastest growing segments for the Indian media and entertainment industry in the near to medium term. The growth is expected on the back of rising internet penetration, increase in smartphone ownership, increasing focus by digital platforms in providing gaming as a viable use case, and growing acceptance from users around gaming as a form of entertainment.

The rapid growth of gaming has meant that 'Direct to Consumer' platforms across the digital value chain are starting to look at gaming as a critical use case which would ensure a greater consumption, optimize customer acquisition costs (CAC) and help user retention in the long term. We look at the gaming value chain in India currently, and how digital platforms are starting to distribute games to a wider audience.

Online gaming in India – Growth enablers



Young demography:

Nearly 53 per cent of Indian population is below 30 years of age¹



Rising internet penetration:

Internet penetration in India grew from 46 per cent in December 2018 to 54 per cent in December 2019² driven by an increase in rural internet penetration



Affordable mobile data:

India has one of the most affordable mobile data prices at USD0.09 per GB as compared to USD8.0 per GB in the U.S. and USD1.39 in the U.K.³



Smartphones have become relatively inexpensive:

Entry level smart phone prices have reduced from INR12,000 in 2009⁴ to nearly INR3,000 in 2020 primarily driven by the introduction of JioPhone⁵



Growth in digital payments: Unified Payments Interface (UPI), a real time digital payment system, has grown from nearly 274 million transactions valuing INR518 billion processed in July 2018 to over 1,497 million monthly transactions of value INR2.9 trillion processed in July 2020⁶



1. PopulationPyramid.net, 2020, accessed on July 28, 2020

2. The Indian Telecom Services Performance Indicators, TRAI, December 2019, accessed on July 29, 2020

3. Worldwide mobile data pricing, cable.co.uk, February 2020, accessed on August 11, 2020

4. Impact Assessment of open OS ecosystem for devices in India, A study by KPMG in India and ICEA, March 2019, accessed on August 11, 2020

5. KPMG in India analysis, 2020, based on secondary research

6. UPI Product Statistics, npci.org.in, accessed on August 26, 2020

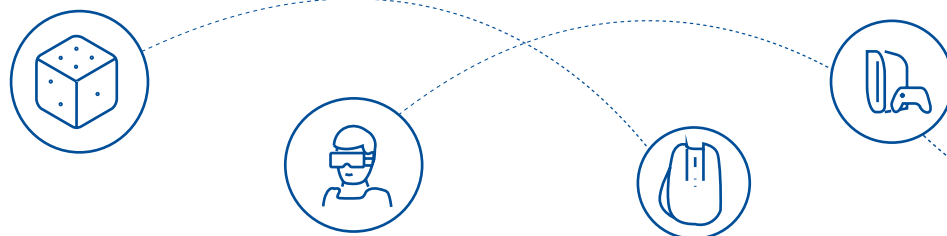
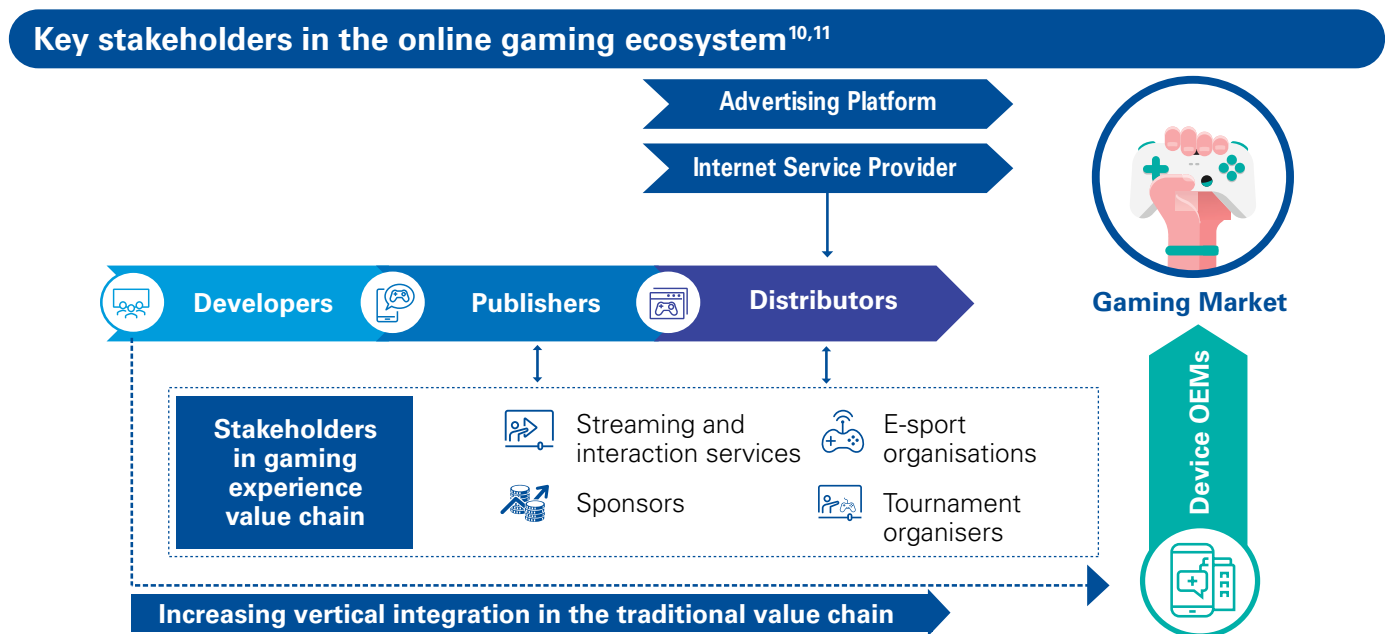
Growth in gaming in India will be driven by both macro-economic as well as segment specific factors. Continued growth in digital infrastructure in India is expected to result in 907 million internet users by 2023 with 829 million smartphone users by 2022^{7,8}. This growth in digital infrastructure is expected to fuel consumption in terms of longer session duration for games which will lead to further growth in revenues (primarily advertisement revenues). While average

weekly time spent on mobile games was 3.1 hours in June-20, it is expected to grow in times to come⁹.

Gaming has also evolved into a social activity with the addition of multiple features such as voice chats, vernacular languages, multi-player gameplay, etc. in games. Further, localised content, use of vernacular languages and multi-player gaming are critical aspects required to achieve wider game adoption in the Indian market.

The gaming value chain and its evolution

The gaming value chain mainly comprises of game developers, publishers and distributors. With evolving business models and diversification in offerings, the industry has witnessed a rapid change in the roles of stakeholders.



7. VNI Complete Forecast Highlights India – Network, Cisco, 2018, accessed on July 28, 2020
 8. VNI Complete Forecast Highlights India – Device, Cisco, 2017, accessed on July 28, 2020
 9. Source: Crisis Consumption – An insights series into TV, smartphone and audiences (10th Edition) by Nielsen, BARC, July 2020, accessed on August 12, 2020

10. DISCUSSION PAPER SERIES: Children’s Rights and Business in a Digital World, UNICEF, August 2019, accessed on August 5, 2020
 11. Online gaming in India, KPMG in India, May 2017, accessed on August 10, 2020



Role of stakeholders

The key stakeholders in the online gaming ecosystem and their roles are summarised below:

Stakeholder	Role	Examples
Game Developer	Primarily responsible for designing, developing and testing the games. Developers also ensure smooth day-to-day operations for the game once it goes live. Many developers also publish their own games.	Nextwave Multimedia (owned by Nazara Technologies) has developed multiple online cricket games like WCC, WCC 2, WCC Rivals, etc. Gametion Technologies has developed Ludo King.
Publisher	Online games need to be promoted and marketed to ensure that they reach the target audience. A conventional publisher specialises in launching games by using its established network.	Nazara Technologies focuses on publishing in emerging markets of Africa, India, and the Middle East. Games2Win is publisher for games such as Parking Frenzy India & Car Simulator Extreme.
Distributor	Games are distributed through the publisher's website and / or other online distributors, and the App Store of mobile platforms.	Steam and Origin distribute PC games. Mobile operating system app stores, OEM App Stores distribute online mobile games.
E-sports organiser	Manage and organise e-sports tournaments for professionals by working with publishers, sponsors, streaming companies, etc.	Nodwin Gaming is a well-known e-sports company in India.

While online mobile games are primarily distributed through the mobile operating system app stores, players operating in the skill-based real money gaming segment can't be listed on these stores and need to depend on other means to reach their users.

The industry is witnessing vertical integration across the value chain. For example, Epic Games, the developer /publisher of Fortnite, is involved in not only

developing and publishing games but also runs their own app store called Epic Games Store¹².

In India, Nazara Technologies has widened its presence across the gaming ecosystem by investing in players. The company has stakes in Nextwave (development), Nodwin (e-sports), Halaplay (Fantasy Sports) and Sportskeeda (Sports content) among others¹³.



12. Epicgames.com, Epic Games store, accessed on August 11, 2020

13. KPMG in India analysis, 2020, based on secondary research

Emerging stakeholders

Cloud gaming is expected to revolutionise digital game distribution wherein games can be streamed online from cloud storage. Cloud gaming services provide games on a subscription as well as on pay per title basis.

New stakeholders^{14,15}

Google

Google launched its cloud game streaming service – Stadia in November 2019 and has recently announced to stream games on 4G and 5G mobile data

Jio Games

Reliance Jio is likely to be one of the major initial players in the Indian cloud gaming market. The company has partnered with technology major Microsoft to launch - Project xCloud- a cloud gaming service in India by the end of 2020

Facebook

Facebook – a social media platform, has introduced gaming services and acts as a distribution channel for games

Apart from these emerging stakeholders, there is a new category of platforms fast emerging as distributors of games in India. These digital platforms span diverse internet businesses such as E-commerce, Fintech, OTT Video etc. and are entering into collaborations with

game developers, publishers and studios in order to add high usage use cases onto their platform.

In the following section, we look at examples of some of these 'emerging distributors' of online gaming and how this use case is likely to benefit them in the long run.



14. Google Stadia will now work on 4G and 5G mobile data, BGR.in, 29 July 2020, accessed on August 11, 2020

15. Microsoft to launch Project xCloud gaming service in collaboration with Reliance Jio: Reports, ET Telecom, 16 March 2020,

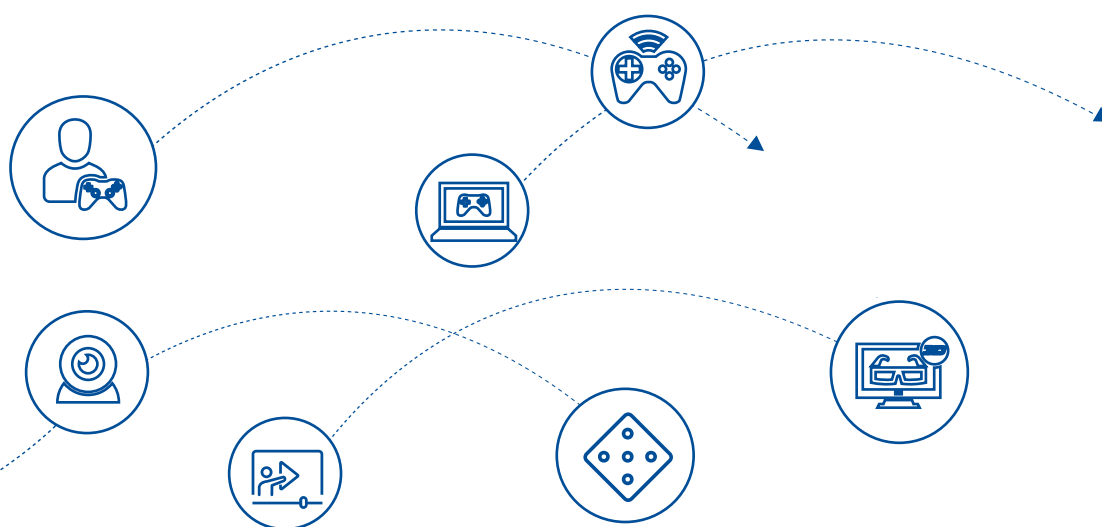


Gaming becoming a part of wider digital internet ecosystems

Digital platforms checking into gaming

Companies from the wider digital ecosystem are also making strategic inroads into gaming to enhance user engagement and monetisation on their platforms. Some of the examples of wider digital platforms having a gaming play include:

Stakeholder	Role
Zee5 ¹⁶	Collaborated with Gameloft Distribution Solutions to introduce games on its app
Amazon Prime ¹⁷	Offers premium in-app content for select mobile games to its subscribers in India for free
Paytm ¹⁸	Launched multi-gaming platform Paytm First Games which is also available in the Paytm app. The platform covers a wide range of games, including fantasy and non-fantasy RMG, casual games, e-sports etc. The app claims to have 45+ million users as on December 2019 ¹⁹
Reliance Jio ²⁰	Introduced console-based cloud gaming for its FTTH subscribers & is available through its Jio Fibre set-top box
Flipkart ²¹	Introduced multiple casual games and quizzes on its app. The games can be played to earn real life prizes, and Gems, which can be converted to Super coins, and subsequently re-deemed for e-commerce spends
MX Player ²²	Built a gaming platform on top of their OTT video app, with 60+ games across casual and hyper-casual genres, ranging from popular Indian board games to strategy, quiz, racing, arcade, sports, action etc. The platform claims gaming Monthly Active Users (MAUs) of 25 million with an average time spent of 70+ minutes/user/day
Disney+ Hotstar	Introduced multiple casual and hyper-casual games on the platform under the banner 'Hotstar Games'



16. Google Stadia will now work on 4G and 5G mobile data, BGR.in, 29 July 2020, accessed on August 11, 2020

17. Microsoft to launch Project xCloud gaming service in collaboration with Reliance Jio: Reports, ET Telecom, 16 March 2020, accessed on August 12, 2020

18. Zee5 Press Release, May 2020, accessed on August 11, 2020

19. Amazon prime launches free gaming benefits, Yourstory, May 2020, accessed on 20 August 2020

20. Review of Paytm app, accessed on July 28, 2020

21. Year in Review, Paytm First Games Gamestats 2019, accessed on August 11, 2020

22. Mukesh Ambani becomes a fan of online games, Financial Express, February 2020, accessed on 20 August 2020

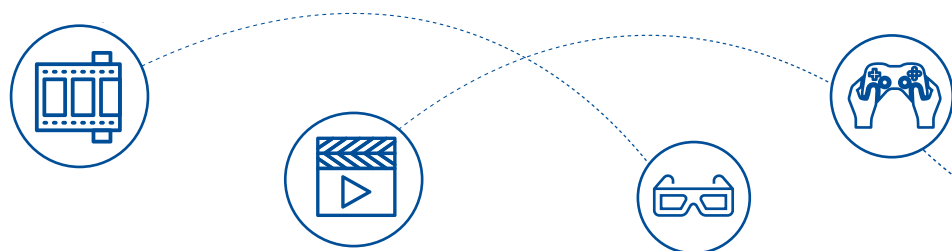
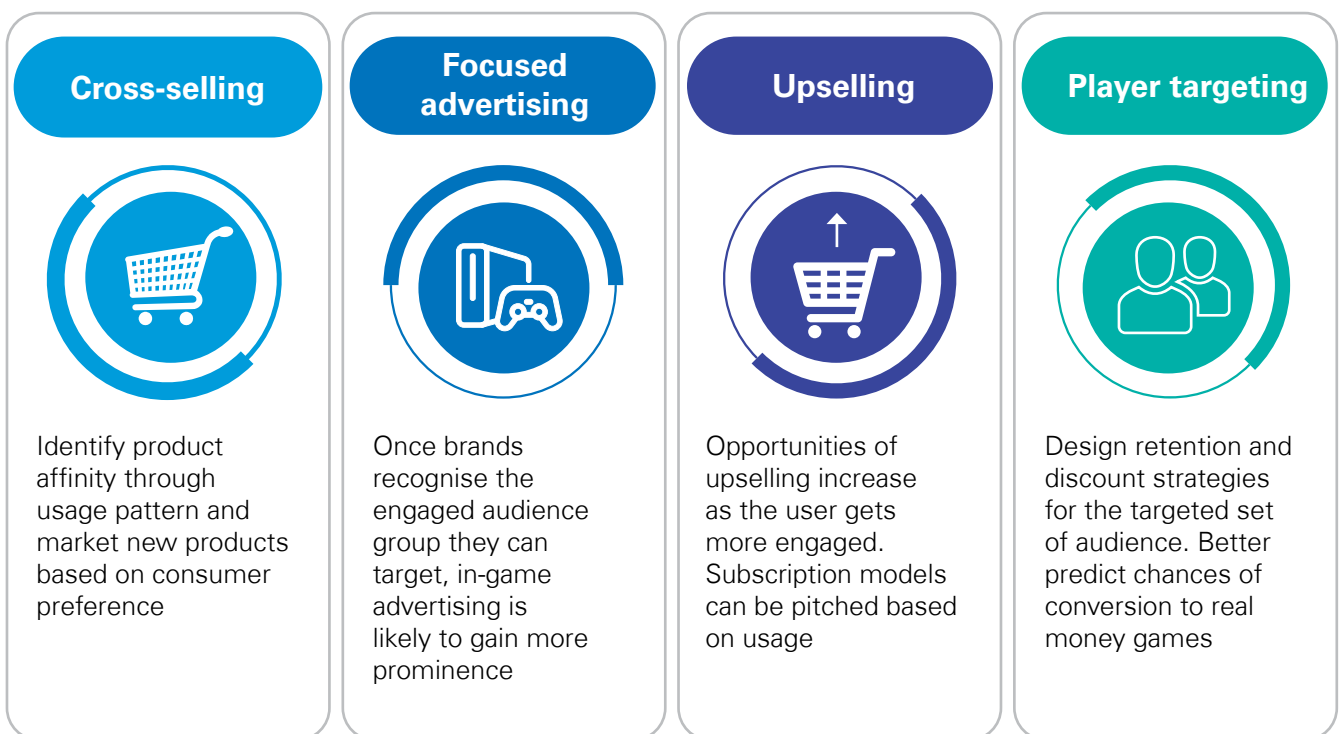
Potential benefits of gaming as a use case - More user data to facilitate better monetisation

Digital platforms with a wider set of use cases / offerings for users often attract greater time spent on the platform. As a result, platforms will likely understand their consumers better and collect more data points about them.

With increasing affinity for online gaming, the industry now has more data on users' preferences,

and thus a clearer view of which products to pitch to a specific customer segment. This data on user preferences can further be leveraged with analytics for upselling and cross-selling, recommending new products and launching future campaigns that translate into more monetisation opportunities.

Targeted advertising and product selling opportunities are likely to increase for digital platforms as time spent by users on their platform increases.



An active play for leveraging network effects

As more users start consuming games on digital platforms, a positive feedback loop is created, which makes the overall network more valuable.



Tencent Case study

Tencent's success in large online markets such as China is attributable to the creation of network effects. Tencent launched its gaming business in 2003 as QQ Games. The games business formed a part of the Value Added Services (VAS) offered by QQ (Tencent's first social chatting app) which was built on a pay model. Tencent has used a multi-platform strategy with social at the center (QQ allows users to access all platforms with one QQ number).

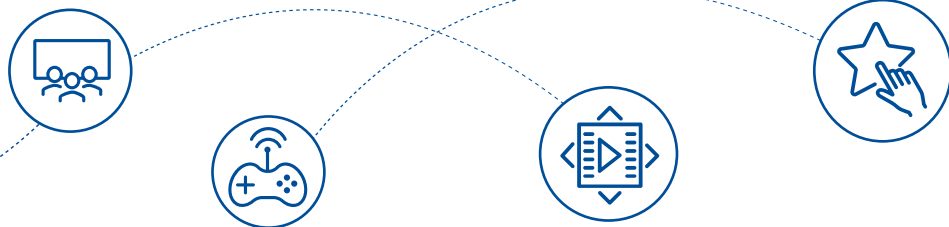
This multi-platform strategy resulted in²³:

- Huge captive user base of QQ for gaming services
- Increase in traffic due to a wide ecosystem
- Minimal spends on user acquisition costs, advertising and marketing as users need to be onboarded only once on QQ
- Reduced common costs (economies of scale) as they are shared across multiple services
- Rewards in the form of Q Coins that could be used across the Tencent ecosystem incentivised users to spend more time playing games.

As a result, Honour of Kings game became a social phenomenon in China with about one in every seven Chinese citizens playing the game²⁴. Peer pressure in this competitive landscape entices players to make in-app purchases or upgrades. The strategy has enabled Tencent to create strong moats in the gaming industry.

Tencent has made investments in leading game developers across the world including Supercell, Miniclip, Riot Games, Activision, Glu, Ubisoft and many others. Many non-Chinese gaming companies including EA²⁵ and Nintendo²⁶ are collaborating with Tencent to tap the Chinese market. Further, Tencent opened its mini-program platform (Super App) to outside developers in April 2018 to increase width of games on the platform.²⁷ Tencent is also heavily investing in building an esports ecosystem in China²⁸.

As more people join a gaming network, waiting time for multi-player games reduces and the platform attracts more users with scale making it a virtuous cycle for growth. Similarly, platform incentives / rewards that can be used by consumers across different offerings on the platform results in users spending more time spent on the platform.



23. How Tencent Is Using Closed-Loop Data To Drive Better Insight And Engagement, Forbes, 9 Jan 2018

24. How Tencent blurred the lines of gaming, social networking in Honour of Kings, SCMP, 10 July 2017

25. Tencent in talks with EA to bring hit battle royale game Apex Legends to China, SCMP, 15 Feb 2019

26. Tencent wins approval to distribute Nintendo Switch video game in China, SCMP, 18 April 2020

27. WeChat launches new mini games as external developers vie to create China's next mobile craze, South China Morning Post, 10 April 2018

28. Tencent to expand investment in eSports tournaments, CGTN, 04 March 2019

However, certain impediments need to be overcome for the gaming ecosystem to thrive^{29,30,31,32,33,34,35}



Distribution challenges

- Friction between game developers and the major mobile app distribution platforms around commissions relating to in-app purchases and subscriptions. E.g. EPIC games (Fortnite) and App Store/Google Play conflict in August 2020
- Online Fantasy sports apps now allowed on the Google Play store.



Monetisation remains low

- Average Revenue Per Users (ARPU) and Average Revenue Per Paying User (ARPPU) remain significantly low for the Indian market at USD12-15 when compared to USD100+ in the developed markets like US and China
- The low monetisation levels can be attributed to the reluctance of Indians to pay for gaming, lack of trust when making digital payments and social stigma associated with online gaming.



Lack of Indian studios of scale

- Only one Indian game, Ludo King, amongst the top 10 mobile games by downloads in India in CY19
- Indian studios lack scale in terms of creating a global IP, or significant spends on creating IPs, as the gaming market in India is yet to mature in terms of consumer spends.



Social beliefs about gaming in India

- While gaming has been gaining traction over the last few years in India, the lack of a gaming culture and social aversion for online gaming has held back greater adoption for online gaming in India
- PUBG, had been facing resistance from multiple states regarding the amount of time people have been spending on the game. Four cities in Gujarat banned the game in 2019, while the Vellore institute of technology banned the game on its campus in December 2018. Many other parents and children advocacy groups had been demanding a ban owing the potential addictive nature of the game. In September 2020, the game was banned across the country by the Government of India, owing to further concerns around national security.

29. KPMG in India analysis, 2020, based on primary and secondary research

30. KPMG in India analysis, 2020, based on industry discussions

31. State of Mobile 2020 – Top App & Company rankings (Combined iOS and Google Play), App Annie, 2020, accessed on July 28, 2020

32. State of Mobile 2020 – Top App & Company rankings (Combined iOS and Google Play), App Annie, 2020, accessed on July 28, 2020

33. 87% Indian adults believe online gaming has an adverse effect on health, says a new survey, Business Insider, 09 June 2020, accessed on August 12, 2020

34. Four Indian cities ban PUBG mobile, Gamesindustry.biz, March 2019, accessed on July 28, 2020

35. India weights ban on popular online games after deaths, HT Tech, April 2020, accessed on July 28, 2020



Conclusion

Gaming in India has evolved from being a marginal use case in the overall entertainment ecosystem in India, to the fastest growing cog in the overall entertainment wheel for most digital platforms. The user engagement, growing monetization and the overall network effects that it provides, makes a presence in gaming, a must for major players; as far as building out an ecosystem is concerned.

The pandemic has also been a tailwind to this phenomenon, with a rapid uptick in consumption seen across platforms, except fantasy sports, and early trends around monetisation are also encouraging.

However, the industry needs to learn from best practices and success stories globally, and look to alleviate some of the challenges that exist around global quality IP development, perception of gaming, and regulatory aspects (especially around RMG), to ensure that India can possibly see the emergence of gaming as one of the leading forms of entertainment in the near future.





4

Leveraging emerging tech for M&E

The future is here

Technology has become an integral part of our day to day lives with the advent of digital assistants like Siri and Alexa. In fact, it is not just the personal space, businesses are also getting impacted due to technology. While it helps in reducing operating costs by automating manual processes, it also helps improve the decision making and revenues. Technology helps in pivoting quickly – thus enabling faster go-to-market via agile business operations.

Media and entertainment sector has been one of the earliest adopters of technology. Digital consumption has seen an upswing with OTT video, gaming, online music and e-commerce leading the way. The industry has also been using technologies like augmented reality (AR)/ virtual reality (VR) for online gaming and providing live experience to the customers. However, with a lot of use cases for the emerging technologies yet to be unlocked by the industry, these are still in the initial stages. Other technologies like blockchain and Artificial Intelligence (AI) are being used in the various facets of media and entertainment sector. Global models have emerged with blockchain as the underlying technology for smart contracting feature using three key features – security, trust and auditability. It has become a boon for the artists in the fight against piracy and in helping them track

the distribution of their creations. However, this is yet to see much traction in India. Similarly, AI is in vogue with the OTT and music streaming platforms using this technology to provide personalised recommendation to secure loyalty of its users.

The COVID-19 pandemic has reinforced the importance of driving sector-wide transformation using technology as an enabler. Technology underpins nearly every change triggered or accelerated by the crisis. Emerging technologies that enable automation, AI, powerful computing, immersive experience, connected devices and equipment, massive data transfer, collaboration, and business resilience are leaders in these turbulent times - helping industries recover from the impact of COVID-19 and set a strong foundation for the future. There is a growing recognition of emerging technology in the future of business in the post COVID-19 world. It has become evident that an organisation's ability to harness and leverage emerging technologies in transformation efforts will determine its ability to thrive in a changed business environment.

We examine some of the key technologies that are pervading the Media & Entertainment sector, some use cases and examples, and the key challenges around their widespread adoption.

AR/VR – The ‘Next-gen’ entertainment

AR is an elevated version of reality created using technology - overlaying digital information on an image of something being viewed through a device. It is the integration of digital information with the user's environment in real time. AR uses the present existing environment and adds new information on top of it.

VR, on the other hand, is an artificial environment which is experienced through sensory stimuli (such as auditory and visual) provided by a computer and in which user's actions partially determine what happens in the environment. It is a contrived software-created environment and presented to the user in a way that the user suspends belief and accepts it as a real environment.

AR helps integrate digital experience with real world experiences

- Transform live event experience: AR makes integrating the daily experiences that the users have in the real world with the digital augmented reality possible.
- These interactions can be varied – from sports to shopping, from gaming to entertainment – thus transforming the live event experience.
- Effective usage in PR and marketing initiatives and promotional campaigns: AR/VR experiential techniques are used to make a direct, emotive connection with customers. There's a widely-held belief that VR and AR have the potential to increase empathy¹, which in turn could result in a deeper, more authentic connection with audiences.

VR is driving cloud gaming experience to newer levels

The VR market generally consists of hardware (like VR headsets) and software (like VR game engine). The VR market is dominated by the gaming market with 43 percent of VR's USD1.3 billion software-defined revenue derived from entertainment². The global virtual reality gaming market stood at USD5.12 billion in 2019 and is projected to reach USD45.2 billion by 2027². This shows the potential of VR in the gaming industry. The current trend towards cloud gaming will help drive the demand for VR hardware and software in the future.

VR helps provide immersive live event experience

VR is increasingly used to provide an immersive digital experience (where they can move and interact and experience only 'digitally', cut off from the real-world interactions) in case of live music concerts and live sports events etc.

1. Virtual Reality and Augmented Reality Will Change Brand Experiences, Forbes, Apr 4, 2017, accessed on Aug 12, 2020

2. Virtual Reality Gaming Market, Fortune Business Insights, Jun 2020 accessed on Aug 21, 2020



AR	OnePlus recently launched its smartphone OnePlus Nord via AR - world's first AR smartphone launch. This AR event enabled viewers to follow the launch almost as if they were present there and even experience the device, right from the comfort of their home. ³
	Maroon 5 – the American pop rock band - collaborated with Verizon and Snapchat to create live karaoke experiences using AR at three of their concerts ⁴
	AR in gaming has been made popular thanks to Pokémon Go by Nintendo in 2016 – blending AR with real world scenarios ⁵
VR	IIT Bombay held its 58th annual convocation ceremony in VR mode wherein the personalised avatar of each IIT Bombay graduate received the degree certificate from the personalised avatar of the director ⁶
	IPL seasons in 2018 and 2019 were also broadcasted in VR by Hotstar. This could be experienced using VR headsets ⁷
	Slightly Mad Studios launched Project Cars in 2015. In November 2019, Codemasters acquired Slightly Mad Studios, thus supporting their position as a game developer and publisher of racing videogames. Project Cars was one of the first titles to embrace VR racing and hence became a challenger in the racing gaming industry, leading up to the acquisition by Codemasters. ^{8,9}

Challenges to AR/VR growth:

AR and VR have a huge potential and we are still way behind if we consider the potential of these technologies in the media and entertainment industry. However, there are some impediments hindering the growth of the AR and VR capabilities.

- **Smartphone penetration key to widespread mobile AR usage:** Mobile AR has been spearheaded by Apple and Google with their mobile AR tools (ARKit and ARCore respectively). Smartphones are a necessity for mobile AR viewing. However, as per reports, India has 550 million plus feature phone users¹¹. With the required minimum technology still not reaching the masses, it will take a while for the AR experiences to be mass adopted¹⁰.
- **User-friendly and cost-effective VR devices yet to arrive:** VR devices are essential for VR experience. Currently, VR devices are uncomfortable to use, ill-fitting and aren't intuitive enough to be mastered at the first go. These devices are also costly right now¹¹.

- **Content availability and awareness** are also some of the key challenges hindering the mass adoption of the AR and VR technologies. The cost of creating VR content currently is higher compared to the normal content, especially in case of the gaming industry. The return on investment is low and carries a risk of content being unsuccessful, making the developers and creators sceptical of VR content creation¹²

Impact of COVID-19 on AR/VR adoption

Outdoor entertainment, live events and theme parks are facing challenges owing to risk aversion towards social gatherings especially in COVID-19 affected cities and hotspots. Virtual Live events, online gaming and film exhibitions are expected to leverage AR/VR technology to provide immersive experience to the customers, thus increasing the adoption rate for this technology.

3. OnePlus Nord: The world's first ever smartphone launch, Financial Express, Jul 20, 2020 accessed on Aug 14, 2020

4. Using Augmented Reality to Elevate the Concert Experience, By Gergana Mileva, Feb 4, 2020 accessed on Aug 12, 2020

5. How Pokémon Go Took Over the World, Again, Cramer.com, accessed on Aug 21, 2020

6. IIT Bombay holds convocation via digital avatars of students, professors.; Live Mint, Aug 24, 2019,

7. KPMG Media & Entertainment Report 2019

8. These games are as realistic and as immersive as they come, TopSpeed, April 11, 2020, accessed on Aug 21, 2020

9. Global Racing Games Market Research Report, Market Research Future, April 2020, accessed on Aug 21, 2020

10. Overall India handset market growth to fall in 2020, Economic Times, Dec 24, 2019

11. A reality check on India's immersive media dreams, Hindu BusinessLine, Nov 22, 2019

12. Why Virtual Reality Lack of Content? Liza Brown, Aug 28,2020

Virtual production

Virtual production is an iterative and creative process where visual effects (VFX) are introduced in all lifecycles of production (instead of the current way wherein VFX development starts and finishes after filming is complete) to enhance the way content is created by leveraging technology¹³.

Beginning VFX in preproduction makes digital assets available for planning and shooting, making it easier to continuously refine the final look and feel throughout the course of production. It refers to the processes that allow filmmakers to plan, imagine or complete cinematic experience with the aid of digital tools.

Components of virtual production

Some of the components used for virtual production include previsualisation/post-visualisation, motion capture, simul-cams, AR/VR, real-time rendering or a combination of them.

Virtual production improves storytelling

Previsualisation improves storytelling by ensuring that the storyline, captured footage, and VFX being produced accurately reflect the director's vision. Virtual production tools for live action revolve around capturing action via simul-cams or virtual cameras. This coupled with motion capture technology (helps in capturing the movements of people to animate VFX assets) bring the live actions to life on reel.

Helps reduce post-production costs

Using virtual production can be cost effective. Using VFX assets for visualisation would lead to higher shooting efficiency and reduction in the occurrence of expensive reshoots. Other techniques like shooting against LED live action wall also helps reduce the cost of post-production VFX. The game engines (from different game development platforms) allow the filmmakers to rebuild 3D environments on giant LED screens, providing creators the ability to make changes to virtual aspects of production real time.

Leads to lower lead times and real-time collaboration

Virtual production enables filmmakers to visualise the content created real-time, to which they can react and make changes quickly. This also enables real-time collaboration amongst the filmmakers regardless of their physical location.

Virtual production gives a fillip to the creativity

With virtual production, there is no physical stage for the actors to perform. This means there is no limitation and hence a boundless creative space and freedom for the filmmakers to innovate.

Recent examples of Virtual production	Prithviraj Sukumaran's upcoming untitled Malayalam film is going to be the first Indian film to be completely shot using virtual production techniques ¹⁴ . The makers are planning to shoot the entire movie in a studio in Ernakulam, Kerala.
	Other projects that involved virtual production techniques include "the Lion King" and "the Mandalorian".
	The Weather Channel produced a visualisation of a possible storm surge impact from Hurricane Florence ¹⁵ .
	Once Upon a Time – an ABC series, showcased its characters amongst fantastical settings. To film those scenes with real actors, visual effects studio Zoic Studios utilised its Zeus virtual production pipeline ¹⁶ .



13. Virtual Production and The Future of Filmmaking; Forbes, Jan 29, 2020

14. Exclusive! Director Gokulraj Baskar on making India; Times of India, Aug 17, 2020

15. A Virtual Production Explainer; Ian Failes, November 19, 2018



Challenges of virtual production

Lack of technical knowhow:

While virtual production is a breakthrough in the traditional production process, it requires a lot of technical know-how, which isn't readily available.

Lack of trained personnel:

With the increased usage of technology, the demand for technically skilled personnel is also high. It requires capability building for the workforce and an organisation-wide transformation to unlock the investment in virtual production.

Cultural shift and stakeholder alignment:

The virtual production ecosystem is still in development and would need alignment amongst all the stakeholders involved starting from the director, producers to the VFX users to align towards a common goal. Shifting to virtual production means radical changes to the traditional ways of film-making and requires a thorough understanding of possible production strategies to make it successful.

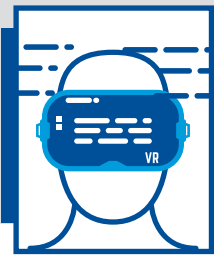
Virtual production ensures safety in current pandemic ridden world

COVID-19 induced lockdowns have resulted in a pause in content creation and production in the media and entertainment sector. This may be the opportune time to start virtual production on a large scale to ensure the safety of the crew members and production in a controlled environment. With the uncertainty in the relaxation of the lockdown restrictions owing to the recent surge in the COVID-19 infections in the country, virtual production technology adoption is expected to increase in the medium- and long-term horizon.





Virtual Production – Becoming a reality in content production



Eros International and Epic Games

Among the five Oscars 2020 Visual Effects nominees, *1917* and *The Lion King* stood out. While *1917* was awarded the prestigious title at the end, *The Lion King* was no less of a visual masterpiece. From high-quality previsualization to quality of character animations, the innovative thinking that went behind the making of the film is not only impressive - it also showcases the future of content production. A statement which holds a special significance in the post-COVID era.

While various industries have countered the perils of the lockdown by going digital, the same has not been the case with the content production industry. Film studios and shoot locations which were earlier abuzz with activity are now biding their time. It is safe to say that the traditional methods of movie production have now come to a halt. In fact, the Indian film industry, which produces 1600 to 1800 movies every year in 25+ languages, has had to postpone the production of several big-ticket films that were supposed to be released in 2020. For studios in the film and broadcast world, adopting virtual production will play a pivotal role in how they overcome the production challenges of tomorrow.

For example, the strategic collaboration between Epic Games' Unreal Engine & Eros, a global Indian entertainment company, endeavours to solve a very simple content production problem in this day and age – how to direct a gripping story when the world is practising social distancing. By leveraging the vast capabilities of Epic's Unreal Engine across the production slate, Eros is paving the way for real-time technology throughout the Indian sub-continent. Through the collaboration, Eros will push the envelope of high-quality pre-visualization, virtual production and visual effects that will take the 'post' out of 'production' and help directors make decisions in real time.

A future which is virtually vibrant

In a post-COVID world, the adoption of virtual technology will have an impact on every aspect of content production. Virtual production which was experimental has now become mainstream. In fact, science fiction, which was not the norm in Bollywood, is now poised to take off. With virtual production, genres and narratives will change. However, as VFX grows to become an important aspect of content production, there's a growing divide between what the director can see through the physical camera and what they visualize digitally.

By using game engines like Unreal Engine which offer in-camera VFX, virtual scouting tools and multi-user controls, filmmakers are now able to create new environments or even recreate existing locations using photogrammetry. Whether it be an episodic animation, live-action blockbusters or even short-form content, real-time workflows are radically reimagining established pipelines and delivering renewed creative control.

When you're using real-time technology to produce a movie, it's like you have created the entire world in a game environment. Be it character animation, simulation or ray tracing, the development tools provided by these technologies can bring storytelling to life, virtually. Unreal renderings can be projected on multiple backgrounds or on any screen to use high-definition visuals in real time. That's very different from traditional green screens. Live action shots use LED walls running Unreal Engine graphics when filming which in turn cuts down on editing and production time.

COVID-19 has ensured that the established ways of operating in a content creation business have been completely upended. Hence, in this 'socially distanced' world, the use of real time technology and virtual production will ensure that viewers across the globe continue to enjoy fresh content on their television or mobile screens. While there is definitely going to be a learning curve in the adoption of such technologies across a wide spectrum of organizations, the tremendous potential that virtual production provides is likely to outweigh the immediate challenges and will likely become a permanent feature in content production beyond the pandemic.



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

Artificial Intelligence (AI)

AI, also called machine intelligence, is the simulation of human intelligence in machines that are programmed to think and act like humans.

Customer analytics coupled with AI is at the forefront to provide personalised services to the customers.



This helps drive the transformation of customer data into analytical insights which helps in designing customer-focussed programs aimed at reducing churn, increasing acquisition and upsell/cross sell.

Personalised recommendations using demographics and machine learning algorithms

Personalisation is a key pillar to provide better customer experience. AI is used to identify patterns from viewing history of users with similar taste. This data, refined with the help of machine learning (ML) algorithms, is used to make personalised recommendations on the next titles and keep the user engaged.

Algorithms employed by Netflix for movie recommendation and Spotify/Gaana for music recommendation are fine-tuned using AI and ML algorithms to study individual user behaviour and demographics to come up with the appropriate recommendations.

Gaana's AI and ML-led recommendations manifested by AutoQueue and 'For You' sections now power more than 23 per cent of consumption on their platform¹⁶.

AI is helping create content – movie trailers to language-based texts

AI is now being used for content creation. It is used to aid in designing advertisements and development of movie trailers. The role of AI is to automate and produce content faster as compared to human beings.

IBM produced a horror movie trailer titled Morgan using AI. In order to come up with the list of spectacular moments for the trailer, the research team at IBM trained the AI system on scenes from 100 horror movies. These movies were later analysed based on their visual and audio effects¹⁷. This trained AI system then analysed the movie and created a six-minute trailer within 24 hours.

Open AI has recently released GPT-3 – a language generating AI which represents its most advanced version of Artificial General Intelligence (AGI). GPT-3 leverages deep learning algorithms to perform language-based tasks¹⁸.

Deepsync is an Indian Start-up founded in 2018. With an increase in the vernacular content in India, audio remains a big focus. Deepsync's AI is making recording audio as easy as typing a document. Its technology supports all major Indian languages and creates new content in near real-time¹⁹.

Classifying video content using tags to aid easy search

With the current pervasive nature of technology and easy availability of digital tools, millions of hours of content are getting generated every day. As a result, classifying this huge number of videos to make them easily searchable for the viewers becomes a herculean task. AI-based video intelligence tools can be used to automate this process and analyse the videos to add appropriate tags.

CBS interactive is a media house that is using such tools to organise their media in a precise and structured way.

Automatic captioning videos and subtitle generation using AI

International media publishing companies need to make their content fit for consumption at multiple regions. This can be done by adding multi-lingual subtitles to the videos. For human translators to perform this task would require thousands of hours. However, taking help of AI-based natural language processing (NLP) and ML can save thousands of hours of human translators.

YouTube has used machine learning to automatically caption more than one billion videos to make them accessible to more than 300 million people with hearing disabilities²⁰.

16. Gaana becomes first music app to reach 150 million active users, Times of India, March 13, 2020

17. IBM Research Takes Watson to Hollywood with the First "Cognitive Movie Trailer", IBM, Aug 31, 2016,

18. OpenAI's new language generator GPT-3 is shockingly good, MIT Technology Review, July 20, 2020,

19. 10 Indian Startups That Are Leading the AI Race, Analytics India Mag, September 4, 2019

20. Experimenting with machine learning in media, Google, Aug 30, 2017,

Challenges of using AI in Media and Technology sector

Data governance, privacy and regulation is a real challenge in the current world. The regulators around the world are pressurising the companies to adopt the privacy regimes.

While content recommendation is a core use case for media companies, it often creates filter bubbles where a customer is only being given social media posts and news articles and videos biased toward existing beliefs, isolating users from differing viewpoints and perspectives. This can be dangerous and might promote the spread of fake news as well with the **AI recommendation engine failing to distinguish the real news from fake news.**

Availability of the right talent to undertake this transformative change in the media and entertainment industry is also a challenge.

Impact of COVID-19 on AI adoption

Companies could place an increasing amount of reliance on AI and ML to predict customer behaviour in these uncertain times. AI is still a nascent technology with longer time horizon to maturity. Organisations are

focused on sustenance in near-term and therefore, expected to cut costs and reduce investments. However, rapidly shifting business priorities are creating new opportunities and use cases as the new-normal reality.



Blockchain

A blockchain is a digital record of transactions. The name comes from its structure, in which individual records called blocks are linked together in a single list called a chain. Blockchain is a distributed ledger technology (DLT) that allows data to be stored globally on thousands of servers while letting anyone on the network see everyone else’s entries in near real-time.

Blockchain can provide transparency, security and control in media and entertainment sector

The core attributes of blockchain’s distributed ledger approach can help provide transparency, trust, security and control across the media and entertainment supply chain for all points in a transaction process.

It can help reduce online advertisement fraud, such as clicks on advertisement links made by bots instead of humans. A recent report on ad frauds indicates that advertisers were likely to lose an estimated USD19 billion to advertisement fraud in 2018, and this could rise to USD44 billion by 2022²¹.

Micropayments for content and better control over file sharing

Many content creators place their original content behind subscription-based paywalls. As a result, they miss out on revenue from consumers who aren’t willing to pay for the entire subscription, but who would be willing to pay a smaller fee to read a single article, binge-watch a season of a television show or re-watch their favourite movie. Blockchain allows tracking copyrighted content as and how it is consumed by keeping a comprehensive record of data. This could empower content owners to retain better control of their copyrighted material in a legal manner and fight piracy²².

Blockchain allows artists to control pricing and fight fake ticketing

Ticketing is one of the most practical usages of blockchain in the entertainment sector. It helps the artists fight fake ticketing by allowing them complete control of pricing. By using the blockchain technology, the artists can transparently set the prices and track the ticket sales without the intervention of any middlemen.

Media insights and ad targeting:

Blockchain helps find and flag sites with click discrepancy and bot infiltration. This empowers the advertisers to avoid such sites and concentrate their ad budgets on the authentic sites with genuine clicks. Using this technology, ad tech platforms can automate campaigns based on specified set of rules thereby providing effective audience targeting.

Recent examples of Blockchain	In music, the blockchain start-up Mediachain Labs was acquired by Spotify with the aim to work on developing better technology to connect artists and other rights holders through the tracks hosted on Spotify’s service ²³ .
	In 2017, the Blockchain Insights Platform was announced by Comcast along with NBC Universal, Disney, Channel 4 and others to match audience datasets to plan, target, execute and measure advertising without data sharing ²⁴ .
	YellowHeart is a ticketing platform that uses blockchain platform to allow all live event stakeholders including artist, concert venue, or event initiator to compose and monitor rules for how their tickets are resold ²⁵ .
	Automobile giant, Toyota uses blockchain tech to reduce fraud in their digital advertising campaigns ²⁶ .

21. Ad fraud to cost advertisers \$19 billion in 2018, Juniper Research, Sep 26, 2017

22. Future blockchain media entertainment, J P Morgan, accessed on Aug 14, 2020 Spotify acquires blockchain startup Mediachain, Techcrunch, Apr 26, 2017

23. Comcast’s Advanced Advertising Group, Participants Plan Blockchain-Based Technology Platform, Comcast, Jun 20, 2017

24. How Blockchain Will Transform Media & Entertainment, Forbes, Feb 26, 2020

25. Toyota Uses Blockchain Tech to Reduce Fraud in Digital Advertising Campaigns, Ana Alexandre, Oct 16, 2018

26. Enterprise Reboot, KPMG 2020 Global Emerging Technology Survey Report

Challenges of Blockchain technology

Degree of maturity of the technology. Blockchain's usage is limited because of it still being in the early stages of development with applications underway.

Absence of common standards for technology utilisation. Blockchain's current nascent stage is a roadblock to its potential of replacing the current set of technologies.

Impact of COVID-19 on blockchain adoption

As per survey, blockchain has suffered the biggest investment loss among all emerging technologies owing to the spread of COVID-19²⁷. Blockchain has a key role to play in the future of business in media and

entertainment sector. In a post COVID-19 world, the principles of digital trust, transparency and security with blockchain as the backbone are essential to the evolvement of internet. Though blockchain has moved beyond hype, its adoption is expected to increase in medium and long term.



27. Enterprise Reboot, KPMG 2020 Global Emerging Technology Survey Report



Other technologies

Other technologies that are expected to impact the media and entertainment sector include 5G and digital labour. The next generation telecom network technology, 5G is the essential backbone for the technology enablers for media and entertainment sector.

<p>The low-latency high-speed 5G network is essential for the AR/VR technology to work seamlessly. Also, this would give rise to the increased usage of cloud-based gaming and OTT TV instead of the regular cable TV.</p>	<p>Digital labour is defined as the automation of labour through digital technologies to let go off redundant/high volume processes carried out by knowledge workers in business. Content development companies need to produce content more quickly and efficiently than ever. Using automation engines to replace the skilled workers would result in faster and efficient delivery. However, ease of deployment, scalability, cost efficiency and consistent performance would be the key to adoption.</p>
<p>The biggest opportunity for 5G lies in the mobile media and display advertising space with a likely combined contribution of USD300 billion accounting for almost 90 per cent of the projected revenue from 5G technologies in 2028²⁸.</p>	
<p>Emergence of new media: 5G might enable the advent of new applications and services that do not really exist today. This includes 3D holographic displays, self-driving car entertainment and connected haptic suits amongst others²⁹.</p>	

Technology provides an opportunity to improve content efficiency

There is no denying that media and entertainment sector has seen a paradigm shift due to technological advancements. With the current COVID-19 pandemic resulting in lockdowns, technological transformation has become the need of the hour. Content pipelines have

dried up. As a result, digitisation and building strong integrated digital models has become essential rather than optional. The emphasis would be on deepening the content pipeline and reducing the lead time.

Conclusion

By leveraging technology and its associated tools, media and entertainment sector can improve the content output efficiencies. Also, enabling recommendation engine to showcase the less explored content library can help as content production is hampered. The objective of the media and entertainment companies should be to invest in upskilling teams to adapt to new normal and incorporate the learnings to streamline processes and potentially provide better insulation from such shocks.

28. How 5G will transform the business of media and entertainment, Ovum Oct 2018 Report

29. How 5G Will Transform the Business of Media & Entertainment, Intel, Oct 2018

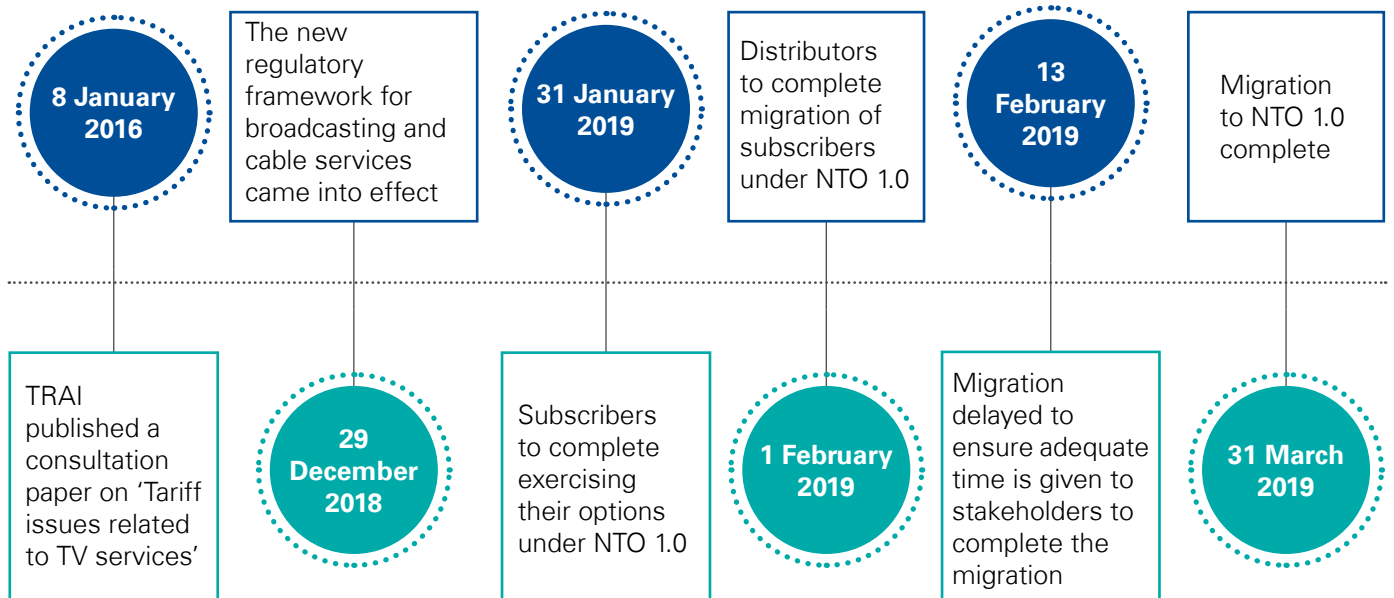


5 NTO 2.0

Another layer of disruption

The New Tariff Order 1.0 (NTO 1.0) came into force in December 2018¹ in India, nearly three years after it was first introduced by the Telecom Regulatory Authority of India (TRAI) in January 2016 as a consultation paper.

NTO 1.0 implementation timeline²



As the system of selecting channels was new to subscribers, distribution platform operators (DPOs) and local cable operators (LCOs) had to invest heavily in IT infrastructure and awareness creation to migrate subscribers to the new regime.

1. India's digital future – mass of niches, KPMG in India, August 2019

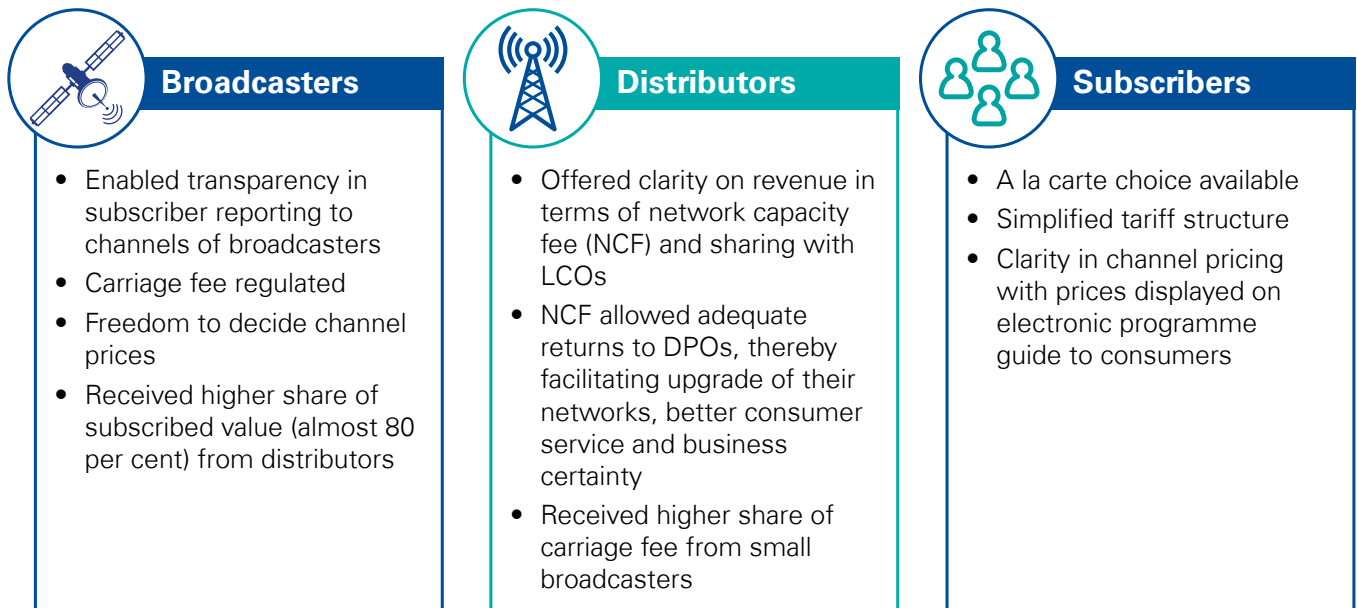
2. Deadline extended: DTH, Cable TV customers can select channels till March 31, Financial Express, 13 February 2019

NTO 1.0 ushered in an era of transparency across the value chain..

By offering clarity on the pricing structure and revenue sharing among stakeholders, NTO 1.0 was aimed at creating transparency, encourage consumer choice and facilitate systematic growth within the broadcasting and cable services sector.

The new regulation also introduced clarity into pricing structure and revenue sharing within stakeholders resulting in reduced disputes, harmonised business processes and increased tax compliance.

Positive implications of NTO 1.0 on the value chain^{3,4}



..however, it was the end consumer who faced challenges

As per the new framework, consumers had complete freedom to choose what to watch and pay only for those channels. However, with Madras HC removing the 15 per cent cap⁵ on the discount clause, broadcasters resumed offering 30-55 per cent⁶ discounts on the pricing of bouquets as compared to à la carte pricing of pay channels.

As a result, subscribers were again offered pre-defined channel packs or bouquets defined by broadcasters and distributors, at significant discounts as compared to the sum of constituent a la carte channels. This put them in a position in having to choose bouquets purely based on economics. Thus, a la carte saw limited pickup among consumers (penetration of a la carte channels was less than 10 per cent⁷ even after the implementation of the tariff order), implying that subscriber choice was not being exercised as intended.



3. India's digital future – mass of niches, KPMG in India, August 2019

4. A new twist on TV, Impact on net, Accessed on 29 June 2010

5. The Telecommunication (Broadcasting And Cable) Services (Eighth) Addressable Systems) Tariff Order, 2017, TRAI, March 03, 2017

6. DPOs say TRAI tariff order lacks value without 15% bouquet discount cap, Indian Television, January 03, 2019

7. KPMG in India analysis based on secondary research



Impact on stakeholders post NTO 1.0 implementation^{8,9}



Broadcasters

- Future of niche channels in jeopardy; channels with unsought content fading out
- Converted free-to-air (FTA) to pay channels at a very low price, enabling their inclusion in bouquets
- Heavily discounted bouquets as compared to sum of the a-la-carte rates of pay channels



Distributors

- Restricted ability to package channels and upsell
- Rationalisation of channel count by subscribers
- Subscriber churn in rural areas
- Multi-system operators (MSOs) implementation delayed due to low cooperation from LCOs; this led consumers switching to direct-to-home (DTH)



Subscribers

- Higher complexity in terms of choosing individual packs versus bundles
- Confusion due to the availability of both broadcaster and distributor bundles
- Higher subscription fee in Phases 3 and 4
- Owing to higher subscription fee and confusion in terms of migration to the new regime, the industry lost about 12-14 mn paying C&S HHs, primarily across the rural areas

With stakeholders still facing challenges post-implementation of NTO 1.0, the framework fell short of realising some of its core objectives—consumer choice and the resultant rationalisation of end-user ARPU.

Further, in most instances, broadcasters priced their marquee channels at the highest end of the spectrum, i.e. at INR 19¹⁰, large DPOs demanded significant

placement charges from broadcasters (in the form of distribution marketing and incentives) and smaller regional/niche broadcasters and channels with low penetration faced significant challenges in terms of both ad and subscription revenues, with diminished reach and viewership.

NTO 2.0 implementation timeline^{11,12}



8. India's digital future – mass of niches, KPMG in India, August 2019

9. A new twist on TV, Impact on net, Jan 2020

10. A new twist on TV, Impact on net, Jan 2020

11. A new twist on TV, Impact on net, Accessed on 29 June 2010

12. Defer tariff changes amid Covid-19: Cable companies, The Economic Times, 19 March 2020

NTO 2.0 – implementation faced backlash from the industry

Following consumer push back due to increased complexity in channel selection and increased prices, TRAI issued a set of amendments.



Given, the potential adverse impact on economics of broadcasters and distributors, there has been resistance

from the TV industry stakeholders. NTO 2.0 has been devised to provide more choices to end consumers, promote a la carte selection, and eliminate deep discounting for bouquets.

The amendments focused on increasing consumer choice and promoting a la carte selection, but also capped prices of channels and restricted the number of bouquets available.



Salient features of NTO 2.0^{13,14,15}

Stakeholders	Amendments	Industry response
 <p>Broadcasters</p>	<ul style="list-style-type: none"> Sum of the price of a la carte pay channels in a bouquet not to exceed 1.5x price of bouquet Discount on bouquets capped at 33 per cent A la carte channel rates for any pay channel in a bouquet should not exceed 3x the average bouquet pay channel rate Only channels with MRP less than or equal to INR12 are allowed to be part of the bouquet (INR19 in NTO 1.0). 	<ul style="list-style-type: none"> According to the Indian Broadcasting Federation (IBF), NTO 2.0 may restrict revenues, thus impacting profitability, content quality and employment in the sector IBF filed a writ petition against NTO 2.0 in Bombay High Court on 13 Jan 2020. No changes have been implemented since broadcasters are awaiting the final ruling on the on-going case in the high court
 <p>Distributors</p>	<ul style="list-style-type: none"> Restriction on the number of bouquets DPOs to charge not more than INR160 per month for 200 channels (INR 130 per month for 100 channels in NTO 1.0) Increase in number of FTA channels from 100 to 200 at the same price DD channels to not be a part of FTA pack Reduction of NCF in homes with multiple connections. 	<ul style="list-style-type: none"> While some distributors have started back-end implementation of the new system and changing their channel bouquets, a majority are yet to implement the changes fully as they are awaiting the final ruling on the on-going case in the high court

NTO 2.0 expected to have a varied impact across the value chain

Implementation of NTO 2.0 is expected to slow down broadcaster revenue growth

NTO 2.0 will require broadcasters to include only channels priced less than or equal to INR12 in a bouquet. However, most popular channels are currently priced at INR15-19.¹⁶

13. India's digital future – mass of niches, KPMG in India, August 2019

14. A new twist on TV, Impact on net, Accessed on 29 June 2010

15. Why India's top broadcasters believe the latest TRAI amendments will severely impair the industry, Business Insider, 11 January 2020

16. KPMG in India analysis based on secondary research



As a result of price cap, broadcasters may have to either reduce marquee channel prices from INR19 to INR12 to ensure that they form a part of bouquets or choose to exclude them from the bouquet. Choosing the former would directly impact subscription revenues, while choosing the latter is likely to make the bouquets less attractive, resulting in lower uptake of bouquets which are primarily driven by the marquee channels.

Further, niche channel uptake is likely to reduce, which will impact ad revenues of these channels and broadcasters may have to consider converting them to FTA or moving to a digital-only presence.

Another key amendment is capping the bouquet discounts at 33 per cent, which could impact the revenue and bundling strategy of broadcasters and adversely affect niche channels profitability.

Broadcasters would also need to factor in the financial stress on its subscribers due to the COVID-19 lockdown. This could require further rationalisation of channel pricing as there is likely to be continued resistance from phase 3 and 4 subscribers in terms of the >INR 100 ARPUs.

Based on our interactions, an overall reduction of 4-5 per cent is envisaged for the subscription revenues of broadcasters due to NTO 2.0

Consumers to emerge as likely winners with a la carte channels possibly gaining traction

To comply with the NTO 2.0 and the proposed caps on discount and maximum pricing of the a la carte channels, broadcasters would have to rethink their strategy on bouquets completely and whether they'd consider including the marquee channels in the same or not.

Our interactions with industry stakeholders indicate that since the Indian consumer is used to bundled offerings, bouquets are here to stay, which would potentially mean rationalisation of the MRP of the marquee channels. The same could have an adverse impact on the overall bouquet pricing, as well as the subscription revenues coming in from the a la carte subscriptions to especially the marquee channels.

Further, the reduction of NCF in multiple TV households is expected to further reduce the prices for these households.

Benefits to consumers^{17,18}



Reduction in overall subscription price paid for bouquets and a la carte channels

Increased choice in channel selection

Households with multiple TV connections to benefit

17. A new twist on TV, Impact on net, Accessed on 29 June 2010

18. Defer tariff changes amid Covid-19: Cable companies, The Economic Times, 19 March 2020

Distributors expected to see a negative revenue impact

NTO 2.0 has introduced a cap on network capacity fee (NCF) to INR160 per month for more than 200 channels and lower NCF for subscribers with more than one TV connection at home. This is expected to impact revenues of distributors negatively.¹⁹

On the other hand, the increase in mandated number of free channels under NCF from 100 to 200 is likely to have a minimal impact as most distributors are already offering over 100 FTA channels. Rationalisation is also expected in the bouquet count being offered to subscribers.

Potential COVID-19 impact and outlook

NTO 2.0 implementation, which had been delayed to 1 April 2020 due to petitions filed by broadcasters in the Bombay High Court, has been further delayed due to the COVID-19 pandemic and the lockdown imposed by the government. There was a court hearing for the

case in August 2020 and the next hearing has been scheduled in September 2020²⁰. The implementation of NTO 2.0 is likely to necessitate distributor interaction with subscribers to help them migrate to the new tariff plan and make the right choices of pay channels and packages. This may require local cable operators (LCOs) to visit customers' homes for on-site service support, posing a health risk.

This is likely to further delay the implementation of NTO 2.0 to the next financial year and would depend largely on the return to normalcy post-pandemic.

The COVID pandemic has intensified the battle between TV broadcasters and digital platforms for ad revenues, with TV shootings grinding to a halt and subscribers opting for over-the-top (OTT) online viewing experience in some pockets, with OTT continuing to provide fresh content even during the lockdown. However, OTT experience is likely to be largely complimentary and not a cannibalisation of TV viewing, although a very small portion of TV subscribers might have shifted to OTT permanently, as per our industry discussions.



19. NTO 2.0 implementation could have an impact of Rs 1500-2000 cr on TV segment revenues: Report, FICCI, Mar, 2020

20. NTO 2.0: Bombay HC will now hold next hearing in September, exchange4media, August 2020



6 Edutainment

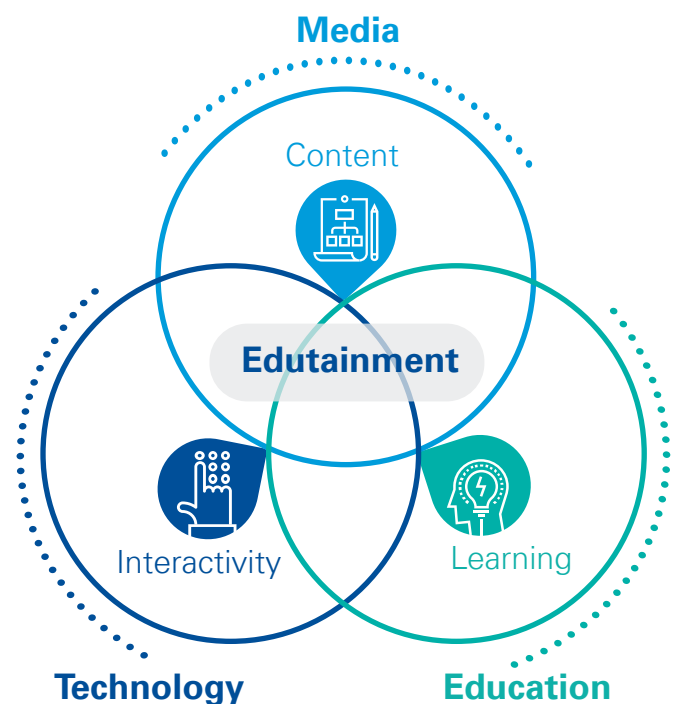
Making learning fun, engaging and immersive for millions

The education market in India is estimated to be around INR 9,000 - 10,000 billion in 2020¹. The increase in internet and smart-phone penetration and the coming-of-age of digital natives has also led to an ed-tech boom across the country. The digital education market alone is expected to grow at a 40-45 per cent CAGR over the next three years¹.

The edutainment market stands at the intersection of both education and entertainment and is set to rapidly evolve over the coming years. The market can be divided into three segments:

- Child learning which includes multi-media and technology assisted toys
- Adult serious learning includes content experiences across higher education, corporate training and research
- Adult casual learning constituting courses for domain skills such as marketing, soft skills such as leadership and creativity, personal skills such as financial literacy and wellness, casual learning such as economics and history, and hobby learning such as cooking and gardening².

Figure 1: Edutainment lies at the intersection of education, media, and technology



1. Enrollment lags behind target despite rising investments, CRISIL Research, March 31, 2020
 2. KPMG in India Analysis of content across MasterClass, Udemy, Mento, and CreativeLive

Growth drivers of edutainment

Intensify learner engagement: The emphasis on improving quality of education and learning outcomes for students has led to innovations in pedagogy. Research indicates that students aged 13 to 18 years prefer a kinesthetic style of learning in which learners use their bodies (drawing, dancing, singing, playing games) to learn and retain information.³

Edutainment increases engagement with learning content, which can increase overall learning outcomes for students.

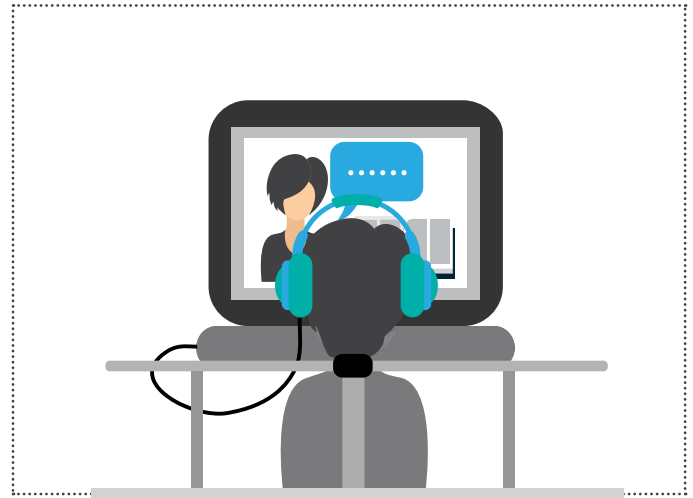
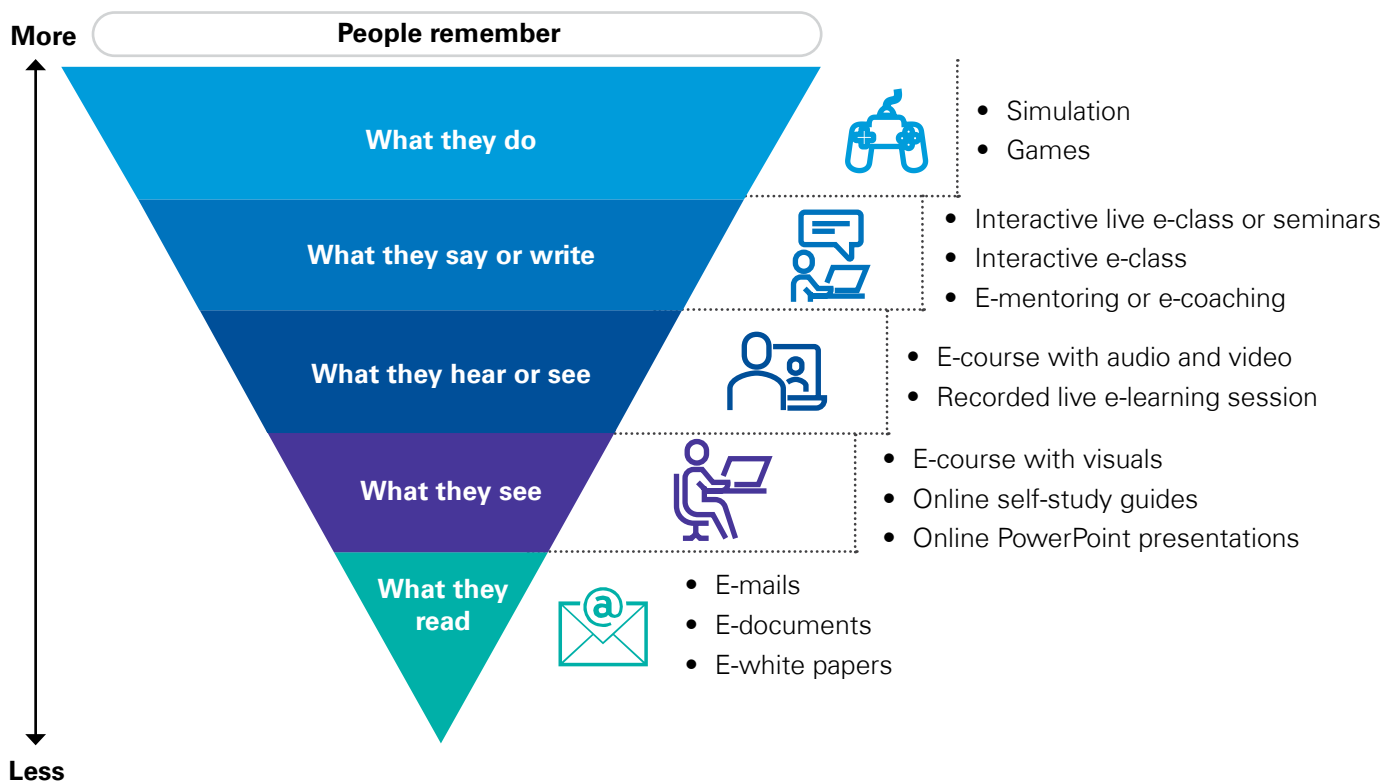


Figure 2: Learning opportunities vis-à-vis impact⁴



3. Learning style preference among adolescent school students, International Journal of Indian Psychology, March 2020
 4. Edgar Dale (1969); adapted from Nick Van Dam, 2003



Expand audience and reach: The Government of India is leveraging television media and radio broadcasting to increase learning for students across the country. The Ministry of Human Resource Development (MHRD) has been allocated 32 channels to broadcast live interactive educational programmes; radio broadcasting will be used for activity-based learning for children in remote areas⁵. This increases access to interactive educational content to nearly 17.5 crore rural learners⁶. This model is being explored by players across the globe - Ubongo, an initiative in Tanzania, aims to expand their presence to Sub-Saharan Africa through edutainment content⁷.

Shift in educational policy: The recently released National Education Policy (NEP), 2020 highlights the importance of play- and discovery-based learning for children. Teachers are expected to integrate edutainment aspects as a part of the curriculum to deliver more interactive and engaging education. The NEP 2020 also lays emphasis on multi-lingual and vernacular education. As ed-tech players develop content and products to tap into this space, it is expected that they will look to partner with media players who have already made inroads into vernacular content.

Edutainment applications allow students to experience hands-on and experiential learning in vocational and STEM education. Edutainment experiences that require learners to solve a variety of challenges could also help students hone inter-disciplinary problem-solving skills as well as nurture soft skills. The overlap between school based and home-based learning is increasing, and this is expected to lead to greater consumption of edutainment content across ages.

Disruptions due to COVID-19: With an extended lockdown due to COVID-19, and school-aged children relying on at-home learning tools, there has been an increased demand for engaging learning content for students, resulting in a doubling of edutainment consumption^{8,9}. There has also been a growth in consumption of adult content, such as documentaries, during this period¹⁰. The temporary closure of higher educational institutions has further resulted in a severe reduction of lab exposure and experimental learning for students, driving the need for alternate products that allow for discovery-based learning.

While the pandemic has accelerated a wider acceptance of education technology by consumers, the enhancement in overall learning experience should also be attributed to the adoption of innovative technologies, such as multi-media content, artificial intelligence, and immersive reality.



Where learning and entertainment meet

These trends are indicative of a growing synergy between ed-tech and entertainment, allowing for the development of edutainment products and services that are not only cost-efficient and scalable but also allow for increased personalisation and interactivity to improve learning effectiveness. Edutainment products seek to ensure learning is fun, engaging and immersive for learners.

Video content: Synchronous and non-synchronous videos with educational content, such as documentaries or videos with celebrity instructors and reputed achievers providing insider tips are offered in the form of entertainment. In addition, OTT platforms are launching educational content that cater to developing the intellectual abilities of children. Users can personalise courses on the platform by choosing video lessons of their choice from various instructors. Educational video content is also deployed in large scale by governmental agencies to drive behavioural changes across the population, proving effective in controlling domestic violence and the spread of HIV/AIDS as studied by economist Eliana La Ferrara and Nobel Laureate Abhijit Banerjee¹¹.

Deploying edutainment to battle COVID-19: The Government of India has collaborated with Facebook and Population Foundation of India to roll out 'Corona ki Adalat', a national level campaign containing entertaining animated videos that use humour to educate citizens about COVID-19¹².

5. Digital Education – India Report, MHRD, June 2020

6. UDISE, KPMG Analysis

7. Ubongo: Edutainment Made in Africa, for Africa, Nisha Ligon, Covid-19 Innovation Hub, June 03 2020

8. Indian OTT platforms dish out special fare for kids, IndianTelevision, Gargi Sarkar, June 01, 2020

9. The pandemic is showing us the opportunities that publishers have beyond the traditional book, Scroll.in, Anushka Shetty, June 23, 2020

10. 'Edutainment' Is the Latest Trend In TV, Samsung, July 10, 2020

11. The Entertaining Way to Behavioral Change, Banerjee, La Ferrara, Orozco, National Bureau of Economic Research, July 2019

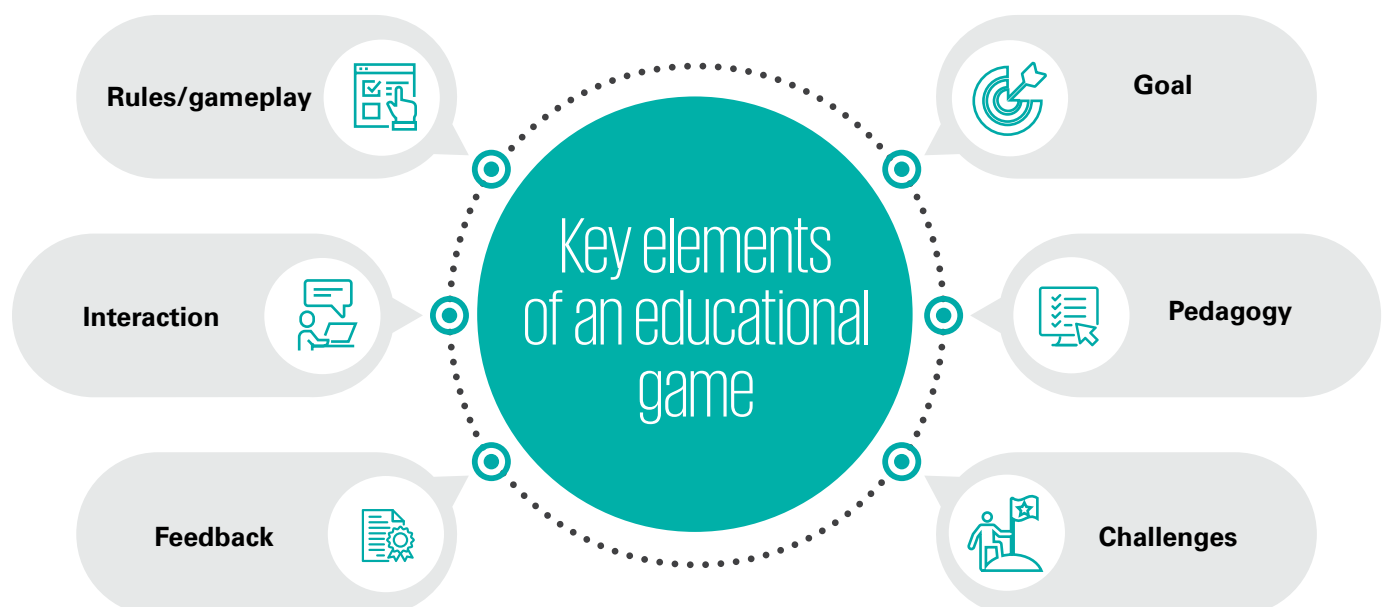
12. Response to Covid 19, Population Foundation of India, accessed August 26 2020

Interactive game-based learning: Interactive educational games or serious games are designed to provide entertainment as well as educate people about new concepts or help them learn specific skills. These games challenge players in a fun manner, increase engagement and motivational levels, thus enhancing learning outcomes¹³.

The elements ensure a balance of challenges and skills so that learners are not bored.¹⁴ The application of serious games for organisational goals too has been across the spectrum: in corporate learning, developing national defense capabilities¹⁵, and even in COVID-19 research¹⁶.

Another emerging component of digital educational experiences is gamification or the use of game-based elements such as rules, goals, feedback, leader board, rankings, and avatars to convey concepts to students.

Figure 3: Key elements of an educational game¹⁷



Learning spaces: Theme parks, zoos, and museums are entertainment-oriented spaces designed to provide experiential learning. These have seen an increased adoption of technology and digital media such as augmented/virtual reality through partnership with media and entertainment players¹⁸ to further enhance the learning experience. As educators react to the pandemic and innovate to expand learning beyond an

institution's walls, it is assumed that the classroom can be anywhere¹⁹. We expect that, in the future, learning spaces such as museums will also offer engaging and interactive educational experiences. The combination of these trends has led to their collaboration with schools to offer virtual and experiential learning experiences^{20,21,22}.

13. Categorising Game Design Elements into Educational Game Design Fundamentals, Mifrah Ahmad, November 20, 2019
 14. Gamification and the future of education, Oxford Analytica and World Government Summit, 2016
 15. Introduction to Serious Games to Enhance Defense Capabilities – Modeling & Simulation Special Edition Fred Hartman and Dr. Gary Allen, Journal of Cyber Security and Information Systems, April 12 2017
 16. CureQuest Videogame: A Case Study in Team Science, Icahn School, of Medicine, at Mount Sinai, June 5, 2020

17. KPMG analysis, Serious games for e-healthcare, May 2012, Categorising game design elements into educational game design fundamentals, Mifrah Ahmed, September 2019
 18. "Nintendo 3DS Guide: Louvre, Nintendo Co., Ltd. Annual Report 2014
 19. How Would You Reimagine Learning? 5 Visions for Our Post-COVID Future, Stolzoff, Wesp, Ideo, June 30, 2020
 20. Museum offers help for teachers during pandemic, Canadian Museum for Human Rights, May 1, 2020
 21. Experience Interprid Anywhere, Intrepid Museum, accessed August 15, 2020
 22. World War II at Home - Online Learning Resources for Teachers and Students, National WW2 Museum, accessed August 15, 2020



Edutainment: disrupting the future of learning

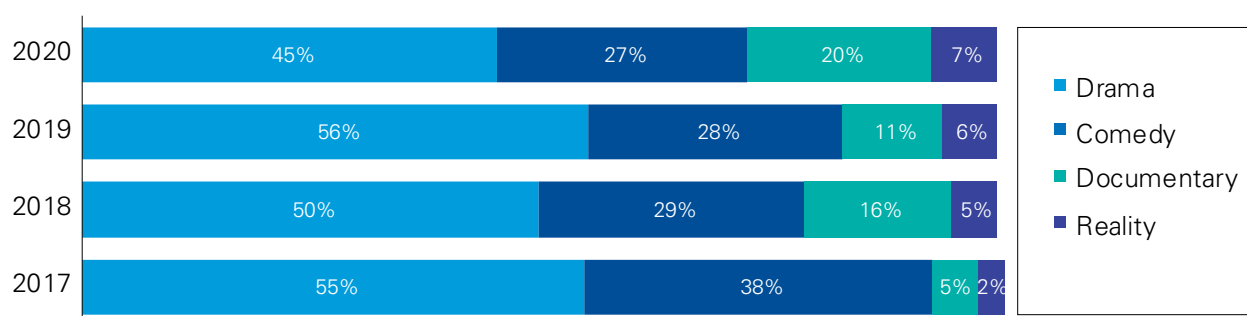
The edutainment market is expected to grow and see entry from players across ed-tech, gaming, media, and technology.

Ed-tech play: The first wave of ed-tech saw the proliferation of learning products catering to primary learning needs. These included concept learning through multi-media content, learning analytics through AI, and increased access through mobile apps. Going forward, however, there could be a need for ed-tech players to differentiate themselves leading to the development of

more edutainment products. Many ed-tech startups, including GreySim, PlayShifu, Playablo, My Serious Game, ConveGenius, Shirsa Labs, GreyKernel, and AvalonMeta are already differentiating their offerings through gamification and increased interactivity²³. Players such as MasterClass and Mento had on-boarded celebrities and influencers to deliver engaging educational content²⁴.

Media play: The expanding market has caught the eye of traditional media as well as OTT players, who are looking to diversify their content portfolio^{24,25}, to tap into newer viewer segments. The list includes players such as Netflix, Hungama²⁶, and VOOT²⁷.

Figure 4: Netflix new releases across the years shows a growing focus on documentaries²⁶



Traditional media players are also collaborating with ed-tech and technology firms to develop or acquire educational content. This allows for a symbiotic relationship where media players have access to newer forms of content and the other party has access to scale. Recent developments include:

- Media player Hungama's partnership with educational technology developer Azoomee²⁸
- Edtech player Byju's partnership with media player Disney²⁹
- Technology player Google's partnership with media player Prasar Bharathi³⁰
- Viacom-18 owned Voot's partnership with Oxford University Press³¹, ed-tech player upGrad³², edutainment chain KidZania, documentary developer Vice, and BBC Studios' CBeebies.

23. KPMG in India analysis

24. In10 Media to launch global OTT service for documentaries

25. Netflix's best and worst programs, charted, Quartz, Adam Epstein, Dan Knopf, accessed August 11, 2020

26. Hungama Play launches new content for kids, Hungama, accessed August 11, 2020

27. Viacom18 launches India's first and only multi-format Kids app offering Fun & Learning - 'VOOT Kids', Viacom 18, November 12, 2019

28. Azoomee to Reach Over 65 Million Viewers in India, Azoomee press release, December 12 2019

29. BYJU'S KG, Class 1-3 | Disney - BYJU'S Early Learn app on Google Play Store, accessed August 28 2020

30. Google for India 2020: Google partners with Prasar Bharti to launch edutainment series for SMBs, Hindustan Times, July 13, 2020

31. VOOT Kids licenses children's content from Oxford University Press, The Economic Times, July 22, 2019

32. VOOT forays into edutainment; partners with UpGrad, Financial Express, May 28, 2020

What can OTT players gain by entering into edutainment?

- Wider consumer base:** OTT players can aim to capitalise on new segments such as kids' education consumption through learning content. For example, Netflix is offering free educational documentaries for teachers and parents³³. Voot has tied up with upGrad to offer content to working professionals.
- Increased consumer lifetime value:** The consumption pattern of kids across many digital platforms indicate that kids' loyalty towards their preferred content and characters is very high³⁴. Learning being a long-term activity also serves as a factor to increase the consumer lifetime value.
- Increased engagement:** Inclusion of educational material and delivery through interactive technology allows OTT players to offer more engaging content and would lead to increased session times.

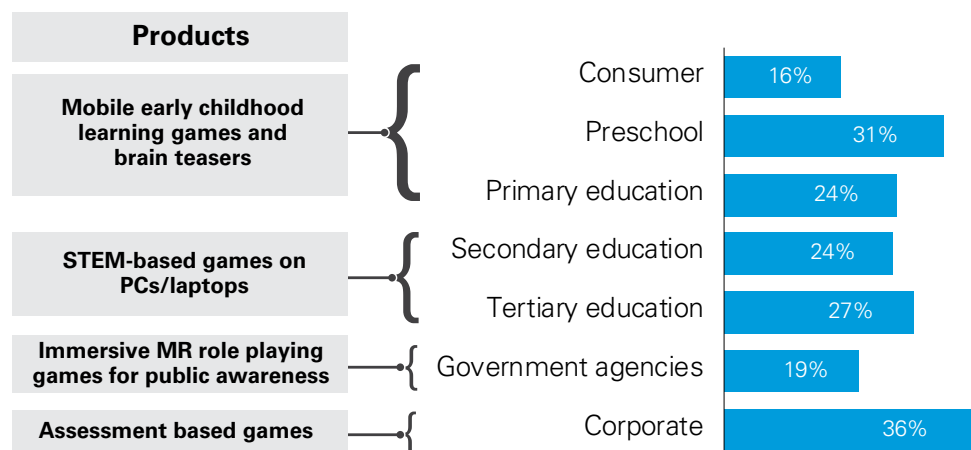
What should OTT players invest in?

Media players looking to enter this space must invest in interactive technology and immersive experiences. They must also gain a deeper understanding of learner expectations and educational themes to tailor products across segments.

Game-based learning

- There has been a rapid growth in game-based learning globally, with corporate learning emerging as the largest segment, followed by preschool.³⁵
- With the increasing corporate L&D spends, this space is expected to see entry from game developers as well ed-tech players focused on the corporate learning segment.

Figure 5: Global game-based learning CAGR (2017-22)³⁵



The way forward

Both media and ed-tech players are developing synergies to put together combined edutainment products to make the most of portfolio diversification opportunities. While media and entertainment companies gain access to new content and material for a wider audience, ed-tech companies stand to benefit by gaining a new distribution channel and greater reach, apart from an entry into a market with greater customer lifetime value.

33. Responding to teachers' requests for access to documentaries, Netflix media center, April 2020

34. Decoding kids' genre in OTT space, January 2017

35. The 2017-2022 Global Game-based Learning Market, Sam S. Davis, Metaari, July 2017, KPMG Analysis



7

News genre

Reliability in times of crisis

In a country as populous, geographically vast and culturally diverse as India, news media plays a pivotal role in keeping the people informed and updated. With deeper penetration beyond Tier I and Tier II cities, rise in literacy levels and favourable demographics, news consumption has witnessed a healthy growth in the past few years.

Within the news genre in India, while print and TV have been the dominant pillars for the past few decades, a rapid expansion of mobile web access through the advent of smartphones and high-speed internet connectivity has paved the way for digital media growth in the recent years. Interestingly, while the move towards digital has challenged the newspaper industry in India with readership declining from 407 million in Q4FY17 to 400 million in Q3FY20¹, TV news segment continued to grow over the last couple of years with TV viewership reaching 4,324 billion minutes in CY2019 compared to 3,464 billion minutes in CY2017 at a CAGR of 11.7 per cent².

Iconic events over the past couple of years such as central and state elections, Cricket World Cup, surgical strike on Pakistan and the abrogation of Article 370 in Jammu and Kashmir have propelled the popularity of news genre.

News consumption patterns in India vary significantly with age and region.

According to Reuters Institute's annual report on Digital news for 2019, online and social media were the main source of news consumption for respondents below the age of 35 years.³



The contribution mix of TV and print was relatively higher for older respondents, with an edge towards print. Experts attribute the higher print mix amongst the older population to loyalty and sentiments associated with reading a morning newspaper. Further, digital adoption is generally higher in Metros vis-à-vis non-Metros as people in the latter areas struggle to re-equip themselves with technological knowledge, smartphone availability and language interfaces.



1. CRISIL Research, CRISIL, accessed on 15 July 2020

2. What India Watched 2019, BARC, Accessed on 15 July 2020

3. India Digital News Report 2019, Reuters Institute, accessed on 15 July 2020 (based on survey of English readers with internet access in India)



Covid-19 catalyses changes in news consumption

The Covid-19 pandemic gave a further impetus to the news genre post-March 2020. With an ever-growing need to track the latest updates post the virus outbreak and with a nationwide lockdown forcing majority of the population to stay at home, the demand for news content spiked exponentially during this period, albeit with a paradigm shift in the news consumption pattern.

Lack of supply chain disrupted physical circulation of newspapers

With a severe disruption in circulation of newspapers due to supply chain bottlenecks stemming from the lockdown and concerns around potential virus exposure, newspaper sales – typically more than 50 million copies daily – fell two-thirds with a consequent impact on readership.⁴

Leading to an immediate sway of eyeballs towards TV and digital

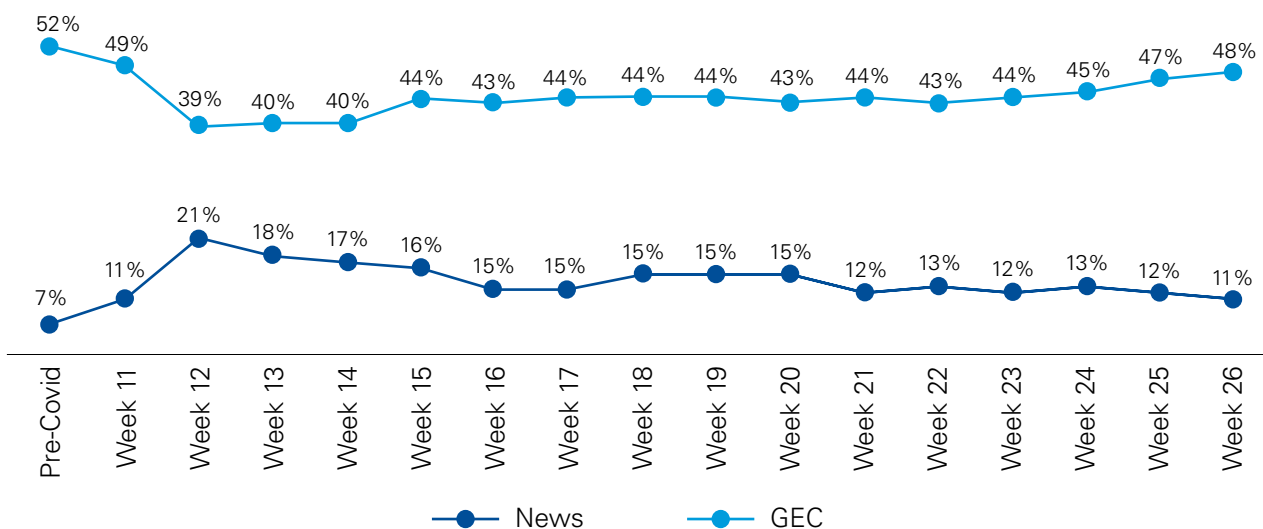
TV news viewing time increased from 16 minutes per day before the pandemic to a peak of 59 minutes at the end of March, before again going down to 29 minutes during the ‘unlock’ period.^[*] Similar trends were observed on the digital front.

Digital news apps and websites registering a 41 per cent increase in time spent as users spent around 40 minutes per week in the week of 28 March to 3 April 2020, up from 27 minutes in the pre-pandemic sample period (13 January to 2 February 2020)⁶.

News genre’s share in total TV viewership peaked at 21 per cent

Predictably, the pandemic triggered a shift in mix across India’s TV genres. The urge to keep a track of latest updates and the non-availability of fresh programming content benefitted the news genre as its share in total TV viewership peaked at 21 per cent during the initial weeks of lockdown⁷ – a 3X increase from the pre Covid levels post which it declined gradually to about 11-13 per cent by June end. The regional language news viewership on TV witnessed a stronger growth compared to English news channels as many viewers preferred local news and updates as the pandemic and lockdown restriction from their locality.

TV news viewership’s share increased 3x during the lockdown



Pre-COVID period: 11 Jan 2020 –31 Jan 2020 ; Week 11 : Week of 14 Mar 2020 ; Week 26: Week of 27 Jul 2020

Source: How are media habits changing as India enters unlock 2.0, Edition 10, BARC-Nielsen, 9 July 2020

4. India media fear pandemic finally brings end of the newspaper era, The Jakarta Post, 17 June 2020 What India Watched 2019, BARC, Accessed on 15 July 2020

5. How Are Media Habits Changing - Edition 8, 9 and 10, Nielsen and BARC report, May 14, May 29 and 9 July 2020
* Unlock period: 1 June 2020 onwards

6. Digital news outlet see growth spurt, Financial Express (based on BARC Nielsen study), April 2020; accessed on 8 August 2020

7. How Are Media Habits Changing - Edition 8, 9 and 10, Nielsen and BARC report, 14 May, 29 May and 9 July 2020



Similarly, digital news users constituted 54 per cent of total user base

Unlike TV, where the news genre benefited from the lack of fresh GEC and sports content, digital witnessed a strong traction across all genres including online gaming, social networking, OTT video streaming etc during this period as evidenced by an increase in daily time spent on smartphones by seven per cent from 16.1 billion minutes pre-COVID to 17.2 billion minutes in the last week of June.⁸ Despite this, the share of digital news users increased from 38 per cent pre-Covid to peak at 54 per cent during the first week of lockdown post which it declined gradually to ~42 per cent by June end.⁹

Will the surge in news consumption levels be sustainable though?

While the current consumption of news in the TV and digital segment is certainly above the pre-Covid levels, the slow and constant decline since the initial surge highlights the audiences' plummeting interest levels towards Covid-19 related news as people have gradually started embracing the new normal. The sustainability of current levels of news viewership on TV and digital depends on the ability of news players to weed out repetitive content and deliver value-added accurate engaging information not just confined to pandemic but also pertaining to other key events across the globe.

On the newspaper's front, discussions with industry experts indicate that while the newspaper circulation and readership took a hard-hit during the initial few weeks of the lockdown, the industry is gradually witnessing resurgence and normalcy with circulation levels recovering to almost 70-85 per cent by the end of June 2020¹⁰. The balance deficit is primarily on account of non-circulation of copies at airports, railway stations, cash pick up points and containment zones coupled with the fear in the minds of readers that newspapers could be potential virus carriers.

Dents visible in the legacy business model as monetisation hits a pandemic bump

The biggest bane for the news industry has been its high dependence on advertising. The model, developed by English market leaders for the print segment when the going was good, envisages keeping a low cover price and letting the advertising revenue subsidise loyal readers.

8. How Are Media Habits Changing - Edition 8, 9 and 10, Nielsen and BARC report, 14 May, 29 May and 9 July 2020

9. How Are Media Habits Changing - Edition 8, 9 and 10, Nielsen and BARC report, 14 May, 29 May and 9 July 2020

10. KPMG in India analysis based on discussions with industry participants

11. Covid-19 Impact on Newspaper Industry, Taxguru, 8 May 2020

12. The economics of news media and why it's in deep crisis because of Covid-19, The Print, April 2020, accessed on 8 August 2020

13. KPMG in India analysis

The extent of low cover price is evident if we compare India's leading English newspaper which is priced at about INR five with, for instance, with its Sri Lankan counterpart which is priced at INR30¹¹. Hindi and regional newspapers have higher cover prices than English newspapers, mainly because their advertisers are small and medium enterprises and regional firms. Given the lower ad rates, higher circulation revenues provide the necessary headroom.

Illustrative unit economics of an English newspaper¹²

Particulars	Amount
No. of pages	40
Selling Price	5
Distributor margin @ 40%	(2)
Net realisation	3
Printing cost @ 0.25 paise / page	(10)
Employee and other costs	(5)
Net loss*	(12)

Note: *To be earned back through Ad revenues

TV news channels follow the same business model, but the flaw is even more evident here. India has nearly 900 TV channels and half of them are news-oriented. News channels are either distributed on a Free To Air (FTA) basis or at low price points (INR one to two) compared to general entertainment or sports channels (INR 11-23) to drive better viewership.¹³ However, in the bargain, these channels become a lot more dependent on ad revenues. Businesses marketing on news channels also advertise on general entertainment and sports channels, thus leaving minimal budgets for news channels.

News channels consequently remain small and unprofitable and highly vulnerable when businesses cut their advertising budgets.



Digital news, in its current form, is an extreme version of print and TV as the content is freely accessible to readers. The publishers are primarily dependent on digital advertising in a market which is highly concentrated with Google and Facebook together accounting for majority of the digital advertising market in India.

The outbreak of Covid-19 served a major blow to both the news publishers as well as broadcasters. Advertisement revenues for the news genre across all segments viz. print, TV and digital hit a pandemic bump as businesses scaled down their ad spends to manage liquidity and cash flows. The casualty in the print segment was a lot more severe compared to TV and digital with ad revenues almost coming to a complete halt from mid-March 2020 to mid-April 2020 due to lockdown-led disruption in circulation of dailies. Advertising spends in the TV news segment slipped by about 30-50 per cent in Q1'21 as compared with the 50-80 per cent fall in GECs¹⁴.

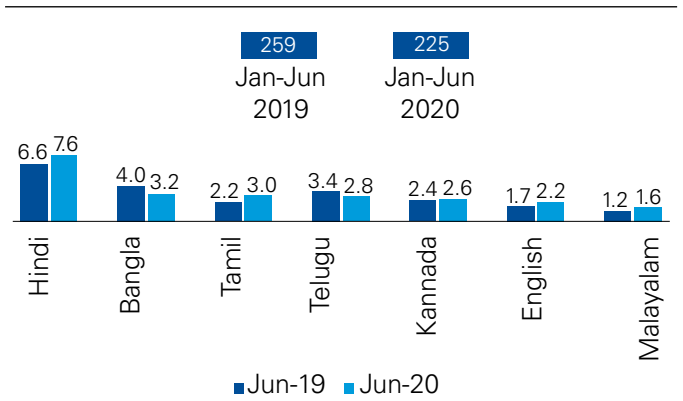
On the digital front, industry discussions indicate that news publishers witnessed about a 25-35 per cent reduction in ad spend on their digital platforms in Q1'21.



The current situation has forced news players to negotiate more liberally and offer special incentives like bonus spots, discounts etc. to lure advertisers into spending more and ensure better inventory utilisation.

With the government partially easing lockdown restrictions in June 2020, ad spends across all segments have shown signs of recovery. News channels across most languages posted growth in ad volumes ranging between 8.3 per cent to 36.4 per cent in June 2020 vis-à-vis June 2019¹⁵ with newer categories of advertisers such as education, technology, gaming apps, health and lifestyle apps, financial technology platforms and other digital business,¹⁶ propelling the ad revenue and providing the much needed respite.

News Genre Ad volumes (mn)



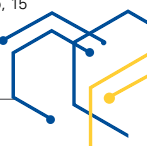
Source: How Are Media Habits Changing - Edition 8, 9 and 10, Nielsen and BARC report, 14 May, 29 May and 9 July 2020



14. KPMG in India analysis based on discussions with industry participants

15. How Are Media Habits Changing - Edition 8, 9 and 10, Nielsen and BARC report, 14 May, 29 May and 9 July 2020

16. Will news TV's resilience during Covid crisis earn advertisers' trust?, Best Media Info, 15 May 2020



The print segment also witnessed an uptick in ad volumes towards the end of Q1'21 with average volumes per day in June 2020 increasing by 3.2x compared to April 2020 as advertisers from auto and education sectors ramped up their spends.¹⁷

Ad agencies have already started experiencing traction from advertisers. Further, with Tier II, Tier III cities and rural economies showing strong signs of growth in economic activity challenges around commercial production of advertisements dwindling, a favourable monsoon and the upcoming festive season, a partial recovery in ad volumes over the next few quarters is pretty much on the cards.¹⁸

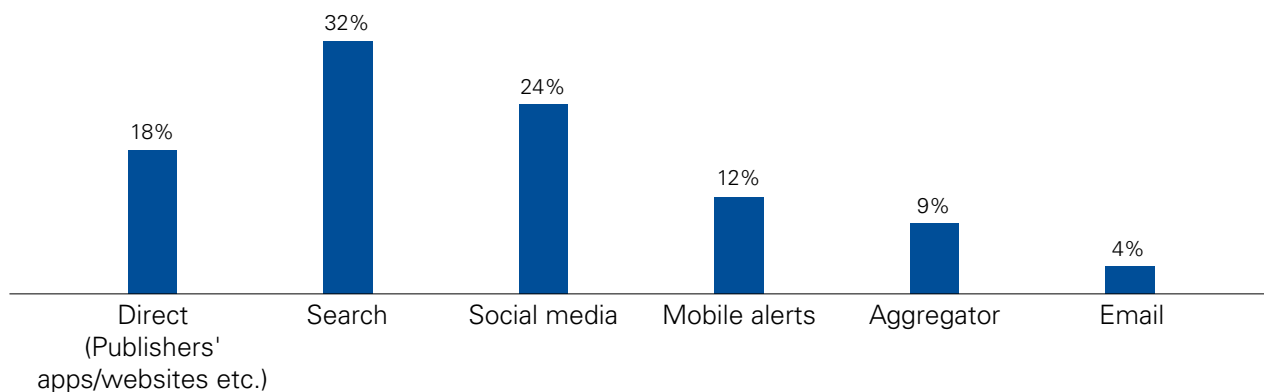
A call to accelerate digital offerings and build sustainable business models

Indians across Metros, Tier I and Tier II cities were hitherto rapidly embracing digital, mobile and social media and the lockdown has further accelerated the process. Consumption of digital news has increased significantly in the past few months and users seem to be developing a penchant for the unique offerings brought to the table by digital - real-time news updates, interactive articles with videos and images, news segregated by categories and access to multiple publishers through news aggregators.

The pandemic has exposed an age-old flaw in the business models of news players as circulation and subscription revenues were not able to compensate for the steep decline in ad spends. This has compelled the news players to go back to the drawing board and put in a serious thought on ways to reduce the over dependence on ad revenue and strive towards a healthier mix of subscription revenue and other sustainable revenue sources. Recently, a few major Indian dailies have started increasing the cover price of newspaper in few geographies and adopting the pay online model, which is an encouraging sign for the industry.

Currently, the news distribution on digital medium is fragmented and the consumption directly from publisher sources is low. Video news – TV channel news streamed over platforms such as YouTube, JioTV, Hotstar, MX Player and Zee5 – has gained more traction compared with news apps (including publisher apps and aggregator apps) and websites.

Digital gateways to news¹⁹



17. TAM Adex research study, published in business insider, June sees 3.2X increase over April in average print ad volumes per day, August 2020, accessed on 9 August 2020

18. Interview excerpts of Anand Bhadkamkar, CEO, Dentsu Aegis Network India, published in Exchange4media, Recovery finally on cards for Indian ad agencies, August 2020, accessed on 9 August 2020

19. India Digital News Report, Reuters Institute, accessed on 15 July 2020

While the transition to digital is likely to happen relatively faster for English language, the long-term growth in digital will be primarily driven by Hindi and vernacular languages. Hindi and vernacular players must, therefore, gear up to embrace and invest in digital technology.

Monetising the growing digital user base remains a challenge

As outlined earlier, advertising accounts for a significant proportion of total revenues for most news publishers in a landscape where Google and Facebook dominate the overall digital ad pie. Further, advertisers are cutting down their spending and focusing a lot more on ROI metrics, thus, causing a visible shift towards performance-driven ads (where leads, purchases, installs can be tracked and measured) and away from reach-based brand advertising. All this, coupled with the ever-growing new entrants in the digital ad market have thrown up new dynamic challenges and created tremendous pressure on digital ad volumes and CPMs of news publishers.

The benefits of content syndication arrangements with news aggregators as an added revenue source are also widely debated. Some industry pundits believe that if the user base of an aggregator is relatively distinct from that present on the news platform, it provides an opportunity to engage with a new set of users and earn a revenue share from aggregators. However, the other school of thought favours developing and maintaining their digital presence and brand value rather than syndicating content to third-party aggregators.

Rise in hyperlocal journalism

External research suggests that even though internet penetration is higher in urban areas with 450 million users in December 2019, internet penetration in Tier II, Tier III cities and rural areas is on a steady rise²⁰. The increased digital consumption in these areas has presented news organisations with a unique opportunity to penetrate deep into territories currently not catered by print and TV segments.

Digital paywalls – the possible solution?

With digital ad revenues drying up, there seems to be a consensus within the industry that introducing digital paywalls is the only sustainable way forward as creating content involves a considerable cost. While this is a proven model in the west, the dynamics of the Indian market makes it difficult for publishers to implement the subscription model in India.

Interestingly, most e-papers like Times of India, The Hindu, Indian Express, Hindustan Times and Business Standard, are already chargeable at a nominal subscription fee. Additionally, publishers are tying up with other sector firms to offer e-papers to their customers, thus building newer revenue streams. Top dailies like Mint and The Hindu have also recently started to turn the tide by placing their entire online content behind paywalls, and other players are likely to follow suit.

Having said that, implementing a subscription model is a journey that involves a thorough groundwork viz. careful consideration of user engagement levels, leveraging data science to identify and categorise users based on their demographics and reading habits, analysing competitive landscape etc. The complete transition towards subscription-based content is therefore expected to happen gradually over time and will foster quality journalism.

The preference of Indian consumers for vernacular language content is showing an upward trend. This can be evidenced by the sheer uptick in the scale of operations of Way2News – one of the largest hyper-local short news app. Way2News app has been installed by 20 million Indians thus far, recording 4.8 billion screen views per month. Further, the daily active users have been growing 100 per cent Y-o-Y to reach 2.5 million in Q4FY20.²¹

The green shoots of recovery in the news genre will sprout faster from regional markets, and regional print players have already started foraying and establishing their presence into the hyper-local markets.



20. Neilsen and IAMAI 2019 report titled India Internet 2019 accessed on 11 August 2020

21. Interview excerpts of Raju Vanapala, Founder and CEO of Way2online published in exchange4media titled, How way2news transformed the hyper-local news ecosystem in India accessed on 11 August 2020



Awareness of fake news bolsters the need for authentic news sources

Recently, thousands of migrant workers gathered at the Uttar Pradesh-Delhi border based on rumours that 1,000 buses have been arranged for stranded migrants.²²– The consequences of spreading fake news have been far from what one could contemplate.

The increasing use of digital platforms has brought about a rapid proliferation of fake news in recent times and has challenged users' trust in news, especially through social media platforms.



Social media platforms envisage a two-way engagement and allow users to share information by forwarding it to other individuals in various groups and broadcast lists. This has led to a widespread, unchecked distribution of information that is rarely vetted or arrested by existing algorithms.

Further, with hyper-local gaining immense traction off-late, there is a surge in hyper-local vernacular video news apps. The short video content in these apps is typically supplied by TV stringers/freelancers which, if not monitored and appropriately edited prior to release, could potentially result in dissemination of misinformation.

The spread of fake news has indirectly bolstered the credibility of print media, and many news organisations have experienced major gains in readership on account of this²³. Print media is believed to have a robust, institutionalised newsroom and verification system to ensure thorough monitoring of information before it is published as 'news'.

It is important for news organisations to not only focus on quality journalism and deliver well-curated news content but also call out fake news and misinformation explicitly. For instance, Jagran, a leading Hindi news publisher, has recently launched vishwas.news – a fact-checking news portal to promote credible journalism and reduce the spread of fake news.²⁴

Conclusion

News consumption has increased steadily across mediums in the past few years. Even amid the ongoing pandemic, a silver lining has been the surge in news consumption while monetisation is under tremendous stress. Authentic news sources are increasing in relevance as more fake news circulates on social media platforms.

The pandemic has disrupted news consumption patterns. Even after the supply chain bottlenecks and concerns about potential viral exposure are overcome, the newspaper industry is most likely to see some readers switching permanently to other mediums.

Lastly, over-dependence on advertisement revenues is unsustainable and the news publishers should strive towards maintaining a healthy mix of subscription and advertisement revenues and monetising their digital assets.

22. Coronavirus lockdown | Union Home Ministry blames 'fake news' for migrant workers gathering at bus stations, The Hindu, 6 June 2020

23. Steps taken towards curbing of fake news in India, latestlaws.com, May 2020, accessed on 11 August 2020

24. Interview excerpts of Shailesh Gupta, Director of Jagran Prakashan Limited published in exchange4media, Jagran thrives on trust, August 2020, accessed on 11 August 2020



8 Kids genre

Waking up to the potential

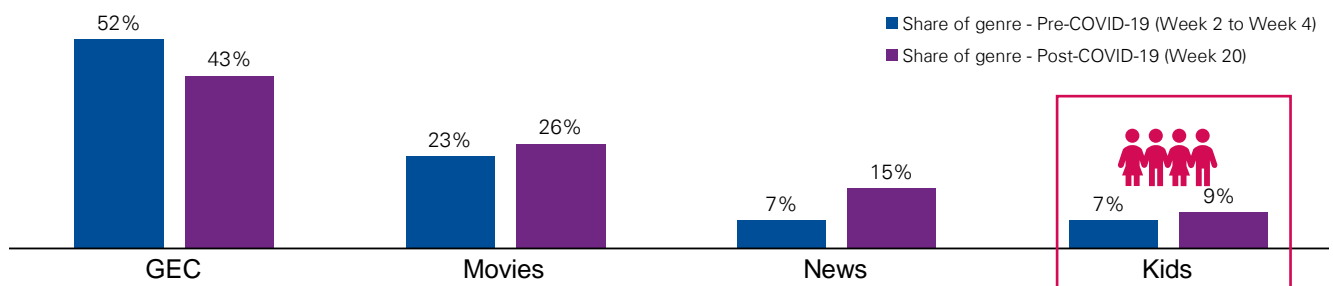
In a country with young demographics, the kids segment is increasingly coming to the fore. Notably, viewers in the 2-14 years age group make up 20 per cent of India's TV viewing universe.

Amid the COVID-19 pandemic, the spike in TV viewership in India has been amongst the silver linings. According to the Broadcast Audience Research Council (BARC) India, total TV viewership peaked by 43 per cent (in week 13) and was 15 per cent higher in week 20

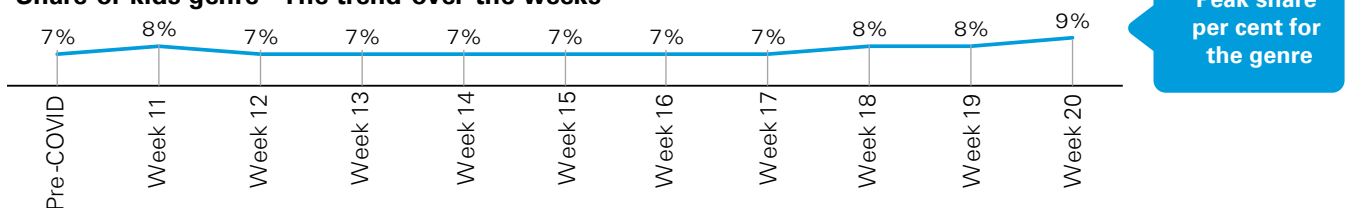
against pre-COVID-19 viewing. Total TV viewership in the first half of 2020 showed a 9 per cent hike year-on-year.

In April and May 2020, viewership of the kids genre spiked before the onset of summer vacations, driven by the COVID-19-induced lockdown, with kids cooped up indoors. The share of Kids genre increased from 7 per cent pre-COVID to 9 per cent¹ in the post-COVID lockdown months

Kids channel viewership share grew to 9 per cent in week 20 (week starting 16 May)²



Share of kids genre - The trend over the weeks



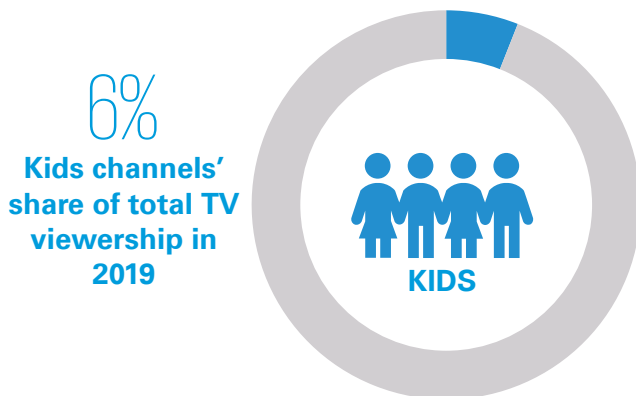
1. Total TV viewership up by 9 per cent compared to first half of 2019: BARC-Nielsen report, Afaqs! news bureau, 09 July 2020

2. How are media habits changing as India enters week 9 of the lockdown, Edition 9, BARC India and Nielsen, 29 May 2020 [Week 20 (week starting 16 May) data as compared to Pre COVID-19 i.e. Week 2 to Week 4 (11-31 Jan), All India 2+]

Kids genre at a glance

Despite the age group from 2-14 accounting for 20 per cent of total TV viewers in India, the kids genre contributed only six per cent of total TV viewership in 2019³.

Kids channel viewership in 2019⁴



Kids genre remains under-indexed, and bound by advertising restrictions

A surge in co-viewing has resulted in advertisers showing increasing interest in GECs.

The kids genre remains under-indexed as compared to GECs. This is primarily owing to a lack of prime time, which makes monetisation a challenge and strict enforcement of rules by regulatory authorities on marketing which targets kids.

The Advertising Standards Council of India (ASCI) has specific guidelines on advertising to kids, which state that advertisements should not impair parents' role in making the right food choices for their children and that advertisements aimed at kids should contain nothing that might result in physical, mental or moral damage or manipulate the vulnerability of kids. While FMCG players such as Unilever, Reckitt Benckiser India and P&G account for more than 70 per cent of the advertising spend on kids channels,⁵ Food and Beverage Alliance of India (FBAI) members have either pledged to only

advertise products to kids under the age of 12 that meet common FBAI nutrition criteria, or not to advertise their products to children under 12. In addition, in January 2020, YouTube implemented a policy which prohibited content creators to show targeted advertisements on content which is made for kids.

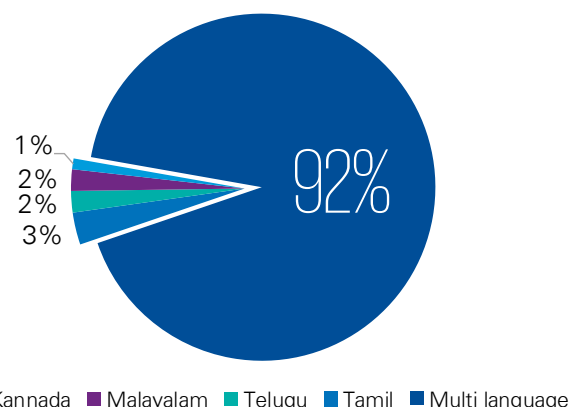
The rise of regional players

Regional language content in the kids genre is growing, especially in tier II and tier III cities.

TV channels as well as OTT platforms are offering kids content in several Indian languages. Such regional-level targeting has helped players broaden their reach to kids beyond the traditional markets in urban centres.

Nickelodeon and Sonic, which are leaders in the kids genre, are available in eight languages. Aha, a Telugu OTT platform, has started offering syndicated kids content in vernacular language. Aha recently introduced its new offering 'Aha Kids' containing 28⁶ new Telugu kids movies. To expand its content library, Aha has partnered with Green Gold Animation, a creator of kids content. Since its launch in 2017, HoiChoi, a Bengali OTT platform, has been expanding its kids content⁷ to diversify its viewership base.

Kids viewership in 2019 by language⁸



3. Trade set to plunge as COVID-19 pandemic upends global economy, World Trade Organization, 08 April 2020

4. What India watched 2019, BARC

5. Unilever to put lid on marketing to kids: Need broadcasters worry?, Afaqs, 28 February 2020

6. Aha to introduce its new offering 'ahaKids - Pillala Rajyam', Onlytech.com, 21 May 2020

7. HoiChoi: The App for Bengali Entertainment Programmes, Exitingjp.com, 6 October 2020

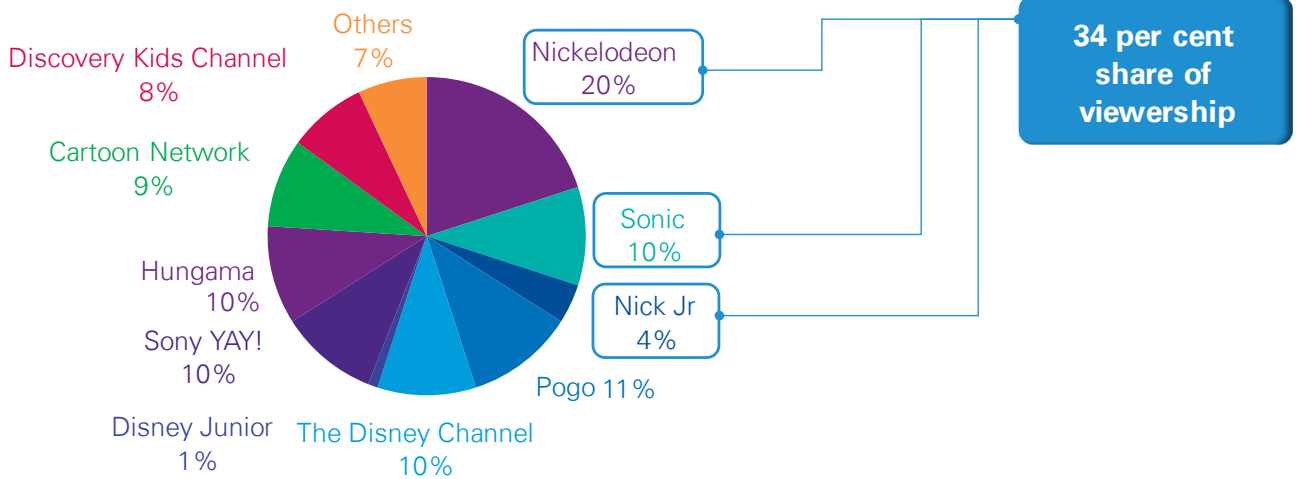
8. What India watched 2019, BARC

Channels in a race to create more relevant content across kids TV platforms

Kids programming has come a long way from just three national kids channels in 2003⁹ to 18 channels as of December 2019¹⁰. Nickelodeon is a leader in this genre¹¹.

Viacom18 (Nick, Sonic and Nick Jr.) ahead with 34 per cent viewership share in FY20

Kids genre: Viewership share



9. With new channel launches, 2004 could well be the year of programming for children, India Today, 19 January 2012

10. The Indian Telecom Services Performance Indicator Report October - December, TRAI, 30 June 2020

11. Network18 corporate presentation 2019-20

OTT platforms intensify focus on content to increase engagement with kids

With the kids segment evolving as one of the fastest-growing genres in the online space, several OTT players are curating their offerings to attract their attention. YouTube was the first to tap the potential in this space,

followed by other big players such as Netflix and Amazon Prime Video. Indian OTT players such as Hungama Digital and Viacom18 (Voot) have also introduced separate apps for kids.

A look at some of the key platforms offering kids content¹²

Platform	Target age group	Categories / genres	Strategy with regards to kids genre
Voot Kids	3-8 year old	International shows, quizzes, audio stories, e-books	Trying to carve a niche through exclusive rights of popular cartoon shows; also amalgamating education into entertainment
Hungama Kids	Up to 18 years	Nursery rhymes, bedtime stories, general knowledge, language practice, Indian and international movies and series, animated shows	Launched an infotainment platform for kids, parents and teachers; trying to micro-target within the kids category, including toddlers, school-going children, pre-adolescents and adolescents
YouTube Kids	Up to 12 years	Shows, episodes, short videos	It leverages the freemium model to provide curated, family-friendly videos, channels, and educational clips
Netflix	13+	Indian and international movies and series, animated shows	Investing in developing a kids content library from classic movies to new series for creating high repeat value Acquired kids-show producer StoryBots to make more shows for children
Amazon Prime Video	Up to 13 years	Indian and international movies and series, animated shows	Providing free access to kids content to help parents working from home during the lockdown
Disney+ Hotstar	Up to 18 years	Indian and international movies and series, animated shows	Leveraging the vast kids content of its parent network Disney+
Zee5 Kids	4-12 years	Shows, movies, reality and DIY shows, nursery rhymes and age-based curation	Focus on bespoke content in 9 languages and across genres

12. India's Video OTT Landscape For Kids: Who Will Take The Crown?, Inc42, 09 May 2020

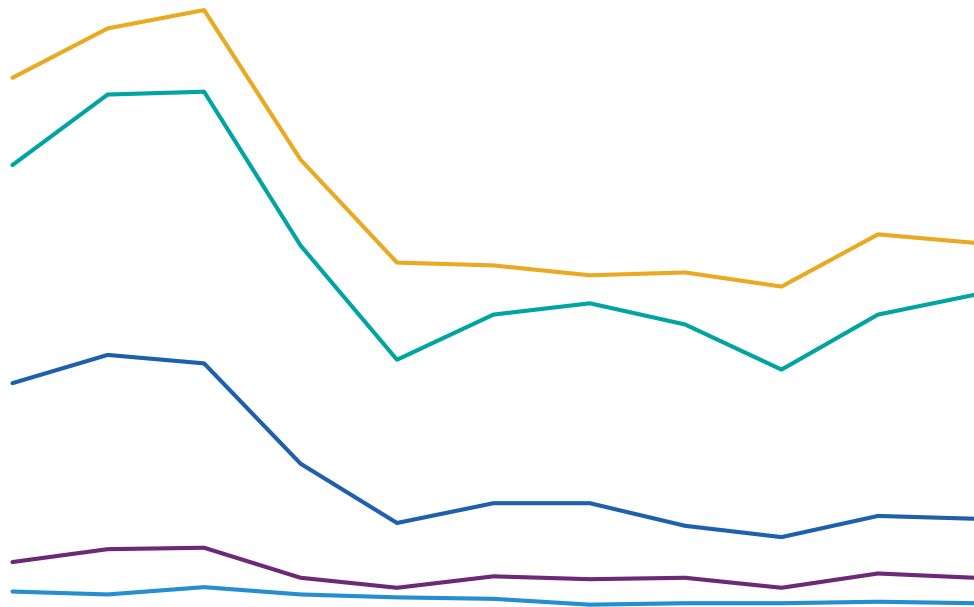


COVID-19 impact on the kids genre viewership

Kids genre has fared better than other genres with respect to advertising time

FCT for kids genre stood at 0.61 million seconds in week 20¹³

FCT – in million seconds



Change (W20 vs Pre COVID-19)

	Pre-Covid	Week 11	Week 12	Week 13	Week 14	Week 15	Week 16	Week 17	Week 18	Week 19	Week 20	Change (W20 vs Pre COVID-19)
Infotainment	0.4	0.4	0.5	0.4	0.3	0.3	0.2	0.3	0.3	0.3	0.3	37% decline
Kids	0.8	1.0	1.0	0.6	0.6	0.6	0.6	0.6	0.5	0.7	0.6	26% decline
Music	3.3	3.7	3.5	2.2	1.4	1.6	1.6	1.3	1.2	1.5	1.4	57% decline
Movies	6.3	7.2	7.3	5.2	3.6	4.2	4.4	4.1	3.5	4.2	4.5	28% decline
GEC	7.5	8.1	8.4	6.3	4.9	4.8	4.8	4.8	4.6	5.3	5.2	30% decline

While advertising volumes remained less than pre-COVID-19 period for all genres, kids genre has fared better as compared to GEC, movies, music and infotainment genres with a 26 per cent decline in the free commercial time (FCT), the lowest amongst the major genres



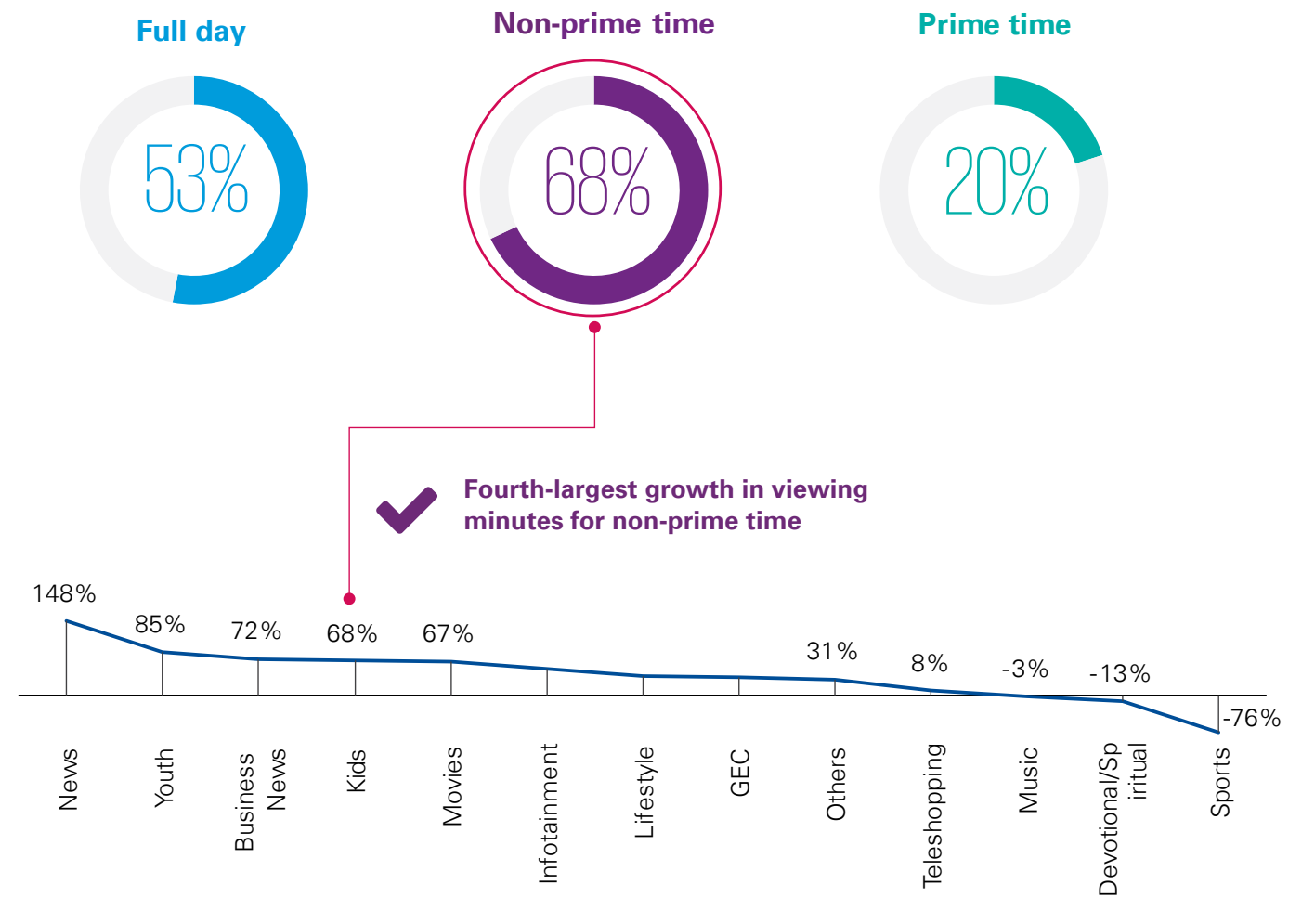
13. How are media habits changing as India enters week 9 of the lockdown, Edition 9, BARC India and Nielsen, 29 May 2020 [Week 20 (week starting 16 May) data as compared to Pre COVID-19 i.e. Week 2 to Week 4 (11-31 Jan), All India 2+]

The new 'prime time' for kids

Even in the non-prime (6 AM-6 PM) slot, TV viewership in the kids genre has spiked substantially. During this time slot, kids are watching TV to cope with COVID-19-related social isolation, instead of spending time on curricular or extracurricular activities.

Nonetheless, when the situation normalises, it is expected that kids will be encouraged to move away from TV and other digital media and many families will start to search for new, safer ways for kids to play outdoors.

Viewership growth of kids genre higher in non-prime time¹⁴

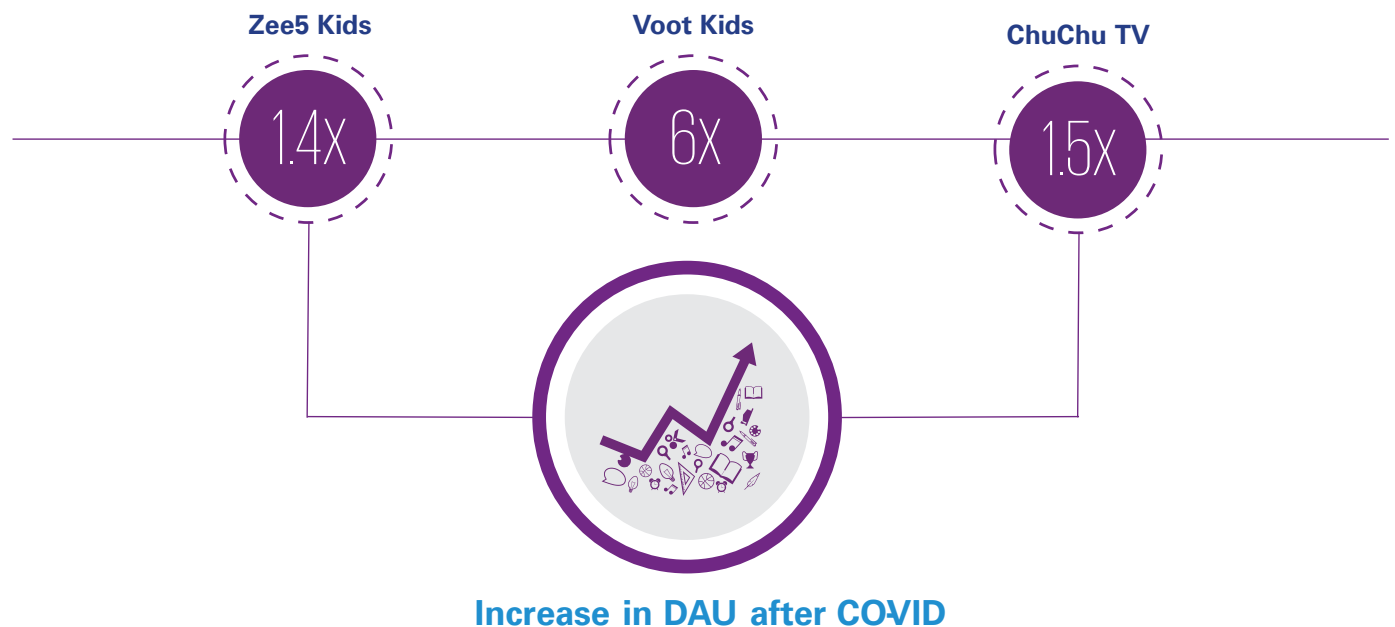


14. How are media habits changing as India enters week 9 of the lockdown, Edition 9, BARC India and Nielsen, 29 May 2020 [Week 20 (week starting 16 May) data as compared to Pre COVID-19 i.e. Week 2 to Week 4 (11-31 Jan), All India 2+]



Content production on OTT platforms and TV has driven viewership in the kids genre

Spike in Daily active users (DAUs) witnessed¹⁵



The successive lockdowns have driven TV and OTT consumption in the kids segment. Unlike production of live action content, which came to a complete halt, creation of animation content was affected to a lesser extent since creators could work remotely with animators.

Given the uncertainty regarding the timeline of schools reopening, content creators and broadcasters are looking at leveraging the lockdown period by enhancing audience engagement. Major players such as Sony Pictures Networks (Sony YAY!) and Viacom18 (Sonic) have new line-ups for kids during the lockdown.^{17, 18} Apart from content, Cartoon Network and Pogo have launched digital campaigns featuring do-it-yourself (DIY) projects and activities¹⁹. A few OTT players like Zee5 have also made kids content free for a wider reach²⁰.

Animation studios are not only working towards adding new episodes to the existing content, they are expected to supplement content line-ups in the kids portfolio going forward. In May 2020,¹⁶ Netflix launched three animated series created by Shemaroo Entertainment: Bal Ganesh, Akbar Birbal and TreeHouse Tales. These series of 13 episodes each centre on famous fictional characters, mythological tales and fables.

15. India's Video OTT Landscape For Kids: Who Will Take The Crown?, Inc42, 09 May 2020
 16. Shemaroo Entertainment launches 3 exciting animated series for kids, Afaqs, 07 May 2020
 17. Nickelodeon announces new line-up to entertain kids during lockdown, 02 April 2020

18. Double the fun this summer as Sony Yay turns 2, 25 April 2020
 19. Cartoon Network & POGO roll out summer activities for stay-at-home kids, Exchange4media, 11 June 2020
 20. Coronavirus Impact: How kids content has provided respite as viewership surge on TV and OTT platforms, 01 May 2020

Gamification and Education: the new frontiers

Entertainment channels for kids are likely to thrive on the dominance of flagship shows and the ingenuity shown to keep kids engaged. While the concept of gamification is not new, digital companies are experimenting with interactive concepts in this space like never before.

The amalgamation of entertainment and learning within the larger kids content segment is also gaining attention. Companies are also coming together to deliver educational content through partnerships.

New frontiers^{21,22}

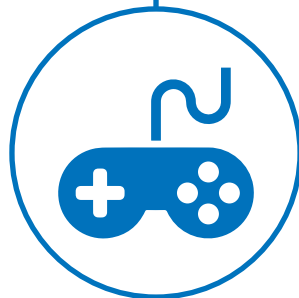


Bollywood-inspired animated series

- Indian animated content is proliferating in films and TV. After Little Singham's success in 2018, 2019 saw two more successful Bollywood-inspired animated series: Discovery Kids' Fukrey Boyzzz and Sonic's Golmaal Jr.

- The partnership between DTH service provider d2h and Visiware International for the latter's flagship international gaming channel Playin'TV shows how such collaborations bring gamification features to Indian homes.

Gamification concept



Edutainment

- Platforms such as Voot Kids have started providing semi-educational content. Hungama Kids also provides a similar learning experience for toddlers, school-going children, pre-adolescents and adolescents.



21. 2019: How did Indian animated IPs fare?, AnimationXpress, 12 December 2019

22. d2h becomes attractive for kids: launches interactive TV games on HD SM, d2h, 26 April 2017



Collaborations open doors for kids to seamlessly access educational content

Voot Kids



Voot Kids partnered with content publishers such as Oxford University Press to expand its content library by licensing 175 junior fiction and non-fiction titles

Voot partnered with online higher education company upGrad and will host a dedicated upGrad segment on the app, which will include content on domains such as data science, blockchain, IT and management

Zee 5



Zee5 joined forces with edtech company Eduauraa to offer educational content in both Hindi and English through its app

Edtech platforms like Byju's which caters to the K-12 and test preparation segment, have partnered with Disney to incorporate animated characters in their learning experience till K-3, to enhance the attention span of kids.

Popular cartoon characters from Toy Story, Cars, Frozen, etc. feature in videos and educational games to teach essential concepts.

Conclusion

A surge in viewership given the COVID-19 induced lockdown has driven the demand for content in the kids segment. Even in the non-prime time slot, viewership has spiked. Moreover, despite the pandemic, the creation of animation content continues relatively undeterred and broadcasters, OTT players and companies in the edutainment space have risen to the occasion.

As evident from the flurry of activity in the space, the kids genre is coming to the fore of the Indian TV and entertainment market. New avenues like edutainment hold promise in the industry's attempts at keeping the kids engaged while getting a buy-in from parents. Going forward, the challenge will be to maintain viewership levels once COVID-19 abates and normalcy returns.





9

Tax and regulatory matters

The Indian government has announced a number of reforms on tax front in last one year in an attempt to provide impetus to the slow-moving economy. The reforms came as a follow up of sluggish economic growth, faltering Gross Domestic Product, consumption slowdown, trade tensions and COVID-19 crisis. These reforms include reduction in corporate tax rates, abolitionment of dividend distribution tax, introduction of schemes for settlement of past litigations in direct and indirect taxes and e-invoicing, among others. To provide respite to taxpayers during the ongoing pandemic, the Government has proactively introduced various relief measures, which include extending various compliance

deadlines under the direct and indirect tax laws. Further, the Government is on the path of formulating changes to the taxation laws in order to adapt to the ever-evolving digital economy. This is being done by widening the scope of Equalisation levy, amending the definition of source rule and introduction of concept of significant economic presence under the domestic tax law.

This chapter provides an overview of key recent tax reforms and the direct and indirect tax issues typically faced by the Media and Entertainment sector, including some judgements dealing with such tax issues.

Key Tax Reforms:

Direct Tax	
Corporate tax rates	<ul style="list-style-type: none"> Reduced to 22 per cent* (15 per cent* for new manufacturing companies) for companies not availing certain exemptions/incentives.
Minimum Alternate Tax (MAT)	<ul style="list-style-type: none"> Reduced to 15 per cent;* Companies opting for reduced corporate tax rate regime not required to pay MAT.
Dividend Distribution Tax	<ul style="list-style-type: none"> Abolished (dividends are now taxable in the hands of the recipient shareholders).
Vivad Se Vishwas scheme	<ul style="list-style-type: none"> Scheme introduced to resolve long pending direct tax disputes. Under this scheme, a taxpayer could end the pending litigation forever by payment of disputed tax (or 50 per cent thereof in few cases) and get complete waiver for interest and penalty.
Sale, distribution or exhibition of cinematographic films	<ul style="list-style-type: none"> Definition of 'royalty' is amended, and consideration for sale, distribution or exhibition of cinematographic films shall now be treated as 'royalty'; Further, such payments to residents, shall attract Withholding Tax (WHT) at the rate of 2 per cent (as against the normal WHT rate on 'royalty' of 10 per cent).
WHT on fees for technical services	<ul style="list-style-type: none"> Reduced from 10 per cent to 2 per cent.

* Plus applicable surcharge and cess

WHT on e-commerce transactions	<ul style="list-style-type: none"> Effective 1 October 2020, payments by e-commerce operators to e-commerce participants selling goods or providing services on its platform (other than to participants being Individual or Hindu Undivided Family having gross amount of such sale or services or both, less than INR5 lakhs and furnishes PAN or Aadhar) are subject to WHT at the rate of 1 per cent.
Equalisation levy (EL)	<ul style="list-style-type: none"> Scope of EL has been significantly expanded to include online sale of goods and/or provision of services (including facilitating the same) through a digital platform. EL on the expanded scope would be at the rate of 2 per cent (whereas EL on erstwhile scope relating to payments for online advertisement services continues at 6 per cent).
Assessment and appeals	<ul style="list-style-type: none"> The Prime Minister of India has recently launched 'Transparent Taxpayers – Honoring the Honest' platform encompassing faceless assessments, faceless appeals and the taxpayer's charter. The amended Faceless Assessment Scheme, which is effective immediately, is a complete overhaul of the existing tax administration and assessment framework and is likely to bring about a momentous change in the way tax assessments and appeals are conducted by Indian tax authorities.

Indirect Tax

The Sabka Vishwas (Legacy Dispute Resolution) Scheme, 2019	<ul style="list-style-type: none"> With an aim to settle pre-GST litigations, the said scheme was introduced in the Union Budget 2019, which was a dispute resolution cum amnesty scheme. Said scheme has resulted in settling over 1,89,000 pending cases under the pre-GST regime¹.
E-invoicing under GST	<ul style="list-style-type: none"> To standardise invoicing system and to ensure complete inter-operability of invoices, e-invoicing system is being implemented in GST; E-invoicing shall be introduced from October 01, 2020 and shall be applicable to registered persons having an aggregate turnover of more than INR 5,000 million.
Input Tax Credit ('ITC') restriction	<ul style="list-style-type: none"> The availment of ITC in respect of unmatched invoices basis matching with GSTR 2A, has been restricted to the extent of 10 per cent of the matched invoices.
Interest implications on net cash tax liability	<ul style="list-style-type: none"> It has been notified that interest will be applicable on net cash liability, on account of delayed payment of GST due to late filing of returns. Though, the said amendment has been made effective from September 01, 2020, the CBIC has issued administrative instructions stating that recovery of interest for period July 01, 2017 to August 31, 2020 shall be only on net cash liability.
Applicability of GST under reverse charge mechanism ('RCM') on remuneration paid to directors	<ul style="list-style-type: none"> Recently issued AAR's with respect to GST implications under RCM on director remuneration, held that, the directors are not the employees of the Company and the services rendered by the director for which the consideration is paid to them under any head is liable to GST under RCM; The Government has issued a clarification in this regard clarifying that, in case the directors are employees of the Company and the remuneration paid to such directors is subject to TDS under section 192 of the Income Tax Act, GST will not be applicable and accordingly the Corporates will not be required to discharge GST under RCM.
New simplified returns	<ul style="list-style-type: none"> Introduction of new simplified returns system has been deferred till October 2020.
Amendments in Foreign Trade Policy	<ul style="list-style-type: none"> Foreign Trade Policy 2015-20 ('FTP') has been extended till 31 March 2021. However, decision on continuation of SEIS scheme shall be notified separately. Further, the rates of reward for services rendered during FY 20 are yet to be notified.

1. Finance Minister's speech announcing the Finance Bill 2020



COVID-19 related amendments/changes	<ul style="list-style-type: none"> • Extension in due date for filing GST returns, extension of due date of filing GST annual return and GST audit for the FY 2018-19 to 30 September 2020, etc.; • Application of Rule 36(4) for ITC restriction with respect to unmatched ITC for the period February 2020 to August 2020 to be cumulatively done in GSTR 3B for the period September 2020; • Further, the turnover limit for the registered person required to file GST audit for the FY 2018-19 has been increased from INR 20 million to INR 50 million; • The last date for application of SEIS scrips for the FY 2018-19 has been extended to December 31, 2020 without any late cut fees.
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Transfer Pricing (TP)	
Attribution of profits to PE	<ul style="list-style-type: none"> • Benefit of Safe Harbour Rules (SHR) extended to income attribution to PE • Applicable from FY 20 onwards • The SHR in respect of PE attribution is awaited
Secondary adjustments under Section 92CE of Income Tax Act, 1961	<ul style="list-style-type: none"> • Option provided to taxpayers of paying additional taxes at the rate of 18 per cent on funds not repatriated to India • Rules for computation of interest amended to provide clarity on time limit in cases where secondary adjustment arises owing to an Advance Pricing Agreement (APA) or a Mutual Agreement Procedure (MAP)
Advance Pricing Agreement (APA)	<ul style="list-style-type: none"> • Scope of APA widened to include determining income or the manner of determining the income attributable to a PE, subject to certain conditions
Section 94B dealing with limitation of interest deductibility of interest expenditure of an Indian company or a PE of foreign company	<ul style="list-style-type: none"> • To exclude interest paid/payable on loans extended by a PE of a non-resident bank thereby providing exemption to Indian branches of foreign banks operating in India. • Applicable from FY 21 onwards
Section 144C - Dispute Resolution Panel (DRP)	<ul style="list-style-type: none"> • The definition of eligible assessee widened to cover a non-resident assessee, not being a company, who shall be allowed to file objections before the DRP. • The eligible assessee shall be allowed to file objections before DRP for any variations that are prejudicial to the interest of the assessee. • Applicable from FY21 onwards
Organization for Economic and Cooperation and Development (OECD) - adoption of Base Erosion and Profit Shifting (BEPS) measures	<ul style="list-style-type: none"> • Released its proposal for a unified approach to address tax challenges faced by multinationals post digitalisation. The proposal is grouped into two pillars as follows: <ul style="list-style-type: none"> - Pillar one of the proposal focuses on allocation of taxing rights to jurisdictions where the multinationals conduct business without having any physical presence in that jurisdiction - Pillar two of the proposal focuses on developing rules for jurisdictions for preventing multinationals from diverting their taxable income to low tax jurisdictions by imposing minimum levels of tax on the multinational's global income
Mutual Agreement Procedure (MAP)	<ul style="list-style-type: none"> • New MAP rules released by CBDT in place of the erstwhile rules providing detailed guidance on the basics, application, process, technical issues and implementation
PE attribution Rules	<ul style="list-style-type: none"> • Draft report published by CBDT recommending a three-factor approach for attribution of profits to PE in place of the current Functions, Assets and Risks Analysis (FAR analysis) approach, rules in this regard are still awaited

Certain specific tax issues relating to the Media and Entertainment industry

Film industry

1. Deduction of expenses relating to production/distribution of films

While Rule 9A/9B provides for deduction of expenditure incurred on production of films/acquisition of distribution rights therein, there are a few ambiguities related to its application due to evolving business dynamics. The Bombay High Court in the case of Dharma Productions¹, following the decision of Madras High Court², has held that expenditure incurred on print and advertisement in connection with films produced (incurred after the production and certification of the film by the Censor Board), specifically excluded from the term 'cost of production' of the feature film as per Rule 9A of the Income tax Rules, 1962, should be allowed as a business expenditure under section 37 of the Income-tax Act (IT Act). While this decision may help the taxpayers, a government circular clarifying various ambiguities surrounding applicability of Rule 9A/9B could help dispel the uncertainties.

2. Withholding tax (WHT) on production of films

In certain cases³, the Mumbai Income Tax Appellate Tribunal has held that production of motion films or cinematographic films would fall within the meaning of expression 'work' as contemplated under section 194C⁴ and not 'fee for professional/technical services' envisaged under section 194J of the IT Act. However, the issue remains contentious as tax authorities continue to allege that the same should be liable for WHT under section 194J⁵. With the reduction in WHT rates vis-à-vis technical services, going forward, one will have to wait and watch whether the tax department will still seek to apply section 194J, treating the same as professional service (where the WHT rate continues to be 10 per cent) or technical service (where the WHT rate is reduced to 2 per cent bringing it at par with section 194C).

3. Rate on copyright transfer

By virtue of a notification, permanent transfer of intellectual property right (which includes copyright) has been incorporated in the goods schedule, attracting GST at the rate of 12 per cent. However, entry under service schedule also includes 'permanent transfer of intellectual property right', which has not yet been amended/deleted. Further, intellectual property right being intangible in nature, determination of place of supply, in case of permanent transfer is still a challenge.

4. Issues around availment of ITC

- Expenses incurred towards beauty treatment, serving food and beverages and hiring conveyance including vanity vans for actors and technicians, rent-a-cab services, directly relate to core business activity of a production house. However, production houses cannot avail of ITC on such expenses, since, the same is specifically restricted under the GST law.
- Place of supply of services in case of hotel accommodation service is place where hotel is located. The ITC of state levies charged by hotels cannot be availed in another state. Hence, where production houses carry out shooting outside the state of their registration, there is ITC blockage. To avail of such ITC, the production houses need to obtain registration under GST in the state in which such hotel is located which is practically impossible.
- Media companies pay huge advances along with GST to copyright owners against copyright to be obtained in the movie under production. These companies are unable to avail of ITC of GST paid on advance as GST law requires possession of invoices and receipt of services for availing ITC. Since the movie would be still under production, receipt of services is difficult to justify and receipt voucher issued against advance paid, is not a valid document for availing ITC.

Such restrictions on availing ITC adds to the tax burden of media companies and has adversely impacted their working capital cycle and profitability.

5. Challenges in determining value of supply in case of barter transactions

Various promotional activities such as providing free movie tickets, tie-in promotions, distributing free merchandise, making appearances for events, etc. are being undertaken by production houses and artists without any flow of monetary consideration to each other. Such promotional activities benefiting both the parties, are in the nature of barter transactions which fall under purview of GST, even though there is practically no flow of monetary consideration.

Determination of value of supply of services in such cases is a challenge, as there is no readily available market value of such supply nor are there any comparable supplies to arrive at value of services of like kind and quality, since, the value is dependent on success of the film or event. Further, the parameters of success may vary for each movie or event.

1. CIT v. Dharma Productions (P) Ltd [2019] 104 taxmann.com 211 (Bombay)

2. CIT v. Prasad Productions (P) Ltd [1989] 179 ITR 147 (Madras)

3. Alliance Media & Entertainment Ltd. v. ITO [2017] 79 taxmann.com 114 (Mumbai - Trib.), Nitin M. Panchamiya v. ACIT [2012]

4. WHT rate under Section 194C is 1-2 per cent

5. WHT rate under Section 194J is 10 per cent



6. Applicability of GST under RCM on line production services received from foreign entity outside India

It is a common practice in the film industry to conduct film shooting out of India. In connection to the same, many a times the Indian production houses obtain line production services from foreign entities located in the country where the shooting is to be conducted. In connection to such services it has been clarified by the West Bengal Authority for Advance Ruling in the case of Udayan Cinema Private Limited⁶ that, line production services provided by foreign entity outside India are not in the nature of 'intermediary service'. Therefore, since the services of a line producer are neither 'intermediary services' nor 'event management services', the place of supply will be the place of service recipient, that is India. Hence, such services shall be treated as import of services and GST shall be payable under RCM.

Accordingly, in case the Indian companies avail line producer services from a foreign entity outside India, then, the same shall be treated as import of services and GST shall be payable under RCM by the Indian Companies.

Broadcasting industry

1. WHT on certain payments by TV channel companies

Payment of channel placement fee

The Supreme Court in the case of Times Global Broadcasting Co. Ltd⁷ has dismissed tax department's special leave petition challenging the Bombay High Court order holding that placement fees/ carriage fees paid to cable operators/MISO/DTH Operators are payments for work contract covered u/s 194C and not 'fee for technical services' u/s 194J. This order of the Apex Court is a welcome order on the issue, which has been a subject matter of litigation since many years and hopefully should put the pending litigations to rest.

2. Taxation of transponder charges

While transponder payments are taxable under the IT Act after the retrospective amendment, non-resident taxpayers can continue to benefit from 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 taxation in India. While there are favorable orders of few High Courts, the issue is pending adjudication before the Supreme Court.

3. Deduction of cost of production of programmes

Given the short lifespan and nil or negligible revenue earning potential after the first telecast of programmes, several industry players generally claim deduction of the production cost (or significant portion thereof) when the programme is first telecast. While the said position is upheld by the Delhi High Court⁸, it remains a subject matter of dispute with the tax authorities.

4. GST Rate applicable on leasing of satellite transponder charges

Broadcasters avail leasing of transponder services of communication satellite for providing broadcasting services. An ambiguity exists on GST rate applicable on leasing of satellite transponder charges, whether the same shall be as per HSN 8803 i.e. Parts of goods of Heading 8802 (i.e. Satellites) subject to GST at the rate of 5 per cent or as per HSN 8525 subject to GST at the rate of 18 per cent. Karnataka Advance ruling in the case of New Space India Limited⁹ states that, the transponder is an integral part of the communication satellite, accordingly, leasing of transponder charges services shall be classified under chapter heading 8803 attracting 5 per cent GST. Similar ratio was also followed in the advance ruling in the case of Antrix Corporation Limited¹⁰ by same authority. Practically we understand, many broadcasters are paying GST at the rate of 18 per cent to avoid litigation/queries from the GST authorities and since the entire GST paid is eligible as ITC.

DTH industry

1. WHT on discount on sale of Set Top Boxes (STBs)/ Recharge Coupon Vouchers (RCVs)

The Mumbai Tribunal¹¹ has held that trade discounts provided to distributors/dealers on sale of STBs and RCVs shall not be considered as 'commission' subject to WHT under section 194H of the IT Act, since the relationship between the taxpayer and the distributors/dealers is on a principal to principal basis. The aforesaid decision has been followed by the Mumbai Tribunal in the case of another taxpayer¹². A suitable clarification from CBDT (similar to the one issued in the case of TV channel companies¹³) that such discount is not in the nature of commission/ brokerage could benefit the industry.

6. Advance Ruling Order No. 45/WBAAR/2018-19, dated 26 February 2019, West Bengal Authority for Advance Ruling in the case of Udayan Cinema Pvt. Ltd.

7. CIT vs. Television Eighteen India Ltd. [2014] 364 ITR 597 (Delhi High Court)

8. CIT vs. Television Eighteen India Ltd. [2014] 364 ITR 597 (Delhi High Court)

9. Advance Ruling No. KAR ADRG 19/2020, dated 31 March 2020, Karnataka Authority for Advance Ruling in the case of New Space India Ltd

10. Advance Ruling No. KAR ADRG 19/2019 dated 26 August 2019, Karnataka Authority for Advance Ruling in the case of Antrix Corporation Ltd

11. JCIT vs Bharat Business Channels Limited [2018] 92 taxmann.com 216 (Mumbai Tribunal)

12. Tata Sky Ltd. v. ACIT [2018] 99 taxmann.com 272

13. CBDT Circular No. 5/2016 dated 29 February 2016

2. Clarification in connection to Customer-Premises Equipment (CPE) supplied by DTH operators

In the pre-GST regime, State Governments had raised huge VAT demands contending that grant of CPE constitutes a deemed sale as per VAT laws. Under the GST regime, the Government has clarified¹⁶ that CPEs are not sold by the DTH service providers/cable operators to the end customers, but are merely placed at the customers' location for supply of digital cable services. Such clarification has put to rest the long-standing dispute under the erstwhile tax regime.

Sports

Taxation of sports associations, sportspersons and foreign teams participating in sporting events is a vexed issue.

Recently, the Supreme Court in the case of PILCOM¹⁴ has held that PILCOM, a committee formed by cricket boards or associations of Pakistan, India and Sri Lanka for purpose of conducting 1996 World Cup Cricket, would be liable to deduct tax at source on payments made to Non-Resident Sports Associations in relation to matches held in India.

The Supreme Court in the case of Formula One World Championship Limited¹⁵ has held that the racing circuit constitutes a fixed place of business/PE of the foreign company in India under the India-U.K. tax treaty, even though the duration of the event was only for three days, since the foreign company had full right of access to the circuit during the entire period of the event.

Further, the Authority for Advance Rulings (AAR) in the case of Production Resource Group¹⁷ has held that the space provided to the foreign service provider for rendering services i.e. lighting, sound, video, etc. during the Commonwealth Games in India constitutes a PE of the foreign company in India under India-Belgium tax treaty, since it had an identifiable place of business at its disposal, and the duration and degree of permanence was for as much time as its business required.

Transfer Pricing

- Multinationals are already grappling with changes emanating from the BEPS Action Plans and Unified Approach. The transfer pricing models set by multinationals will be tested both in form and substance. As transfer pricing models are not immune to all upcoming challenges and revenue authorities across the world want the right share of the tax base, there is unprecedented pressure on MNEs to appropriately set their transfer pricing in times of the COVID-19 period which is the new normal and appropriately document the same on a contemporaneous basis.
- Some of the impacts of COVID-19 that may affect the Mand E players are listed below:
 - Relook at their FAR analysis among its group entities,
 - Changes in the contractual arrangements
 - Selection of new set of comparables for the purpose of determining arm's length pricing may be required
 - Companies may be required to revisit their APAs
- Given the distinct and peculiar nature of international transactions entered into between parties in the Media and Entertainment sector coupled with varying prices and returns, the benchmarking analysis may not always be possible within the purview of the 5 out of the 6 methods prescribed under the law as it is difficult to gather information on similar independent transactions from public domain. However, taxpayers may have a little more flexibility to use the sixth method viz. the 'Other Method' wherein tender documents, proposals, valuation reports, standard rate cards, price quotations and commercial and economic business models, etc., could be used to demonstrate an arm's length intent.

Conclusion

The tax reforms in recent years suggest that the Indian government is committed to not just reduce tax cost but minimise the tax litigations, provide certainty on the tax laws and have a taxpayer friendly approach. Legal sanctity to the tax-payer charter, use of technology to enhance frictionless interaction for assessments and appeals, introduction of Vivad Se Vishwas scheme and Sabka Vishwas (Legacy Dispute Resolution) Scheme, 2019, etc. are clear signals of its intent. Transmission of this thinking to the ground level will indeed go a long way in increasing the credibility of the tax administration. Coupled with this, it will be helpful if the government provides clarity on pending tax issues, which can provide respite to, and act as a much-needed vaccine, for the Media and Entertainment sector, during this pandemic.

14. 116 taxmann.com 394

15. Formula One World Championship Limited vs CIT [2017] 394 ITR 80 (Supreme Court)

16. Replies provided by CBIC to queries raised by Cable Operators Association

17. Production Resource Group [2018] 401 ITR 256 (AAR – New Delhi)



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